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(Vidyanishnat) Degree

"THE ANALYSIS OF THE PERFORMANCE OF MAJOR BANKS AFTER FINANCIAL SECTOR REFORMS"

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CERTIFICATE

This is to certify that the work incorporated in the M.Phil (Vidyanishnat) Dissertation titled as, "**The Analysis of the Performance of Major Banks After Financial Sector Reforms",** submitted by Mr. Jeevan Jayant Nagarkar has been carried out under my guidance. Such material as has been duly acknowledged is authentic with best of my knowledge, in this dissertation.

DECLARATION

I declare on oath that the references and literature, which are used in my dissertation, entitled, "The Analysis of the Performance of Major Banks After Financial Sector Reforms", are from original sources and are acknowledged at the appropriate places in the dissertation.

I declare further that I have not used this information for any other purpose, other than my research.

Date – July 1, 2008

Place: Pune (NAGARKAR J J)

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Chapter No 1

Indian Economy

Sub Titles

1.1 Indian Economy

1.2 Issues and Priorities for India

1.1 Indian Economy

Since independence, for decades together, Indian economy was trapped into the so-called 'Hindu rate of growth, a growth rate of around 3.5% the Indian economy has soared at an average rate of six percent in 1980s and 1990s, and at around nine percent in the last three years.

Despite a sometimes disappointing rate of growth, the Indian economy was transformed between 1947 and the early 2007. The growth has been gradual but there is a definite structural change that is taking place over these years.

From having agricultural sector contributing more than 55% of GDP in 1947 to it share coming down to 18.5% as in the year 2007, service sector today contributes more than 60% of GDP which reflects the structural change in the Indian economy over these years Industrial sector has been increasing its share in GDP. Industrial output has been increasing steadily. Today Indian Industrial sector has been competing with the best in the world. The production capacity is on the rise in every sector. The number of kilowatt-hours of electricity generated, for example, increased more than fifty fold. Steel production rose from 1.5 million tons a year to 14.7 million tons a year. The country produced space satellites and nuclear-power plants, and its scientists and engineers produced an atomic explosive device. Life expectancy increased from twenty-seven years to fifty-nine years. Although the population increased by 712 million between 1951 and 2004, the availability of food grains per capita rose from 395 grams per day in FY 1950 to 498 grams in 2002. Sixty years after independence, India has finally entered a virtuous circle of long-term economic growth, with strong fundamentals and a booming young population, forcing the world to sit up and take notice.

As more and more people shift from agriculture to manufacturing and services sectors and move from villages to towns, economists expect the rate of growth to go up by a couple of percentage points over the next decade.

This growth is fuelled by several factors. At over $20 billion per annum, Indian economy received more inward remittances than any other country from the 25 million people of Indian origin and non-resident Indians living abroad. The boom in the information technology (IT) and IT-enabled services (ITES) has been India become the back office of the world for vital functions that range from school homework guidance to telemarketing and airline booking services. The Indian IT-ITES industry notched up $39.6 billion in revenues in 2006-07, up 30.7 percent from the previous year. There is also an air of justified optimism about India's long-term economic prospects today and experts say there are at least three reasons for this.

First, savings and investment rates are rising and are presently at around 32-34 percent of India's gross domestic product (GDP). Analysts believe they may rise to 37-40 percent of the GDP by 2013. Second, India is now in a demographic situation where a significant part of its 1.08 billion population is a youthful asset. India is today home to the largest percentage of youngest population in the world with more youth below 25 years of age than any other nation. This means India is one of the few countries that will not have to worry about a labour shortage for decades to come. This will also have the automatic effect of pushing up the growth and savings rates in the economy. Third, despite a full range of political philosophies from Left to Right in the country, there is now a broad national consensus in favour of economic reforms, with disagreements only in detail and manner of execution as seen since 1991. India is now focusing on investing more and more in infrastructure – both urban and rural – and in social sectors, especially education and healthcare. The government's official estimate places the fiscal need towards infrastructure at a whopping Rs 13,12,000 Cr over the next five years through investments from the public and private sector, and from domestic and foreign sources.

In some areas, spectacular results are already visible. The telecom user base crossed the 212 million mark in April 2007, making India one of the largest telecom markets in the world. Ernst and Young says India's telecom sector will see investments of up $25 billion being pumped in over the next five years with similar prospects in areas like airports, roads, ports and energy.

Indian firms have responded to take advantage of this environment. Industrial production grew 11.3 percent for 2006-07 – crossing the double-digit mark for the first time since 1995-96. Little wonder Standard and Poor's has now eight Indian companies in its 'Global Challengers List'. As the Prime Minister says, an important

strength of the Indian economy today is the country no longer faces any insurmountable external constraint on growth and both manufacturing and services sectors are showing dynamism. In fact, foreign direct investments into India exceeded the quantum of money pumped by foreign funds since 1996 for the first time ever, showing the confidence that global majors now have about their investments in the country. There are today very few sectors that have investment constraints. A liberal and transparent FDI policy for industrial, services and infrastructure sectors is now in place. As a result, Rangarajan expects foreign investment of $ 15 billion in 2007-08, up from $8.4 billion the previous year. India has also undertaken region-specific trade liberalization, entering into trade pacts with countries like Singapore, Thailand and Sri Lanka, with more such agreements on the drawing board. The agreement with the US on civilian nuclear energy will open up possibilities for growth of energy in the country. Sixty years after India's independence, the state of the Indian economy provides many good reasons to look back with satisfaction, and to move forward with confidence.

1.2 Issues and Priorities for India

As India prepares herself for becoming an economic superpower, it must expedite socioeconomic reforms and take steps for overcoming institutional and infrastructure bottlenecks inherent in the system. Availability of both physical and social infrastructure is central to sustainable economic growth.

Since independence Indian economy has thrived hard for improving its pace of development. Notably in the past few years the cities in India have undergone tremendous infrastructure upgradation but the situation in not similar in most part of rural India. Similarly in the realm of health and education and other human development indicators India's performance has been far from satisfactory, showing a wide range of regional inequalities with urban areas getting most of the benefits. In order to attain the status that currently only a few countries in the world enjoy and to provide a more egalitarian society to its mounting population, appropriate measures need to be taken, Currently Indian economy is facing these challenges:

- Sustaining the growth momentum and achieving an annual average growth of 7-8 % in the next five years.
- Simplifying procedures and relaxing entry barriers for business activities.

- Checking the growth of population; India is the second highest populated country in the world after China. However in terms of density India exceeds China as India's land area is almost half of China's total land. Due to a high population growth, GNI per capita remains very poor. It was only $ 3802 in 2005 compared with US $43,223 UK $35,486 China $ 7722 (IMF figures).
- Boosting agricultural growth through diversification and development of agro processing.
- Expanding industry fast, by at least 10% per year to integrate not only the surplus labour in agriculture but also the unprecedented number of women and teenagers joining the labour force every year.
- Developing world-class infrastructure for sustaining growth in all the sectors of the economy.
- Allowing foreign investment in more areas. Effecting fiscal consolidation and eliminating the revenue deficit through revenue enhancement and expenditure management.
- Empowering the population through universal education and health care. India needs to improve its HDI rank, as at 127 it is way below many other developing countries' performance. The UPA government is committed to furthering economic reforms and developing basic infrastructure to improve lives of the rural poor and boost economic performance. Government had reduced its controls on foreign trade and investment in some areas and has indicated more liberalization in civil aviation, telecom and insurance sector in the future.

Summary

India wants to increase the growth rate and sustain it. Agriculture and industries will be given more importance and resources in future planning. Infrastructure is in the dire need of funds. Liberalization of economy is of paramount importance. It can be concluded that Indian economy has come of age and has reached a point from where it can now excel to become an economic super power, if it makes optimum utilization of its resources. The process of reforms in other sectors will help India to maintain the high growth rate that it has achieved.

Chapter No 2

Research Methodology

<u>**Sub Titles**</u>

2.1 Introduction

2.2 Scope of the Study

2.3 Objectives of the Study

2.4 Rationale for selecting these banks

2.5 Research Methodology

2.6 Sources of Data

2.1 Introduction

This chapter explains in brief the Research Title, Scope of the study, Objectives of the study, Research Methodology - Methods of data collection, data interpretation.

The title of the project is:

"The Analysis of the Performance of Major Banks after Financial Sector Reforms".

2.2 Scope of the Study

Financial sector has a major role in development of any economy. The "Balance of Payments" crisis made India to open the economy for foreign competition in various sectors. Financial sector was among the sectors which were liberalized initially because unless the blood is made to flow freely other parts can't function well. The significance and scope of this study can be judged by the importance that the sector carries. A well functioning financial sector is vital in development of the economy. This study focuses on the performance of selected commercial banks to assess the ability of the overall financial sector in keeping with the changing needs of the economy. The world has changed and so has the financial sector it is up to the banks to upgrade their service with the help of bringing latest technologies, financial products in the market, to cater to the increasing demands of the customers.

2.3 Objectives of the Study

The objective of the study is to understand how well the banks have fine tuned themselves with the changing market needs. The competition that will be introduced by the foreign banks in the year 2009 can pose a threat to the domestic banks, which

will require them to change their working attitude, introduce new financial instruments, restructure the balance sheet and do everything in their limits to stay in the competition.

Objectives

1. Access the ability, productivity, profitability, and readiness for the competition.
2. Study the relevance of new financial products introduced by the banks.

Hypothesis

Performance of banks in India

After independence between 1947 to 1969 banking sector in India witnessed private banking with regulations. The need was felt to have banks which will follow all policies of the government; this gave birth to nationalization of banks. 1969 to 1991 was the period that can be termed as dominance of nationalized banks with controlled expansion of banking business. In the year 1994 new private sector banks were allowed and now the market is a mix of Nationalized Banks, Private Banks and Foreign Banks. In this changed scenario, the present piece of research attempts to put forward the following hypothesis:

Banks are performing better on all parameters after reform years and are better equipped to serve to the growing needs and expectations of customers.

2.4 Rationale for selecting these banks

The five banks which are considered are major banks. They are

1) State Bank of India- Largest nationalized commercial bank in India
2) Punjab National Bank – Second Largest nationalized commercial bank in India
3) ICICI Bank – Largest private sector bank in India
4) UTI / AXIS Bank – First private sector bank in India
5) Standard Chartered Bank – Largest Foreign bank in India.

This reasoning can be further extended by looking at the share these bank have in aggregate business that all commercial banks do in India. These banks have a share of 36.68% of the aggregate deposits that all banks have generated in 2007. Similarly of the advances given by all banks, these banks have more than 38% market share.

2.5 Research Methodology

The secondary data is considered worth in assessing the performance of banking sector in India. The parameters on which the performance is assessed are given below.

1. Deposit Mobilization.
2. Advances Disbursed.
3. Profit Generated.
4. Non - Interest Income.
5. Non – Performing Assets.
6. Credit Deposit Ratio.
7. Capital Adequacy Ratio.
8. Investment Deposit Ratio.
9. Profit Per Employee. (Staff Productivity)
10. Financial Innovation

The analysis is done on yearly basis for individual banks and inter bank comparisons are given subsequently. On the basis of above parameters the analysis is done on how the banks have performed in the reforms era. The analysis is done for 12 years i.e. from 1996-2007

2.6 Sources of Data

The study is based on financial parameters and hence secondary data collection is done through various sources. RBI annual reports and other publications are extensively used and are acknowledged.

RBI – *Annual Reports*.

RBI – *Report on Currency and Finance.*

RBI – *Trend & Progress of Banking in India.*

RBI – *Statistical Tables Relating to banks in India*.

Audited Financial Reports of State Bank of India

Audited Financial Reports of Punjab National Bank

Audited Financial Reports of ICICI Bank

Audited Financial Reports of UTI Bank

Audited Financial Reports of Standard Chartered Bank

The Economic Times

Business World

Chapter No 3

Financial Sector Reforms

<u>Sub Titles</u>

3.1 Context, Need, and Objectives

3.2 Need for Financial Reforms

3.3 Major Reforms After 1991

Financial Sector Reforms

This chapter discusses the context, need, objectives, approach, content of financial sector or financial system reforms in India after 1991

3.1 Context, Need, and Objectives

The New Economic Policy (NEP) of structural adjustments and stabilization Programme was given a big thrust in India in June 1991. The financial system reforms have received special attention as a part of this policy because of the perceived interdependent relationship between the real and financial sectors of the modern economy. Immediately after the announcement of NEP the government had appointed a high level committee under the chairmanship of Mr. Narasimhan (1991) on financial system "to examine all aspects relating to the structure, organization, functions and procedures of the financial system". The committee submitted its main report in November 1991. Since then, the authorities have introduced a large number of changes or reforms in the Indian financial sector in the light of the said report.

The Narsimhan committee was formed once again in the year 1998 to suggest the ways to further reforms in the financial sector and develop a world class financial sector.

3.2 Need for Financial Reforms

The need for financial reforms had arisen because the financial institutions and markets were in a bad shape. The banking sector suffered from lack of competition, low capital base, low productivity, and high intermediation costs. The role of technology was minimal, and the quality of service did not receive adequate attention. Proper risk management system was not followed, and prudential norms were weak. All these resulted in poor asset quality. Development financial institutions operated in

a over-protected environment with most of the funding coming from assured sources. There was little competition in insurance and mutual funds industries. Financial markets were characterized by control over pricing of financial assets barriers to entry, and high transactions costs. The banks were running either at a loss or on very low profits, and, consequently were unable to provide adequately for loan defaults, and build their capital. There had been organizational inadequacies, the weakening of management and control functions, the growth of restrictive practices, the erosion of work culture, and flaws in credit management. The strain on the performance of the banks had emanated partly from the imposition of high Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), and directed credit programmes for the priority sectors-all at below market or concessional or subsidized interest rates. This, apart from affecting bank profitability adversely, had resulted in the low or repressed or depressed interest rates on deposits and in higher interest rates on loans to the larger borrowers from business and industry. The phenomenon of cross-subsidization had got built into the system where concessional rates provided to some sectors were compensated by higher rates charged to non-concessional borrowers.

Further, the functioning of the financial system and the credit delivery as well as recovery process had become politicized, which damaged the quality of lending and the culture of repaying loans. The widespread or across-the-board write-offs of the loans had seriously jeopardized the viability of banks. As the closure of sick industrial units was discouraged by the government, banks had to continue to finance non-viable sick units, which further compromised their own viability. The legal system was not of much help in recovering loans. There was a lack of transparency in preparing statements of accounts by bank.

In other words, the reforms had become imperative on account of the facts that despite its impressive quantitative growth and achievements, the financial health, integrity, autonomy, flexibility, and vibrancy in the financial sector had deteriorated over the past many years. The allocation of resources had become severely distorted, the portfolio quality had deteriorated, and productivity, efficiency and profitability had been eroded in the system. Customer service was poor, work technology remained outdated, and transaction costs were high. The capital base of the system remained low, the accounting and disclosure practices were faulty, and the

administrative expenses had greatly soared. The system suffered also from a lack of delegation of authority, inadequate internal controls, and poor housekeeping.

It was felt by many that all this was the consequence of policy-induced rigidities; of excessive degree of centralized administrative direction of investments, credit allocations, and internal management of banks and financial institutions; massive branch expansion, overstaffing and union pressures; and excessive political intervention, interference, and pressures.

For a long time, an alarming increase of sickness in the Indian financial system had required urgent remedial measures or reforms which were ultimately introduced in 1991. It certainly was initially a crisis management exercise. The balance of payment crisis forced India to change its policy stance on many sectors. The so called first generation reforms were meant for solving the problems which were created by the 1991 crisis, whereas the Second Generation Reforms were for the further deeper and consolidate development.

Narasimhan Committee (1991), recommendations were aimed at:

a) ensuring a degree of operational flexibility,
b) internal autonomy for the public sector banks in their decision making process and
c) greater degree of professionalism in banking operations.

The stress was on reducing CRR and SLR ratios and redefining the priority sectors and fixing lower limit for this lending.

These recommendations largely were a crisis management measures and

Narasimhan Committee (1998), recommendations were aimed at:

a) Need for stronger banking system.
b) Experiment with the concept of narrow banking.
c) Increase in Capital Adequacy Ratio.
d) Review and update Banking Laws.

Main and Sub-objectives of Financial Reforms Introduced in 1991

(i) To develop a market-oriented, competitive, world-integrated, diversified, autonomous, transparent financial system.

(ii) To increase the allocative efficiency of available savings and to promote accelerated growth of the real sector.

(iii) To increase or bring about the effectiveness, accountability, profitability, viability, vibrancy, balanced growth, operational economy and flexibility, professionalism and depoliticisation of the financial sector.

(iv) To increase the rate of return on real investment.

(v) To promote competition by creating level-playing fields and facilitating free entry and exit for institutions and market players.

(vi) To ensure that the rationalization of interest rates structure occurs, that interest rates are flexible, market-determined or market-related, and that the system offers to its users a reasonable level of positive real interest rates. In other words, the goal has been to dismantle the administered system of interest rates.

(vii) To reduce the levels of resource pre-emption and to improve the effectiveness of directed credit programmers.

(viii) To build a financial infrastructure relating to supervision, audit, technology, and legal matters.

(ix) To modernize the instruments of monetary control so as to make them more suitable for the conduct of monetary policy in a market economy i.e. to increase the reliance on indirect or market-incentives based instruments rather than direct or physical instruments of monetary control.

The key terms describing reforms have been liberalization, deregulation, marketisation, privatization, and globalization, all of which convey reforms objectives in a succinct manner. The basic premise underlying the reforms has been that the state ownership and regulation have harmed the financial system, particularly the banks and the investors, and that such regulation is no longer relevant and adequate. To use the well-known academic terminology, the objective of financial reforms has been to correct and eliminate financial repression; and to transform a financially repressed system into a free system. At the same time, it has been held that the deregulation does not imply total absence of regulation; instead, it assumes sophisticated form of prudential, supervisory structure which would "protect the financial system without unnecessarily restraining it". The reforms are said to be directed towards "stringent prudential regulation" in a "deregulated environment".

Financial sector reforms are said to be grounded in the belief that the competitive efficiency in the real sectors of the economy cannot be realized to its full extent unless

the allocative efficiency of the private sector was improved. The main thrust of financial sector reforms was on the creation of efficient and stable financial institutions and markets, the removal if structural bottlenecks, introduction of new players and instruments, introduction of free pricing of financial assets, relaxation of quantitative restrictions, improvement in trading, clearing, and settlement practices, promotion of institutional infrastructure, refinement of market micro-structure, creation of liquidity, depth, and the efficient price discovery process, and ensuring technological up gradation.

The approach or strategy of reforms has been such that they are being affected by adapting the old institutions in the new tasks and ethos. A careful attempt has been made at crisis-avoidance and at creating an environment which promotes greater efficiency in the delivery of financial services. The financial sector reforms have been operating in conjunction with a larger set of goals relating to economic stability and growth. The reforms have been introduced at a gradual pace combined with effective and appropriate regulation and intervention policy. Efforts have also been made to fulfill (meet) the "commandments" (prerequisites) of financial sector reforms, namely, carrying out a macro-economic stabilization Programme, introducing supportive fiscal and external sector policies, and implementing wide ranging reforms in other sectors simultaneously.

3.3 Major Reforms After 1991

The reforms have had a broad sweep encompassing operational matters, banking, primary and secondary stock markets, government securities market, external sector policies, and the system as a whole. Some people have classified them into three areas: issues relating to creating a resilient banking system; development of institutions such as private sector banks and mutual funds; and monetary policy instruments such as interest rates, and refinancing facilities. In other words, reforms relate to the issues of ownership and control, competitions, and policy and regulation stance.

While presenting a list of reforms, it needs to be pointed out that sometimes a distinction between normal policy changes which are specific to time and economic conditions, and reforms proper is not maintained; the former are included in the latter,

which makes the list of reforms unduly and unmanageably long. To reforms means to make (improve) or become better by the removal of faults or errors or abuses. It is primarily in this sense that the major reforms are listed below in terms of certain categories.

(i) Systemic and Policy Reforms

- Most of the interest rates in the economy deregulated: a beginning made to move towards market rates on government securities; the system of administered interest rates largely dismantled; and the structure of interest rates greatly simplified.
- The preemption of banks' resources through SLR in favour of the government was brought down and the rate of return on SLR securities is maintained by and large at market rates. The SLR on incremental net demand and time liabilities (NDTL) of banks reduced from 38.5 per cent in 1991-92 to 25 per cent now.
- The incremental CRR of 10 per cent removed, and the average CRR reduced from 15 per cent in 1991-92 to 10 per cent in 1995-96. The CRR of FCNR (B) and NRNR deposit accounts removed. The CRR on CRR on an increase in NRE deposits removed.
- Capital adequacy norms for banks, financial institutions, and virtually all market intermediaries introduced. The Basel Committee framework for capital adequacy adopted. Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. The purpose of Basel II is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face. Advocates of Basel II believe that such an international standard can help protect the international financial system from the types of problems that might arise should a major bank or a series of banks collapse. In practice, Basel II attempts to accomplish this by setting up rigorous risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk the bank exposes itself to through its lending and investment practices. Generally speaking, these rules mean that the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability.

- A Board of Financial Supervision (BFS) with an advisory council and an independent department of supervision established in RBI. It would supervise, apart from banks, all-India financial institutions and non-banking financial companies from April-July 1995. A new Supervisory Reporting System, introduced in February 1995, will focus attention on critical areas such as capital adequacy, assets quality, management, earnings, and liquidity.
- Recovery of Debts Due to Banks And Financial Institutions Act, 1993 passed to set Special Recovery Tribunals to facilitate quicker recovery of loan arrears.
- In order to moderate or minimize the automatic monetization of the budget deficit, the agreement to impose a ceiling on the issue of ad hoc Treasury Bills (TBs) and to phase them out in due course signed by the Government of India (GOI) and RBI in September 1994. Subsequently, the system of ad hoc treasury bills abolished and replaced by the system of ways and means advances effective April 1, 1997.
- The private sector allowed to set up banks, mutual funds, money market mutual funds, insurance companies, etc., public sector banks permitted diversified ownership by law subject to 51 per cent holding of government/RBI. SBI, IFCI and IRBI converted into public limited companies. The Industrial Development Bank of India Act, 1964 amended to allow IDBI to raise capital upto 49 per cent of its paid-up capital from the public and to industrial private participation in its Board of Directors. The policy of permitting foreign banks to open branches liberalized.
- Capital Issues (Control) Act, 1947 repealed and the office of Controller of Capital Issues abolished.
- Securities and Exchange Board of India (SEBI) made a statutory body in February 1992 and armed with necessary authority and powers for regulation and reform of the capital market.
- Convertibility clause is no longer obligatory in the case of assistance sanctioned by term lending institutions.
- Floating interest rate on financial assistance (linked to interest rate on 364-day TBs) introduced by all-India development banks.
- The Reserve Bank of India (Amendment) Act 1997 passed requiring all non-bank financial companies (NBFCs) with net-owned funds of Rs 25 lakh and more to register with the RBI.

- Over the Counter Exchange of India (OTCEI) and the National Stock Exchange (NSE) with nation-wide stock trading and electronic display, clearing and settlement facilities established and made operational.
- (ii) Banking Reforms
- Interest rates on deposits and advances of all co-operative banks including urban co-operative banks deregulated. Similarly interest rates on commercial bank loans above Rs. 2 lakh, and on domestic term deposits above two years, and Non-Residert (External) Rupee Accounts (NRNR) deposits decontrolled. The number of administered interest rates on commercial bank advances reduced from more than 20 in 1989-90 to 2 in 1994-95. Banks allowed to set their own interest rate on post-shipment export credit in rupees for over 90 days.
- The State Bank of India and other nationalized banks enabled to access the capital market for debt and equity.
- Prudential norms for income recognition, classification of assets and provisioning for bad debts for commercial banks, including regional rural banks and financial institutions introduced. They are required to adopt uniform and sound accounting practices in respect of these matters, and the valuation of investments.
- The Performance Obligations and Commitments (PO & C) obtained by RBI from each bank; they provide for essential quantifiable performance parameters which lay emphasis on increased but low-cost deposits, quality lending, generation of more income and profits, compliance with priority sectors and export lending requirements, improvement in the quality of investments, reduction in expenditure, and stepping up to staff productivity. The PO & C are meant to ensure a high level of portfolio quality so that problems such as heavy losses, low profits, erosion of equity do not recur. The non-fulfillment of PO & C entail penalty in the form of higher CRR/SLR, stoppage of RBI refinance facility, stoppage of further capital contribution by the government, etc.
- Banks required to make their balance sheets fully transparent and make adequate disclosures in keeping with International Accounts Standards Committee.
- Banks given greater freedom to open, shift, and swap branches as also to open extension counters.

- The perceived constraints on banks such as prior credit authorization, inventory and receivables norms, obligatory consortium lending and curbs in respect of project finance relaxed.
- The budgetary support extended for recapitalization of weak public sector banks.
- Banking Ombudsman Scheme 1995 introduced to appoint 15 ombudsmen (by RBI) to look into and resolve customers' grievances in a quick and inexpensive manner. Most of the recommendations of Goiporia Committee in connection with improving customer service by banks implemented.
- Loan system introduced for delivery of bank credit. Banks required to bifurcate the maximum permissible bank finance into loan component (short-term working capital loan) and cash credit component, and the policy of progressively increasing the share of the former introduced.

(iii) Primary and secondary stock Market Reforms

- A norm of five shareholders for every Rs. 1 lakh of fresh issues of capital and 10 shareholders for every Rs. 1 lakh of offer for sale prescribed as an initial and continuing listing requirement.
- The payment of any direct or indirect discounts or commissions to persons receiving firm allotment prohibited.

Summary

The financial sector was in the need of all the reforms mentioned above. The banking system was not competent enough to take on new market challenges. CRR and SLR ratios have been brought down significantly, more operational flexibility are some of the factors which have contributed in the development of banking sector. Reforms in primary and secondary capital market have also boosted the vibrancy and efficiency.

Chapter No 4

New Financial Instruments introduced by banks after 1991

<u>**Sub Titles**</u>

4.1 Merchant banking and underwriting

4.2 Mutual Funds

4.3 ATMs

4.4 Internet Banking in India

4.5 Venture Capital Funds

4.6 Factoring

The changes which have been taking place in India since 1969 have necessitated banking companies to give up their conservative and traditional system of baking and take to new and progressive functions. The Government of India issued guidelines to the banks under section 6 of the Banking Regulation Act, 1949 permitting and encouraging them to diversify their functions.

4.1 Merchant banking and underwriting

Commercial banks have now set up merchant baking divisions and are underwriting new issues, especially preference shares and debentures and they have been instrumental in the conclusion of deferred payment agreements between Indian industrial houses and foreign firms. Formerly, banks provided merchant banking services only to a few known companies. But now, they have floated separate subsidiaries and offer wider services to a large clientele. There are now eight commercial banks which have set up equipments leasing and merchant banking subsidiaries.

4.2 Mutual Funds

Some banks have now been permitted to float subsidiaries as mutual funds (at one time, mutual fund operations were a monopoly of Unit Trust of India). In all 7 public sector banks have set up mutual funds.

Retail Banking: Commercial banks in India are increasingly taking up retail banking as an attractive market segment with opportunities for growth and for profit. Retail banking refers to housing loans, consumption loans for purchase of durables like

refrigerators, TVs, air conditioners, auto loans, credit cards, educational loans. The loan values can average between Rs. 20,000 to Rs. 1 crore. The loans are generally for a duration of 5 to 7 years, with housing loans granted even up to a period of 15 years. Retail banking has been facilitated by growth in banking technology and automation of banking processes.

4.3 ATMs

ATMs (Automated Teller Machines, or "any time money" as one bank has been wittily advertising) have emerged as an alternative banking channel which facilitate low cost banking transaction. Bank customers need not go to the bank branches but can withdraw money and deposit cheques in ATMs…… These are the normal purposes for which persons go to a bank. This is now avoided by the neighborhood ATM. The use of ATMs by foreign banks and private sector banks has helped these banks to expand their reach and compete effectively with public sector banks (PSBs). PSBs, in their turn, are also rapidly introducing ATMs.

Anywhere Banking: Anywhere Banking is the new system of banking adopted and made popular by a few foreign banks and is now being increasingly adopted by PSBs. This facility is a technology based customer friendly service for the convenience of customers. Under this system, a customer having an account with any select branch can operate it from other designated branches of the bank throughout the country. The facility includes cash withdrawal, cash deposit, transfer of funds, collection of local cheques, intra-city and intercity transactions, etc. Now distance is no hindrance and banking is made more convenient, wherever the consumer may reside.

4.4 Internet Banking in India

Growth of the internet and wireless communication technologies, advances in telecommunication, etc, have dramatically changed the structure and nature of banking is only in a rudimentary stage in India. Even then with the purpose of promoting safety and soundness of e-banking activities and as a precautionary measure, RBI has issued guidelines to the banks on internet banking covering

(a) the risks associated with internet banking:

(b) the technology and security standards for internet banking:

(c) legal issues relating to this new type of activity; and

(d) The regulatory and supervisory concerns of RBI.

4.5 Venture Capital Funds

One public sector bank subsidiary and one foreign bank have launched venture capital funds (VCF). The purpose of VCF is to provide equity capital for pilot plants attempting commercial application of indigenous technology and adaptation of previously imported technology to domestic conditions. The Government of India has issued detailed guidelines and procedures for establishment of VCF, management structure, size and investment of the fund, etc.

4.6 Factoring

Finally, banks are permitted to take up factoring by floating subsidiaries. Factoring is a new type of service which banks can provide. It is a device by which book debts are quickly realized through outright sale of accounts receivable to a financial intermediary (or a bank's subsidiary) called the 'factor'. The RBI has already accepted factoring in principle and banks may float subsidiaries to take up factoring. SBI and Canara Bank are the only two banks which have set up separate subsidiaries exclusively for undertaking factoring services.

A number of banks have set up Asset Management Companies (AMCs) to manage their mutual funds. Banks have thus been diversifying their activities into a host of financial services by setting up subsidiaries/ mutual funds or contributing to the equity of companies offering financial services.

During the last three decades since nationalization in July 1969 Indian commercial banks have transformed themselves beyond recognition. Their major business before 1969 was to finance trade and industry. In accordance with the national plans, policies and priorities, banks have now taken up major responsibilities for developing and diversifying the Indian economy. They have come in a big way to help agriculture and hitherto neglected sectors. The need for avenues for profits have make them enter new fields of activity such as mutual funds, portfolio management, merchant banking, leasing and housing finance. Some of the banks have already floated subsidiaries for merchant banking, mutual funds and housing finance. In the further, banks may float may more subsidiaries to take up new lines of activity. They can be expected to diversity their functions and adopt new technologies.

Chapter No 5
Banking Sector in India

Sub Titles

5.1 Introduction

5.2 Dominant position of Public Sector Banks

5.3 Growth of Deposits of Commercial Banks

5.4 Structural changes in economy and Indian Banking

5.5 Agriculture sector still to get its due share

5.6 Business growth of all scheduled commercial banks

5.7 Phenomenal growth in Retail Loans

5.8 Quality of the Assets

5.9 Basel-II norms are to be implemented

5.10 Upcoming Factors

5.11 Credit/ GDP Ratio much lower compared to developed nations

5.12 Big plans of foreign banks to enter lucrative Indian Market

5.1 Introduction

A brief mention of the overall performance of banking sector in India is worth considering before actual analysis of selected banks. As India is progressing at fast speed, banks are also showing the same trend. Banking sector in India can be categorized as Public sector banks, old private sector banks, new private sector banks, and foreign banks. The other categories of banks include co-operative banks and regional rural banks. Since these banks don't form a substantial chunk of the banking system, The stress is given on the first four categories.

There were 222 scheduled commercial banks in India as at the end of Mar 2006.

5.2 Dominant position of Public Sector Banks

The public sector banks (PSBs) still commands larger pie of all the banking indicators like deposits, advances etc. However, the private sector banks, especially new private banks like ICICI Bank, HDFC Bank and Axis Bank etc. are giving tough competition to their government owned competitors. Public sector banks which comprise State Bank of India group and other nationalized banks are continuously losing their market share in bank deposits since the opening up of the banking sector to their private counterparts. The data indicates that SBI group's market share in deposits dipped to

23.4% in FY06 from 28% in the year1996. The share of nationalized banks, as a group, accounted for 48.4%, down from 62% in the year 1996.

Table No. 1

Market Share of Banks in India

Year	Nationalized Banks	Private Banks	Foreign Banks
1991	68%	7%	1.8%
1996	62%	13.1%	2%
11 Jan 2008	47.9%	20.3%	6.1%

Source – www.rbi.org.in/SCRIPTs/BS_PressReleaseDisplay.aspx?prid=17755 - 34k

Though the market share is coming down of Nationalized Banks but as a group these banks are still dominating the Indian Banking sector.

5.3 Growth of Deposits of Commercial Banks

Table No.2

Growth of Deposits of all reporting Scheduled commercial Banks

(Rs in Cr)

Year	Deposits	% growth rate
1991	2,11,108	-
1996	4,50,648	113%
2008*	31,74,333	604%

Source- www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=9170
(* as on 14th March 2008 RBI Press Release)

Favorable developments during the period, namely, improvement in corporates' internally generated resources placed with the banking system, the relative attractiveness of bank deposits vis-à-vis small savings – owing to higher interest rates on banking deposits and extension of tax incentives for longer term deposits (five years and above) – as well as active deposit mobilization strategies mounted by banks to fund the expansion in credit. Overall, it is useful to note that the incremental non-food credit-deposit ratio during the current year so far, has declined to 77.7% from

105.8% a year ago. Banks faced a resource crunch in FY06 and FY05, with loans growing more than deposits in absolute terms. This has forced many banks to go on overdrive to woo depositors by offering attractive rates on term deposits. Banks have raised deposit rates by over 50 basis points over the last six months. Many private banks have started offering higher returns on nine-month to one-year term deposits. PSBs have raised rates on term deposits offering returns comparable to small savings schemes. Besides from August 1, '06 bank deposits for over five years are eligible for tax benefits.

Operating costs are not likely to take a breather for private sector banks as the banks are aggressively increasing their delivery channels and investing heavily in technology. The new formats include specialised offices where banks extend low-ticket credit and raise low cost deposits. High volume growth is likely on the back of higher operating costs. However, it is not expected to have any rise in operating cost to income ratio, despite the rapid increase in infrastructure the income is also expected to go up sharply going forward.

5.4 Structural changes in economy and Indian Banking

The Indian banking sector after 1991 is driven mainly by structural factors such as retail loan boom, and infrastructure funding with low incremental defaults. Healthy macroeconomic performance continued to strengthen the financial performance of scheduled commercial banks (SCBs) in recent years. The banking sector has witnessed vigorous credit growth during recent years. The heartening factor was that the credit offtake was more broad-based with all the sectors of the economy going for credit. Housing and retail segments were joined by the demand for credit from agriculture and industry segment as well.

The credit demand was not entirely financed by the customer deposits as the growth of deposits slowed down marginally in 2005-06. In order to meet the increased demand for credit, banks increased their dependence to non-deposit resources. In addition to this, number of banks curtailed their fresh investment in Government securities to finance the credit demand. The strong credit off take was primarily responsible for the improved net interest income of many banks. In fact, the strong credit demand was able to more than offset the impact of sharp decline in non-interest income. Profitability of public sector and new private sector banks improved, despite hardening of sovereign yields.

Asset quality of SCBs has been improving since the past couple of years as reflected in the decline in gross non-performing assets in absolute terms. This is despite the fact that, RBI has asked banks to switch over to the 90-day delinquency norm with effect from March 2004. With the sharp increase in risk-weighted assets, many banks shored up their capital by way of new issues.

5.5 Agriculture sector still to get its due share

Agriculture lending has emerged as one of the fastest growing loan segments for commercial banks. But despite a huge growth potential, most banks are still below the level of 18% of total loans stipulated by the government. As per the priority sector norms in India, banks have to lend 40% of net bank credit to priority sector which includes among other, agriculture loan, small scale industry loans and home loans up to Rs10lacs. Of this banks have to lend 18% to agriculture. Market major SBI has managed to reach just 14.3% of the stipulated 18% during FY06.

Among other major commercial banks, ICICI Bank has managed to achieve a target of 16.8%, while Union Bank of India and Bank of Baroda recorded 16% and 14.6%, respectively. Bank of India is the only entity among large lenders to cross the 18% target at 19.3%. The government wants the banks to double their agri-loan portfolio over the next three years.

5.6 Business Growth of all Scheduled Commercial Banks

Table No 3

Year	No of Banks	Bank Deposits (Rs in Cr)	Bank Credit (Rs in Cr)
1950-51	430	820	580
1970-71	73	5,910	4,690
1990-91	271	1,92,540	1,16,300
2000-01	297	9,62,620	5,11,430
2003-04	288	15,01,930	8,35,380
2006-07	222	24,50,138	18,13,325

Source : RBI, Report on Currency and Finance, 2007

RBI Bulletin 2007

5.7 Phenomenal growth in Retail Loans

Retail credit to GDP ratio continues to remain low as compared to other economies.
It is expected that the retail credit market would grow from Rs.75,000 Cr in Mar 03 to Rs 3,46,400 Cr by Mar 08.s

Table No.4

Retail loan GDP Ratio

Name of the Country	Retail loan GDP Ratio
Hong Kong	60.0
Singapore	48.0
Malaysia	52.0
India	8.0

Source: Federation of Indian Chambers of Commerce and Industry, 2006

India's population is turning out to be asset for future because young people with over 50% of the population under the age of 25 and 80% under the age 45. Growing urbanization, rising disposable income of the middle-income group comprising 23% of the population is leading to a shift in consumption patterns and fuelling retail loan boom. With savings rate at 28% (of which 90% is from households), and low leverage of individual balance sheets, it is expected that retail loan boom will continue with low incremental defaults.

5.8 Quality of the Assets

The SARFAESI Act, brought into force in mid-2002, empowered the banks to sidestep the courts and dispose of the defaulters' properties given as securities to recover the dues after giving due notice. Though the act sent the defaulters scurrying in panic, its progress has been plagued by one hurdle or the other. Public sector banks have sent notices to 28,866 entities for recovering Rs10,170 cr under the act.
While these recoveries may seem insignificant in comparison to the overall level of NPAs in the banking system, the substantial amounts recovered in such a short time from long pending sticky loans is indeed commendable. There is now a growing consensus among the bankers and borrowers alike that more stringent debt recovery

measures will follow in the future. This augurs well for the NPA problem of the banks; more importantly, it will have a healthy deterrent action on fresh slippage also.
Asset quality of scheduled commercial banks improved further during the year, with gross and net NPA ratios reaching historical low levels of 3.5% and 1.3%, respectively, at end- March 2006. Robust economic activity and better recovery climate have facilitated reduction in non-performing assets in recent years. Only five banks had net NPAs in excess of five per cent of their net advances. Financial institutions, scheduled urban co-operative banks and Non Banking Finance Companies also recorded an improvement in their asset quality during 2005-06, with net NPA ratios reaching 1.3%, 3% and 1%, respectively, of their net advances at the end of March 2006.

5.9 Basel-II norms are to be implemented

In its mid-term review of Annual Policy for FY'07, RBI pushed back the deadline for implementation of Basel – II norms. While foreign banks in India and Indian banks operating abroad are to meet Basel-II norms by March 31, 2008, all other scheduled commercial banks will have to adhere to these guidelines pertaining to risk provisioning by March 31, 2009.
This will provide banks some more time to put in place appropriate systems so as to ensure full compliance of Basel II.

5.10 Upcoming Factors

The most important point here is the rising interest rates. Even though there is sharp rise in real interest rates, credit growth would not be impacted due to higher demand from every sector like corporate, retail and agriculture. With the banks increasing its deposits rates there will be a relatively higher time deposit growth in the banking system, which will ensure easy flow of credit to the corporate sector. Credit Deposit Ratio, for instance, of all scheduled banks has gone up from 62.9 in 1991 to 74.6 in 2007.
RBI has been concerned about the strong credit growth in the retail and real estate sectors, over the past three years, only 44% of the incremental credit disbursed flowed to the industrial and agriculture sectors. In a bid to slow this aggressive credit growth in sectors other than industry and agriculture, RBI has initiated number of restraining measures which include increasing risk weightage for commercial real estate-related

loans to 150% from 100%, for housing to 75% from 50% and for consumer loans (unsecured credit and credit cards) to 125% from 100%. RBI has also increased the mandatory standard loan provisioning in specific sectors (personal loans, capital market-related loans, residential loans greater than Rs 20 lacs and commercial real estate loans) to 1% from 0.4%. On a year-on-year basis, non-food credit of SCBs exhibited a growth of Rs.3,76,105 Cr (30.5%) as on October 13, 2006 on top of an increase of Rs.2,97,903 Cr (31.8%) a year ago.

5.11 Credit/ GDP Ratio much lower compared to developed nations

The credit to GDP ratio was slightly above 40% by end-March 2006. However, despite the steady increase over the years, the credit to GDP ratio in India is much lower than several advanced and emerging market economies. For example, it is around 150% in China and in Thailand it's just above 90%. This suggests that financial deepening is still low in India as compared to the other emerging countries and is expected to improve further with the development of the financial sector. Thus, India offers tremendous potential in the long-term as its credit to GDP ratio is likely to improve further.

5.12 Big plans of foreign banks to enter lucrative Indian Market

India is a upcoming market with good potential. This is the reason why a number of foreign banks are eager to set up shop in India. However, the government is moving cautiously in opening up the market to foreign banks. The government has set up a roadmap for the foreign banks to tread on. The roadmap has two phases. During the first phase between March '05 and March '09, foreign banks may establish a presence by setting up a wholly-owned subsidiary or conversion of existing branches into a wholly-owned subsidiary.

The second phase is to commence in April '09 after consultation with all stakeholders in the banking sector. The review is expected to examine issues such as dilution of stake and permitting mergers/acquisitions of private sector banks in India by a foreign bank.

A large number of foreign banks are eager to enter India despite a regulatory iron curtain that is restricting entry. This is regardless of the fact that most foreign banks seems to be unhappy with the Reserve Bank of India's roadmap for liberalization of entry norms for foreign banks proposed in February '05. Foreign banks wants the

government to relax regulations such as priority sector lending, ownership rules and statutory liquidity requirements, branch licensing, single borrower limits etc. Foreign banks have targeted India for a variety of reasons. They are impressed by the pace of reforms, huge market, interest of foreign institutional investors and the country's changing image. This is evident from the levels of investment and expansion plans for the country. Union Bank of Switzerland (UBS) and Australia-based Macquarie Bank are some of the banks which are interested in India.

Summary

The factors mentioned above of the growth of Indian economy, structural changes are taking place, growth of deposits, general reduction in interest rates and subsequent rise in credit offtake, increased competition among banks has helped economy and banking sector to progress at faster rate.

Chapter No 6

Introduction of Banks

Sub Titles

6.1 State Bank of India (SBI)

6.2 Punjab National Bank (PNB)

6.3 ICICI Bank

6.4 Axis Bank (UTI Bank)

6.5 Standard Chartered Bank

6.6 Tables and Graphs

6.1 State Bank of India (SBI)

State Bank of India (SBI) is the largest bank in India. If one measures by the number of branch offices and employees, SBI is the largest bank in the world. Established in 1806 as Bank of Bengal, it is the oldest commercial bank in the Indian Subcontinent. SBI provides various domestic, international and NRI products and services, through its vast network in India and overseas. With an asset base of $126 billion and its reach, it is a regional banking behemoth. The government nationalized the bank in 1955, with the Reserve Bank of India taking a 60% ownership stake. In recent years the bank has focused on two priorities, 1) reducing its huge staff through Golden handshake schemes known as the Voluntary Retirement Scheme, which saw many of its best and brightest defect to the private sector, and 2) computerizing its operations.

The State Bank of India traces its roots to the first decade of 19th century, when the Bank of Calcutta, later renamed the Bank of Bengal, was established on 2 June 1806. The government amalgamated Bank of Bengal and two other Presidency banks, namely, the Bank of Bombay (incorporated on 15 April 1840) and the Bank of Madras on 27 January 1921, and named the reorganized banking entity the Imperial Bank of India. All these Presidency banks were incorporated as joint stock companies, and were the result of the royal charters. The Imperial Bank of India continued to remain a joint stock company. Until the establishment of a central bank in India the Imperial Bank and its early predecessors served as the nation's central bank printing currency.

The State Bank of India Act 1955, enacted by the Parliament of India, authorized the Reserve Bank of India, which is the central banking organization of India, to acquire a

controlling interest in the Imperial Bank of India, which was renamed the State Bank of India on 30 April 1955.

June 2, 1806: The Bank of Calcutta established.

January 2, 1809: This became the Bank of Bengal.

April 15, 1840: Bank of Bombay established.

July 1, 1843: Bank of Madras established.

1861: Paper Currency Act passed.

January 27, 1921: all three banks amalgamated to form Imperial Bank of India.

July 1, 1955: State Bank of India formed; becomes the first Indian bank to be nationalized.

1959: State Bank of India (Subsidiary Banks) Act passed, enabling the State Bank of India to take over eight former State-associated banks as its subsidiaries.

1980s When Bank of Cochin in Kerala faced a financial crisis, the government merged it with State Bank of India.

June 29, 2007: The Government of India acquired the entire Reserve Bank of India (RBI) shareholding in State Bank of India (SBI), consisting of over 314 million equity shares at a total amount of over 355 billion rupees.

Associate Banks

There are seven other associate banks that fall under SBI. They all use the "State Bank of" name followed by the regional headquarters' name. These were originally banks belonging to princely states before the government nationalized them in 1959. In tune with the first Five Year Plan, emphasizing the development of rural India, the government integrated these banks with the State Bank of India to expand its rural outreach. The State Bank group refers to the seven associates and the parent bank. All the banks use the same logo of a blue keyhole. There has been a proposal to merge all the associate banks into SBI to create a "mega bank" and streamline operations.

State Bank of Bikaner & Jaipur

State Bank of Hyderabad

State Bank of Indore

State Bank of Mysore

State Bank of Patiala

State Bank of Saurashtra

State Bank of Travancore

Growth

State Bank of India has often acted as guarantor to the Indian Government, With more than 9400 branches and a further 4000+ associate bank branches, the SBI has extensive coverage. Following its arch-rival ICICI Bank, State Bank of India has electronically networked most of its metropolitan, urban and semi-urban branches under its Core Banking System(CBS), with over 4500 branches being incorporated so far. The bank has the largest ATM network in the country having more than 5600 ATMs

In recent years, the bank has sought to expand its overseas operations by buying foreign banks. It is the only Indian bank to feature in the top 100 world banks in the Fortune Global 500 rating and various other rankings. According to the Forbes 2000 listing it tops all Indian companies.

Fortune Global 500 Ranking - 2006

SBI debuted in the Fortune Global 500 at 498 in 2006.

Group companies

SBI Capital Markets Ltd

SBI Mutual Fund (A Trust)

SBI Factors and Commercial Services Ltd

SBI DFHI Ltd

SBI Cards and Payment Services Pvt Ltd

SBI Life Insurance Co. Ltd - Bancassurance (Life Insurance)

SBI Funds Management Pvt Ltd

SBI Canada

6.2 Punjab National Bank (PNB)

Punjab National Bank (PNB) established in 1895 in Lahore by Lala Lajpat Rai, is the second largest public sector commercial bank in India with about 4500 branches and offices throughout the country. The Government of India nationalized the bank, along with 13 other major commercial banks of India, on July 19, 1969.

1895: PNB established in Lahore.

1904: PNB established branches in Karachi and Peshawar.

1939: PNB acquired Bhagwandas Bank.

1947: Partition of India and Pakistan at Independence. PNB lost its premises in Lahore, but continued to operate in Pakistan.

1961: PNB acquired Universal Bank of India.

1963: The Government of Burma nationalized PNB's branch in Rangoon (Yangon).

September 1965: After the Indo-Pak war the government of Pakistan seized all the offices in Pakistan of Indian banks, including PNB's headoffice, which may have moved to Karachi. PNB also had one or more branches in East Pakistan (Bangladesh).

1960s: PNB amalgamated Indo Commercial Bank (est. 1933) in a rescue.

1969: The Government of India (GOI) nationalized PNB and 13 other top banks.

1978: PNB opened a branch in London.

1986 The Reserve Bank of India required PNB to transfer its London branch to State Bank of India after the branch was involved in a fraud scandal.

1988: PNB acquired Hindustan Commercial Bank in a rescue.

1993: PNB acquired New Bank of India, which the GOI had nationalized in 1980.

1998: PNB set up a representative office in Almaty, Kazakhstan.

2003: PNB took over Nedungadi Bank, the oldest private sector bank in Kerala. Rao Bahadur T.M. Appu Nedungadi, author of Kundalatha, one of the earliest novels in Malayalam, had established the bank in 1899. It was incorporated in 1913, and in 1965 had acquired selected assets and deposits of the Coimbatore National Bank. At the time of the merger with PNB, Nedungadi Bank's shares had zero value, with the result that its shareholders received no payment for their shares.

2005 PNB introduced it’s IPO in Indian Market.

6.3 ICICI Bank

ICICI Bank was (formerly **Industrial Credit and Investment Corporation of India**) is India's largest private sector bank and second largest overall. ICICI Bank has total assets of about USD 79 Billion (end-Mar 2007), a network of over 950 (including 190 branches of Sangli bank recently taken over by ICICI Bank) branches and offices, and about 3495 ATMs and 24 million customers(as of end July '07). ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital and asset management. ICICI Bank's equity shares are listed in India on stock exchanges at Kolkata and Vadodara, the Stock Exchange, Mumbai and the National Stock Exchange of India Limited and its ADRs are listed on the New York Stock Exchange (NYSE).

History

-The World Bank, the Government of India and representatives of Indian industry form ICICI Limited as a development finance institution to provide medium-term and long-term project financing to Indian businesses in 1955.

-1994 ICICI establishes ICICI Banking Corporation as a banking subsidiary. ICICI Banking Corporation is renamed as 'ICICI Bank Limited'

-1999 ICICI becomes the first Indian company and the first bank or financial institution from non-Japan Asia to list on the NYSE.

-2001 ICICI acquired Bank of Madura (est. 1943). Bank of Madura was a Chettiar bank, and had acquired Chettinad Mercantile Bank (est. 1933) and Illanji Bank (established 1904) in the 1960s.

-2002 The Boards of Directors of ICICI and ICICI Bank approve the merger of ICICI, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. After receiving all necessary regulatory approvals, ICICI integrates the group's financing and banking operations, both wholesale and retail, into a single entity. Also, ICICI Bank bought the Shimla and Darjeeling branches that Standard Chartered Bank had inherited when it acquired Grindlays Bank.2002 ICICI establishes representative offices in NY and London.

-2003 ICICI opens subsidiaries in Canada and the United Kingdom (UK), and in the UK it establishes alliance with Lloyds TSB. It also opens an Offshore Banking Unit (OBU) in Singapore and representative offices in Dubai and Shanghai.

2004 ICICI opens a rep office in Bangladesh to tap the extensive trade between that country, India and South Africa.

-2005 ICICI acquires Investitsionno-Kreditny Bank (IKB), a Russia bank with about US$4mn in assets, head office in Balabanovo in the Kaluga region, and with a branch in Moscow. ICICI Bank offers a high-interest (5.4% gross) internet savings account to UK customers. Also, ICICI establishes a branch in the Dubai International Financial Centre.

-2006 ICICI Bank UK opens a branch in Antwerp, in Belgium. ICICI opens representative offices in Bangkok, Jakarta, and Kuala Lumpur.

About ICICI Bank

-ICICI was established by the Government of India in the year 1955 as a Financial Institution (FI, other such institutions were IDBI and SIDBI) with the objective to finance large industrial projects. ICICI was not a bank - it could not take retail deposits; and nor was it required to comply with Indian banking requirements for liquid reserves. ICICI borrowed funds from many multilateral agencies (such as the World Bank), often at concessional rates. These funds were deployed in large corporate loans.

All this changed in the 1990s. ICICI founded a separate legal entity - ICICI Bank which undertook normal banking operations - taking deposits, credit cards, car loans etc. The experiment was so successful that ICICI merged into ICICI Bank ("reverse merger") in 2002.

At the time of the reverse merger, there were rumors that ICICI had a large proportions of Non Performing Loans ("NPA", as they are known in India) on its books - in particular to the steel industry. Since 2002, there has been a general revival in Indian industry (and metal based industry in particular). It is widely believed that the proportion of NPAs has come down to prudent levels (even if it were high earlier).

ICICI Bank now has the largest market share among all banks in retail or consumer financing. ICICI Bank is the largest issuer of credit cards in India. It was the first bank to offer a wide network of ATM's and has a large network of ATM's.

ICICI Bank now has the largest market value of all banks in India, and is widely seen as a sophisticated bank able to take on many global banks in the Indian market.

The Bank is expanding in overseas markets and has the largest international balance sheet among Indian banks. The international banking business was set up in 2002 to implement a focused strategy for the overseas market. The Bank now has wholly-owned subsidiaries, branches and representatives offices in 18 countries, including an offshore unit in Mumbai. This includes wholly owned subsidiaries in UK, Canada and Russia, offshore banking units in Singapore and Bahrain; advisory branch in Dubai, branches in Sri Lanka, Hong Kong and Belgium; and rep offices in the US, China, United Arab Emirates, Bangladesh, South Africa, Indonesia, Thailand and Malaysia. The bank is targeting the NRI (Non Resident Indian) population for expanding its business.

Social and Developmental Initiatives

Rural Thrust: ICICI Bank has identified rural as one of the major areas of growth. It is creating holistic propositions to address this opportunity. ICICI Bank has formulated a comprehensive strategy for rural, micro-banking and agri business encompassing a range of products and multiple delivery channels. The objective is to meet the needs of the rural economy while building a sustainable business model. The range of products comprises six primary credit products – micro finance loans, farmer financing, working capital financing for agri-enterprises, farm equipment financing, commodity based financing and jewel loans as well as savings investments and insurance products. The rural delivery channels included branches at major agricultural markets, credit franchisees, rural internet kiosks and micro-finance institution partnerships targeting specific segments of the rural populations.

Sustainable Development: The bank operates and supports a diverse range of social projects in the areas of primary education, healthcare, micro-finance, environment, research & bio technology, finance & development. ICICI Bank's work in the area of development aims at facilitating wider participation by India's poorer communities in social and economic process. Its efforts are broadly divided into two spheres – partnership based development initiatives and market-based direct initiatives. For those initiatives that seek to make a broader impact on society, ICICI Bank's strategy has been to identify partners and work with them to build competencies and effectiveness on the field. The Bank has taken a more market-based direct approach for those initiatives that directly impact the economic well-being of individuals. (www.icicicommunities.org)

Financial Counselling: ICICI Bank setup the DISHA Trust in April 2007 as part of ICICI Bank's Corporate Social Responsibility activity. Its main objectives are to provide free credit counseling, financial education and debt management services to consumers and to increase awareness about financial products and services, thus promoting better understanding and decision making.

6.4 Axis Bank (UTI Bank)

Axis Bank (UTI Bank) previously called UTI Bank, was the first of the new private banks to have begun operations in 1994, after the Government of India allowed new private banks to be established. The Bank was promoted jointly by the Administrator of the Specified Undertaking of the Unit Trust of India (UTI-I), Life Insurance Corporation of India (LIC), General Insurance Corporation Ltd., National Insurance Company Ltd., The New India Assurance Company, The Oriental Insurance Corporation and United Insurance Company Ltd. UTI-I holds a special position in the Indian capital markets and has promoted many leading financial institutions in the country. P J Nayak is its Chairman and Managing Director.

As on the year ended March 31, 2006 the Bank had a net worth of Rs. 2872.19 crores with the public holding (other than promoters) at 56.65%. Net Profit for the year was up 44.98% to Rs 485.08 crores.

Branch network

First branch of Axis Bank, then known as UTI Bank, was inaugurated at Ahmedabad by Dr. Manmohan Singh, the then Finance Minister, Government of India. At the end of March 2007, Axis Bank had 508 branches and 2341 ATMs covering 332 cities of India. All branches of the bank are linked via a core banking solution on a real-time basis. It was the first bank in India to adopt Finacle as a core banking software. The bank continuously leverages information technology to provide value-added products and services as well as multiple-delivery channels to customers allowing them easy, real-time and on-line access for all types of transactions in a cost-effective manner. The ATM network as of now (2007), is the third largest in India. The bank opened its first overseas branch in Singapore in April 2006. In March 2007, it opened a full license bank branch in Hong Kong

6.5 Standard Chartered Bank

Standard Chartered Bank is a British bank headquartered in London with operations in more than fifty countries. It operates a network of over 1,600 branches (including subsidiaries, associates and joint ventures) and employs almost 60,000 people. Despite its British base it has few customers in the United Kingdom and 90% of its profits come from the Asia Pacific Region, South Asia, the Middle East and Africa.

The bank's history is entwined with the development of the British Empire its operations lie predominantly in former British colonies, though over the past two decades it has expanded into countries that have historically had little British influence. It aims to provide a safe regulatory bridge between these developing economies. It now focuses on consumer, corporate and institutional banking, and on the provision of treasury services – areas in which the Group had particular strength and expertise. Standard Chartered is listed on the London Stock Exchange and the Hong Kong Stock Exchange and is among the top 20 constituent members of the FTSE 100 Index.

History

The Standard Chartered Group was formed in 1969 through a merger of two banks: The Standard Bank of South Africa founded in 1863, and the Chartered Bank of India, Australia and China, founded in 1853. As its operations came under threat from nationalization programmes in the countries in which it was present in the 1970s, the bank sought expansion in developed countries, particularly the USA. It also proposed a takeover of The Royal Bank of Scotland Group, which would have given it a substantial base in its home country, but this was prevented by a counter-bid from the HSBC and then blocked by competition authorities in 1981. When a hostile takeover bid was made for the Group by Lloyds Bank in 1986 this was successfully defeated. After this, Standard Chartered entered a period of change. The bank made provisions against third world debt exposure and loans to corporations and entrepreneurs who could not meet their commitments. It then began a series of divestments as it sought to re-focus itself on emerging markets. It divested its stake in the Standard Bank of South Africa in 1987 in response to anti-apartheid pressure and today that bank is one of its major competitors in Africa. In 2000, Standard Chartered acquired Grindlays Bank from ANZ Bank. The move caused some overlap in operations, for instance,

giving it a second banking license in Qatar and an additional four branches in Bahrain. It sold both. Local investors bought Grindlays Bahrain and renamed it Commercial Bank of Bahrain. However, in the UAE Standard Chartered integrated the Grindlays' branches into its existing operation there. Grindlays also had branches in areas Standard Chartered didn't want. For instance, rather than adding the Palestinian territories to the list of places in which it did business, Standard Chartered chose to close Grindlays’ Nablus and Ramallah branches; it did, however, keep the branch in East Jerusalem. In Greece, Standard Chartered sold Grindlays' Athens and Pireaus branches to Aspis Bank. Standard Chartered retained Grindlays' private banking operations in London and Luxembourg and the subsidiary in Jersey, all of which it integrated into its own private bank. This now serves high net worth customers in Hong Kong, Dubai and Johannesburg under the name Standard Chartered Grindlays Offshore Financial Services. It did, however, sell the Geneva branch and private banking operation to Prudential-Bache International.

In India, Standard Chartered integrated most of Grindlays' operations, making Standard Chartered the largest foreign bank in the country, despite Standard Chartered having cut some branches and having reduced the staff from 5500 to 3500 people. Among the branch reductions was the sale in 2002 of Grindlays' branch in Srinagar to Jammu and Kashmir Bank and its Shimla and Darjeeling branches to ICICI Bank.

Standard Chartered Bank, India

Standard Chartered is a London based international bank with significant operations in Asia, Africa, the Middle East and Latin America. The Standard Chartered Group was formed in 1969 through a merger of two banks: The Standard Bank of British South Africa founded in 1863, and the Chartered Bank of India, Australia and China, founded in1853.

Chartered Bank opened its first overseas branch in India, at Kolkata, on 12 April 1858. During that time Kolkata was the most important commercial city and was the hub of jute and indigo trades. With the opening of the Suez Canal in 1869 and the growth of cotton trade, Bombay replaced Kolkata as the main commercial center. Hence Standard Chartered shifted its main operations to Bombay. Today the Bank's branches and sub-branches in India are directed and administered from Bombay with

Kolkata remaining an important trading and banking centre.
To cater to diverse financial needs, Standard Chartered offers a wide range of state-of-the-art banking products and services through its network of 80 branches in 31 cities across the country.

Chapter No 7

Data Analysis

7.1 Introduction

7.2 Rationale for Parameters.

7.3 State Bank of India

7.4 Punjab National Bank

7.5 ICICI Bank

7.6 AXIS Bank

7.7 Standard Chartered Bank

7.1 Introduction

The analysis is done on various parameters to study the performance of selected banks in India after financial sector reforms.

7.2 Rationale for Parameters.

1. Deposit mobilization is considered because for any bank to function, it is the amount of deposits that matters. It is one of the most important parameters on which the performance can be measured. More the deposits more likely it is for a bank to function better.

2. Advances are equally important because if the advances given are more that can ensure the income and subsequently profitability of a bank.

3. Profit is the mirror of how efficiently an institution works. More the profits, generally it is said that institution is functioning well.

4. Non Interest Income, is a income earned by the banks from the sources other than interest, i.e. income comprises of fees, income from trading, and foreign exchange operations. It also includes miscellaneous income. This was not considered important before reforms year. With the introduction of new value based services that banks provide today has increase the possibility of earning more income through commission and fees.

5. Non - Performing Assets. Non Performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by RBI. When the activities of a bank are increasing at higher speed, it can generally have tendency of increase in number of defaulters. Lower NPA ratio can show that bank's policy on lending and specially proposal scrutiny is done properly.

6. Credit Deposit Ratio is the best measure of assessing the profitability of banks. Higher the ratio better it is for banks to generate income and profits.

7.Capital Adequacy Ratio. Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk, operational risk, etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, which protect the bank's depositors or other lenders. To overcome any unforeseen contingencies in term of non recovery of loans or market related risk or business risk, institution's own capital, long term loans can be of great help. According to Basel II norms banks are required to increase their own capital, more the CAR better it is for any bank.

8.Profit Per Employee. (Staff Productivity) With the introduction of competition, increasing the productivity is the word of the day. Profit per Employee is the best measure to calculate the productivity of bank employees.
Employees are required to learn application of new technologies, change their mindset towards customers which will increase their own production.

9.Financial Innovation. Introduction of new financial services like ATM, Internet Banking, other services like Merchant banking, Mutual Funds are also important. An analysis is done on banks offering such services, which shows how geared the bank is in providing new age services to its customers.

7.3 STATE BANK OF INDIA

Analysis of Performance

1. Deposits grew to Rs 4,35,521 Cr as at the end of Financial Year 07 from Rs 96,395 Cr in the Financial Year 1996. Showing the annual simple growth rate 13.58%.

2. Advances grew to Rs.3,42,232 Cr as at the end of Financial Year 07, from Rs.59,825 Cr in the Financial Year 1996. Which demonstrates an annual growth rate of 16%

3. Profit, during the period under consideration, grew to Rs 4,541 Cr as at the end of Financial Year 07 from Rs 831 Cr in the Financial Year 1996. The growth rate is 21.08%.

4. Non – Interest Income, Which shows how innovative the bank is, grew to Rs 5769 Cr as at the end of Financial Year 07, from Rs 2757 Cr in the Financial Year 1996. The growth rate is 7.41%.

5. Non – Performing Assets. The level of NPAs to total advances reflects the bank's system of assessing the ability of borrower, proper scrutiny of each proposal that bank receives and a well thought out policy on each parameter of assessment. The Net NPA Ratio in case of SBI came down to 1.32 as at the end of Financial Year 07 from 7.31 in the financial year 1996. Which shows that over the years bank is successful in bringing down this ratio.

6. Credit Deposit Ratio ((C/D) Ratio) This ratio is crucial for banks since amount of funds lent out can be seen in relation with the total deposits. More the c/d ratio better it is for banks because their profits are dependent on the amount of advances they disburse in relation to total deposits. The best C/D Ratio would be in the range of 70 to 75% depending on the reserve requirements declared by RBI from time to time. The worst ratio was seen as 42% in recessionary period of 1992-93. SBI has been performing well on this parameter. The Credit Deposit Ratio has gone up to 73.46 as at the end of Financial Year 07 from 45.63 in the Financial Year 96.

7. Capital Adequacy Ratio- Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk, operational risk, etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, which protect the bank's depositors or other lenders. Banking Regulator in most countries define and monitor *CAR* to protect depositors, thereby maintaining confidence in the banking system

The Basel rules recognize that different types of equity are more important than others. To recognize this, different adjustments are made:

1. Tier I Capital: Actual contributed equity plus retained earnings.

2. Tier II Capital: Preferred shares plus 50% of subordinated debt.

Different minimum CAR ratios are applied: minimum Tier I equity to risk-weighted assets may be 4%, while minimum CAR including Tier II capital may be 8%.

There is usually a maximum of Tier II capital that may be "counted" towards CAR, depending on the jurisdiction.

SBI has been maintaining the required ratios in Tier I & Tier II Capital, it is 12.34 as at the end of Financial Year 07.

8. Investment Deposit Ratio – Usually when demand for credit is sluggish bank opt for investment of their idle cash in government securities bonds and T- bills. As economy is increasing at more than 8% demand for credit is increasing, which has helped all banks to decrease Investment Deposit Ratio. These investments give relatively lesser interest to banks compared with interest on Advances. This ratio in case of SBI has come down to 34 as at the end of Financial Year 07 from 54 in the Financial Year 05. This has helped SBI more on interest income.

9. Profit Per Employee – To survive and be profitable in today's competitive world, Productivity has to go up on a continual basis. Which is reflected when Profit Per Employee parameter is considered. In case of SBI Profit Per Employee has gone up to Rs 2.53 lacs as at the end of Financial Year 07 from Rs 1.01 lacs in the Financial Year 1996.

International Banking

Two new branches at Sylhet and Golders Green, London became operational during the period April-September 2005 thereby taking the total number of foreign offices to 54 in 28 countries. The Bank also opened its second offshore banking unit at Kochi. Commercial Bank of India Llc., Moscow a joint venture with Canara Bank also commenced commercial operations. Foreign branches made a net profit of US $31.82 million during the H1 of 2005-06, up from US $25.72 million during the corresponding period of the previous year. All foreign branches of the Bank except two newly opened ones at Sydney and Muscat, ended the half-year with a net profit.

The Bank's ATM network includes 5479 ATMs in India, which is the largest ATM network in the country. The Bank continues to expand this network rapidly. Customers can transact free of cost at the ATMs of the State Bank Group. The agreement with VISA and Master Card International for acquiring ATM transactions has resulted in another revenue generation stream.

The card base of State Bank Group has grown from 7.77m in September 04 to 12.43m in March 05 and 16.32m in September 05. Out of total card base State Bank of India has major share of 12.89m cards and remaining 3.43m cards of Associate Banks. State Bank Debit Card with affiliation to Master Card is the largest Maestro debit card issued by any Bank in South Asia.

With bilateral sharing arrangement with UTI Bank, HDFC Bank, Indian Bank, Andhra Bank, Punjab National Bank and Corporation Bank, customers have access to the largest reach and convenience of "Anywhere – Anytime" banking at over 10,200 ATMs. While access to State Bank ATMs is free, nominal charges are applicable on the use of other banks ATMs. Recently, UCO Bank Canara Bank and IndusInd Bank have signed MoU for bilateral sharing arrangements with State Bank ATM Net Work. State Bank ATM cum Debit cards are also acceptable at more than 1,23,000 Points of Sale / Merchant Establishments, which display Maestro logo.

Marketing - Cross-selling

As at the end of September 2005, 2,200 employees were selling life insurance products of SBI Life Insurance Company Ltd. In the first half of the year SBI branches covered more than 92,000 lives with a premium of nearly Rs.67 crore under various group covers and 33,000 lives have been covered under various individual schemes by the trained employees designated as Certified Insurance Facilitators, garnering a premium of Rs.32 crore. Overall, more than 1,25,000 lives have been covered and Rs.98.35 crore of premium mobilised during the first half of the financial year 07.

In mutual funds cross-selling, against a gross mobilisation budget of Rs.849.50 crore, SBI branches have mobilised Rs.1,072 crore during the above period. 1223 AMFI trained staff from SBI branches are engaged in selling various mutual funds products.

Cross selling general insurance products of New India Assurance Company has commenced across all Circles. The branches booked Rs.44.19 crore premium during H1 thereby earning commission of Rs.4.39 crore for the Bank.

7.4 Punjab National Bank

Analysis of Performance

1. Deposits grew to Rs 1,39,859 Cr as at the end of Financial Year 07 from Rs 27,122 Cr in the Financial Year 1996. Showing the annual growth rate of 14.75%

2. Advances grew to Rs.96596 Cr as at the end of Financial Year 07, from Rs.12,679 Cr in the Financial Year 1996. Which demonstrates a growth rate of 18.66%

3. Profit, during the period under consideration, grew to Rs 1,540 Cr as at the end of Financial Year 07 from Rs (95) Cr in the Financial Year 1996. The growth rate is 32.58%.

4. Non – Interest Income, Which shows how innovative the bank is, grew to Rs 1891 Cr as at the end of Financial Year 07, from Rs 315 Cr in the Financial Year 1996. The growth is 19.16%.

5. Non – Performing Assets. The level of NPAs to total advances reflects the bank's system of assessing the ability of borrower, proper scrutiny of each proposal that bank receives and a well thought out policy on each parameter of assessment. The Net NPA Ratio in case of PNB came down to 0.28 as at the end of Financial Year 07 from 10.21 in the financial year 1996. Which shows that over the years bank is successful in bringing down this ratio.

6. Credit Deposit Ratio ((C/D) Ratio) this ratio is crucial for banks since amount of funds lent out can be seen in relation with the total deposits. More the c/d ratio better it is for banks because their profits are dependent on the amount of advances they disburse in relation to total deposits. PNB has been performing well on this parameter. The Credit Deposit Ratio has gone up to 69 as at the end of Financial Year 07 from 41.23 in the Financial Year 1996.

7. Capital Adequacy Ratio- Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk, operational risk, etc. In the simplest formulation, a bank's capital is the

"cushion" for potential losses, which protect the bank's depositors or other lenders. Banking Regulator in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system

Different minimum CAR ratios are applied: minimum Tier I equity to risk-weighted assets may be 4%, while minimum CAR including Tier II capital may be 8%.

There is usually a maximum of Tier II capital that may be "counted" towards CAR, depending on the jurisdiction.

PNB has been maintaining the required ratios in Tier I & Tier II Capital, it is 12.29 as at the end of Financial Year 07.

8. Investment Deposit Ratio – Usually when demand for credit is sluggish bank opt for investment of their idle cash in government securities bonds and T- bills. As economy is increasing at more than 8% demand for credit is increasing, which has helped all bank to decrease there Investment Deposit Ratio. These investments give relatively lesser interest to banks compared with interest on Advances.

This ratio in case of PNB has come down to 32 as at the end of Financial Year 07 from 48.31 in the Financial Year 1996. Which has helped PNB more on interest income.

9.Profit Per Employee – To survive and be profitable in today's competitive world, productivity has to go up on a continual basis. Which is reflected when Profit Per Employee parameter is considered. In case of PNB Profit Per Employee has gone up to 2.69 lacs as at the end of Financial Year 07 from 0.43 lacs in the Financial Year 1996.

With its presence virtually in all the important centres of the country, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The

large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Punjab National Bank is serving over 3.5 crore customers through 4540 Offices including 421 extension counters - largest amongst Nationalized Banks. Punjab National Bank with 112 year tradition of sound and prudent banking is one among 300 global companies and seven Indian companies which are expected to emerge as challengers to World's leading blue chip companies. The bank has been conscious of its social responsibilities by financing agriculture and allied activities and small scale industries (SSI). Considering the importance of small scale industries bank has established 31 specialized branches to finance exclusively such industries. Strong correspondent banking relationship which Punjab National Bank maintains with over 200 leading international banks all over the world enhances its capabilities to handle transactions world-wide. Besides, bank has Rupee Drawing Arrangements with 15 exchange companies in the Gulf and one in Singapore. Bank is a member of the SWIFT and over 150 branches of the bank are connected through its computer-based terminal at Mumbai. With its state-of-art dealing rooms and well-trained dealers, the bank offers efficient forex dealing operations in India.

International Banking

The bank has been focussing on expanding its operations outside India and has identified some of the emerging economies which offer large business potential. Bank has set up representative offices at Almaty: Kazakhistan, Shanghai: China and in London. Besides, Bank has opened a full fledged Branch in Kabul, Afghanistan. Keeping in tune with changing times and to provide its customers more efficient and speedy service, the Bank has taken major initiative in the field of computerization. All the Branches of the Bank have been computerized. The Bank has also launched aggressively the concept of "Any Time, Any Where Banking" through the introduction of Centralized Banking Solution (CBS) and over 2409 offices have already been brought under its ambit. PNB also offers Internet Banking services in the country for Corporates as well as individuals. Internet Banking services are available through all Branches of the Bank networked under CBS. Providing 24 hours, 365 days banking right from the PC of the user, Internet Banking offers world class banking facilities like anytime, anywhere access to account, complete details of

transactions, and statement of account, online information of deposits, loans overdraft account etc. PNB has recently introduced Online Payment Facility for railway reservation through IRCTC Payment Gateway Project and Online Utility Bill Payment Services which allows Internet Banking account holders to pay their telephone, mobile, electricity, insurance and other bills anytime from anywhere from their desktop.

Another step taken by PNB in meeting the changing aspirations of its clientele is the launch of its Debit card, which is also an ATM card. It enables the card holder to buy goods and services at over 99270 merchant establishments across the country. Besides, the card can be used to withdraw cash at more than 25000 ATMs, where the 'Maestro' logo is displayed, apart from the PNB's over 1094 ATMs and tie up arrangements with other Banks.

7.5 ICICI Bank

Analysis of Performance

1. Deposits grew to Rs 2,30,510 Cr as at the end of Financial Year 07 from Rs 727 Cr in the Financial Year 1996. Showing the annual growth rate of 64.83 %

2. Advances grew to Rs.1,95,865 Cr as at the end of Financial Year 07, from Rs.650 Cr in the Financial Year 1996. Which demonstrates a growth rate of 88%

3. Profit, during the period under consideration, grew to Rs3,110 Cr as at the end of Financial Year 07 from Rs16Cr in the Financial Year 1996. The growth rate is 71.33%

4. Non – Interest Income, Which shows how innovative the bank is, grew to Rs5321 Cr as at the end of Financial Year 07, from Rs19 Cr in the Financial Year 1996. The growth is 298.83%.

5. Non – Performing Assets. The level of NPAs to total advances reflects the bank's system of assessing the ability of borrower, proper scrutiny of each proposal that bank receives and a well thought out policy on each parameter of assessment. The Net NPA Ratio in case of ICICI Bank came down to 0.78 as at the end of Financial Year 07 from 3.69 in the financial year 1996. Which shows that over the years bank is successful in bringing down this ratio.

6. Credit Deposit Ratio ((C/D) Ratio) In case of ICICI Bank, C/D Ratio is given in a different way Credit amount includes Advances given out of Deposits as well as Borrowing done by the Bank. Which gives a different picture as Credit exceeds the amount of Deposits which are generated. C/D Ratio for ICICI Bank has come down to 85 as at the end of Financial Year 07 from 110 in the Financial Year 03.

7. Capital Adequacy Ratio- Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk, operational risk, etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, which protect the bank's depositors or other lenders.

Banking Regulator in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system

Different minimum CAR ratios are applied: minimum Tier I equity to risk-weighted assets may be 4%, while minimum CAR including Tier II capital may be 8%.

There is usually a maximum of Tier II capital that may be "counted" towards CAR, depending on the jurisdiction.

ICICI Bank has been maintaining the required ratios in Tier I & Tier II Capital, it is 12.29 as at the end of Financial Year 07.

8. Investment Deposit Ratio – Usually when demand for credit is sluggish bank opt for investment of their idle cash in government securities bonds and T- bills. As economy is increasing at more than 8% demand for credit is increasing, which has helped all bank to decrease there Investment Deposit Ratio. These investments give relatively lesser interest to banks compared with interest on Advances.

This ratio, in case of ICICI Bank, has come down to 40 as at the end of Financial Year 07 from 63 in the Financial Year 03.

9. Profit Per Employee – To survive and be profitable in today's competitive world, productivity has to go up on a continual basis. Which is reflected when Profit Per Employee parameter is considered. In case of ICICI Bank Profit Per Employee has gone up to 11.53 lacs as at the end of Financial Year 07 from 8.66 lacs in the Financial Year 1996.

ICICI Bank is the second largest Scheduled Commercial Bank in India while it is the largest Private Sector Bank in terms of balance sheet size with total assets of Rs2,95,832 Cr as of Dec 2006. Together with its subsidiaries, the bank offers number of products and services in the areas of commercial banking to retail and corporate customers (both domestic and international), treasury and investment banking and other products like insurance. ICICI Bank was founded in 1994 by ICICI Ltd., which was then the country's leading development Finance institution. ICICI Bank has all-stock amalgamation of ICICI, a long-term financial Institution and two of its subsidiaries, ICICI Personal Financial Services and ICICI Capital Services with itself,

which was effective in 2002. The bank has made significant progress in the international business since it set up its first overseas branch in Singapore in 2003. The bank has total staff strength of around 33,500.

In addition to this, the bank has number of Direct Selling Agents (DSA) who works on Commission basis. ICICI Bank group accounts for around 25% of the total retail business of the banking industry in India. With this type of strong base, ICICI Bank has displayed a robust performance in the last few years in scaling up its efficiency levels. The bank continues to find new business opportunities and execute them aggressively in a rapidly growing economy, creating significant long-term value. Profitability remains below that of its peers, but is improving.

Major Indicators

The business operations of ICICI Bank can be broadly classified into the key income generating areas such as Retail Banking, International Banking, Rural Banking, Corporate Banking & Treasury Operations. The functioning of some of the key divisions is enumerated below:

Small and medium enterprises

ICICI bank believes in the franchise model for the small enterprises segment and has significantly enhanced its franchise in this segment. As matter of strategy, the bank has focused on customer convenience in transaction banking services, as well as working capital loans to suppliers or dealers of large corporations, and clusters of small enterprises that have a homogeneous profile.

Retail Banking

Retail banking has immense opportunities in a growing economy like India. As the growth story gets unfolded in India, retail banking is going to emerge as a major growth driver for the banking industry. ICICI Bank was among the first banks to identify the growth potential of retail credit in India. Over the last few years the banking system as a whole has seen significant expansion of retail credit, with retail loans accounting for a major part of overall systemic credit growth. ICICI Bank is the largest provider of retail credit in India. It maintained and enhanced its market

leadership in every segment of the retail credit business, including home loans, car loans, personal loans and credit cards. Cross-selling new products and also the products of its life and general insurance subsidiaries to its existing customers is a key focus area for the bank. Cross-sell allows the bank to deepen its relationship with its existing customers and helps it reduce origination costs as well as earn fee income. Its branches and other online channels are increasingly becoming important points of sale for its insurance subsidiaries

Bank's international business

Few years back, ICICI bank had identified international banking as a key opportunity, aiming to cater to the cross-border needs of clients and leverage its domestic banking strengths to offer products internationally. The bank has made significant progress in the international business since it had set up its first overseas branch in Singapore in 2003. Currently, the bank has operations in 17 countries.

Rural Presence

ICICI has adopted a holistic approach to the financial services needs of various segments of the rural population, by delivering a comprehensive product suite encompassing credit, transaction banking, deposit, investment and insurance, through a range of channels. Rural delivery channels include branches, internet kiosks, franchisees and micro-finance institution partners.

The bank has formulated a comprehensive strategy for rural, micro-banking and agri-business, encompassing a range of products and channels, with the twin objectives of meeting the needs of the rural economy while building a sustainable business model. The bank has adopted an integrated approach to agricultural financing by addressing the entire value chain from production to consumption with a deep sectoral focus

Expansion Plans

Having proved its mettle on its home turf, the bank now sees the world as its playground. The bank's presence currently spans 17 countries and includes three wholly-owned subsidiaries in the United Kingdom, Russia and Canada; offshore banking units in Singapore and Bahrain, an advisory branch in Dubai; branches in Sri

Lanka, Hong Kong, and Belgium; and representative offices in the United States, China, Bangladesh, South Africa, Indonesia, Thailand, and Malaysia.

Consolidation likely in its overseas operations

ICICI Bank is likely to consolidate its overseas operations under one company ICICI Bank UK. This move will give the bank a firm foothold in the EU and North American markets. The proposed move would allow ICICI Bank UK to be the banner under which its EU operations would converge. The bank is also expected to get a branch license in the US market. In North America, ICICI has a branch license in Canada. If this proposal is approved by the ICICI board, this would be the first ever consolidation of the overseas arms of an Indian financial entity in such a manner.

7.6 UTI / AXIS Bank

Analysis of Performance

1. Deposits grew to Rs 58,785 Cr as at the end of Financial Year 07 from Rs 925 Cr in the Financial Year 1996. Showing the annual growth rate of 43.75%

2. Advances grew to Rs.36,874 Cr as at the end of Financial Year 07, from Rs.556 Cr in the Financial Year 1996. Which demonstrates a growth rate of 46%

3. Profit, during the period under consideration, grew to Rs659 Cr as at the end of Financial Year 07 from Rs11 Cr in the Financial Year 1996. The growth rate is 42.41%

4. Non – Interest Income, Which shows how innovative the bank is, grew to Rs1,056 Cr as at the end of Financial Year 07, from Rs19 Cr in the Financial Year 1996. The growth is 51%

5. Non – Performing Assets. The level of NPAs to total advances reflects the bank's system of assessing the ability of borrower, proper scrutiny of each proposal that bank receives and a well thought out policy on each parameter of assessment. The Net NPA Ratio in case of ICICI Bank came down to 0.72 as at the end of Financial Year 07 from 5.33 in the financial year 1996. Which shows that over the years bank is successful in bringing down this ratio.

6. Credit Deposit Ratio ((C/D) Ratio. This ratio is crucial for banks since amount of funds lent out can be seen in relation with the total deposits. More the c/d ratio better it is for banks because their profits are dependent on the amount of advances they disburse in relation to total deposits. AXIS Bank has been performing well on this parameter. The Credit Deposit Ratio has gone up to 59.85 as at the end of Financial Year 07 from 42.84 in the Financial Year 03

7. Capital Adequacy Ratio- Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk, operational risk, etc. In the simplest formulation, a bank's capital is the

"cushion" for potential losses, which protect the bank's depositors or other lenders. Banking Regulator in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system

Different minimum CAR ratios are applied: minimum Tier I equity to risk-weighted assets may be 4%, while minimum CAR including Tier II capital may be 8%.

There is usually a maximum of Tier II capital that may be "counted" towards CAR, depending on the jurisdiction.

AXIS Bank has been maintaining the required ratios in Tier I & Tier II Capital, it is 11.88 as at the end of Financial Year 07.

8. Investment Deposit Ratio – Usually when demand for credit is sluggish bank opt for investment of their idle cash in government securities bonds and T- bills. As economy is increasing at more than 8% demand for credit is increasing, which has helped all bank to decrease there Investment Deposit Ratio. These investments give relatively lesser interest to banks compared with interest on Advances.

This ratio, in case of AXIS Bank, has come down to 39 as at the end of Financial Year 07 from 46.12 in the Financial Year 03.

9. Profit Per Employee – To survive and be profitable in today's competitive world, productivity has to go up on a continual basis. Which is reflected when Profit Per Employee parameter is considered. In case of ICICI Bank Profit Per Employee has gone up to 9.12 lacs as at the end of Financial Year 07 from 7.79 lacs in the Financial Year 02.

Axis Bank stands apart from its private sector competitors — ICICI Bank and HDFC Bank — in one crucial respect. While the other two banks have envisaged retail banking as a key area of strategic emphasis — with the share of the retail business (both on the funding and asset sides) growing strongly year after year— the share of retail business, particularly retail assets, has actually come down quite sharply in the case of Axis Bank.

The numbers here are quite interesting. For ICICI Bank, retail loans now (as of June 2007) account for as much as 70 per cent of the bank's total loan book of Rs 2,00,000 crore. For HDFC Bank, retail assets are around 57 per cent (Rs 28,000 crore) of the total loans as of March 2007.

In the case of Axis Bank, retail loans have declined from 30 per cent of the total loan book of Rs 25,800 crore in June 2006 to around 23 per cent of loan book of Rs.41,280 crore (as of June 2007). Even over a longer period, while the overall asset growth for Axis Bank has been quite high and has matched that of the other banks, retail exposures grew at a slower pace.

If the sharp decline in the retail asset book in the past year in the case of Axis Bank is part of a deliberate business strategy, this could have significant implications (not necessarily negative) for the overall future profitability of the business.

Despite the relatively slower growth of the retail book over a period of time and the outright decline seen in the past year, the bank's fundamentals are quite resilient. With the high level of mid-corporate and wholesale corporate lending the bank has been doing, one would have expected the net interest margins to have been under greater pressure. The bank, though, appears to have insulated such pressures. Interest margins, while they have declined from the 3.15 per cent seen in 2003-04, are still hovering close to the 3 per cent mark. (The comparable margins for ICICI Bank and HDFC Bank are around 2.60 per cent and 4 per cent respectively. The margins for ICICI Bank are lower despite its much larger share of the higher margin retail business, since funding costs also are higher)

Such strong emphasis and focus on wholesale corporate lending also does not appear to have had any deleterious impact on the overall asset quality. The bank's non-

performing loans are even now, after five years of extremely rapid asset build-up, below 1 per cent of its total loans.

From a medium-term perspective, it appears that Axis Bank could be charting out a niche for itself in the private bank space. It appears to be following a business strategy quite different from the high-volume and commodity-style approach of ICICI Bank and HDFC Bank. That strategy also has its pluses in terms of the relatively higher margins in some segments of the retail business and the in-built credit risk diversification (and mitigation) achieved through a widely dispersed retail credit portfolio. But, as indicated above, Axis Bank has been to able to maintain the quality of its loan portfolio despite the concentrated nature of wholesale corporate lending.

The key to the bank's continued strength will be maintaining all the above metrics of performance — strong business growth on both the asset and liability sides, rigorous credit appraisals and monitoring, the ability to leverage on the wide and expanding branch network and a steady build-up of the retail banking franchise.

7.7 Standard Chartered Bank

Analysis of Performance

1. Deposits grew to Rs 34,174 Cr as at the end of Financial Year 07 from Rs 2,738 Cr in the Financial Year 1996. Showing the annual growth rate of 27.91%

2. Advances grew to Rs.30,103 Cr as at the end of Financial Year 07, from Rs.2018Cr in the Financial Year 1996. Which demonstrates a growth rate of 26.33%

3. Profit, during the period under consideration, grew to Rs1364 Cr as at the end of Financial Year 07 from Rs102Cr in the Financial Year 1996. The growth rate is 40.25%

4. Non – Interest Income, Which shows how innovative the bank is, grew to Rs1,051 Cr as at the end of Financial Year 07, from Rs89 Cr in the Financial Year 1996. The growth rate is 25.83%

5. Non – Performing Assets. The level of NPAs to total advances reflects the bank's system of assessing the ability of borrower, proper scrutiny of each proposal that bank receives and a well thought out policy on each parameter of assessment. The Net NPA Ratio in case of Standard Chartered Bank came down to 0.87 as at the end of Financial Year 07 from 3.46 in the financial year 2002. Which shows that over the years bank is successful in bringing down this ratio.

6. Credit Deposit Ratio ((C/D) Ratio. This ratio is crucial for banks since amount of funds lent out can be seen in relation with the total deposits. More the c/d ratio better it is for banks because their profits are dependent on the amount of advances they disburse in relation to total deposits. Standard Chartered Bank has been performing well on this parameter. The Credit Deposit Ratio has gone up to 85.39 as at the end of Financial Year 07 from 72.44 in the Financial Year 03

7. Capital Adequacy Ratio- Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk, operational risk, etc. In the simplest formulation, a bank's capital is the

"cushion" for potential losses, which protect the bank's depositors or other lenders. Banking Regulator in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system

Different minimum CAR ratios are applied: minimum Tier I equity to risk-weighted assets may be 4%, while minimum CAR including Tier II capital may be 8%.

There is usually a maximum of Tier II capital that may be "counted" towards CAR, depending on the jurisdiction.

Standard Chartered Bank has been maintaining the required ratios in Tier I & Tier II Capital, it is 10.55 as at the end of Financial Year 07.

8. Investment Deposit Ratio – Usually when demand for credit is sluggish bank opt for investment of their idle cash in government securities bonds and T- bills. As economy is increasing at more than 8% demand for credit is increasing, which has helped all bank to decrease there Investment Deposit Ratio. These investments give relatively lesser interest to banks compared with interest on Advances.

This ratio, in case of Standard Chartered Bank, has come down to 38 as at the end of Financial Year 07 from 52 in the Financial Year 03.

9. Profit Per Employee – To survive and be profitable in today's competitive world, productivity has to go up on a continual basis. Which is reflected when Profit Per Employee parameter is considered. In case of Standard Chartered Bank Profit Per Employee has gone down to 16.80 lacs as at the end of Financial Year 07 from 20.38 lacs in the Financial Year 02.

If compared with any other domestic bank, this ratio is much superior, this might reflect the greater use technology, thrust on productivity, more efficient professional could be the reason for their better productivity.

Chapter No 8

Summing Up

8.1 Findings and Conclusions

8.2 Suggestions & Recommendations

8.3 Bibliography and Webliography

8.4 Reports, Newspapers & Websites

Findings and Conclusions

Financial sector reforms in India have been introduced in a calibrated and well-sequenced manner since the early 1990s. The sustained efforts by the Government, the Reserve Bank and by banks themselves have resulted in a competitive, healthy and resilient financial system. The asset quality and soundness parameters of the Indian banking sector, on the whole, are now comparable with global levels. This has been achieved on the backdrop of gradual alignment of prudential norms with international best standards and in an environment of growing competitive pressures. There is also an evidence of some financial deepening in recent years. Having achieved substantial success in improving the financial health of commercial banks over this period, there is now need to focus on the further expansion and deepening of financial services so as to serve the needs of those who are underprivileged. This would include particular attention being given to the underdeveloped regions of the country.

The objective of various policy measures has been to ensure an efficient and stable financial system for sustaining the growth momentum, and to expand banking services to all sections of society. Major policy initiatives undertaken by the Reserve Bank include allowing banks to raise capital through innovative instruments, advising banks to open 'no frills' accounts with nil or low balances, one-time settlement scheme for SME accounts, guidelines on securitization of standard assets and sale/purchase of NPAs. New financial instruments introduced after 1991 have resulted in improving the overall service provided by commercial banks. The reforms have paid rich dividends not only to the banks but also to the customers. Gradual reductions in interest rates on borrowing have made more potential borrowers to actually borrow.

Though banks were doings the business as per the needs but what they lacked was professionalism. Opening up of the sector, in gradual way, to the foreign sector ensured that these banks had to come out of their comfort zones and work towards increasing their productivity, efficiency and fine-tune with the changing demands of the new market. Technology has helped banks to update and upgrade their services to be competitive.

The main points emerging from the analysis are:

Bank credit growth remained robust for the period under consideration. Though the percentage growth rate is showing the typical trend of private sector banks leading with higher rate. Deposit growth during the period on annual growth basis for ICICI Bank is 64.83% which is staggering; comparatively SBI's deposits have grown by only 13.58%. Private Banks are more aggressive compared to nationalized banks.

Credit growth turned more broad-based even as credit expansion was more pronounced in respect of retail sector, particularly housing and loans to commercial real estate. ICICI Bank has been the front runner in getting the business. Their advances have gone up by 88% on an average every year.

Net profits of scheduled commercial banks, as a group, increased during these years as also a better growth in non-interest income. SBI profits during the period on annual growth basis have gone up by 21.08%, ICICI Bank profits are up by 71.33%. It can be noted that, in the time period under consideration, SBI and PNB had some negative growth years 1999,2001 and 1999 respectively in terms of profits, whereas ICICI and AXIS bank never had such a trend.

Gross NPAs and net NPAs declined significantly during the period and are now comparable with global levels. NPAs were in the range of 7 to 10 % of the advances in 1996 for nationalized banks which have come down to about 1%. In case of private sector banks they have gone below 1% now from 3-4% in 1996.

The new financial innovations such as ATMs, Credit Cards, Debit Cards, Private Banking, Merchant Banking, Mutual Funds are not only benefiting the banks improve

on all parameters but also customers who were not getting these services before. All banks under consideration are the leaders in all these types of services.

Banks now are seriously looking into foreign branches as a profit making units more such branches opened by banks will definitely help them realize more potential and cater to the needs of world demand.

The increased competition has made some banks to go more aggressive and that is undermining the assessment of worthiness of the class they cater to. This has created problem in recovering the loans. These aggressive banks, specially ICICI Bank, are using the services of third party who use wrong ways of recovering the loans in many cases the harassment that the bank clients are undergoing has serious consequences where banks are punished by consumer tribunals.

Profit per employee is that indicator which shows the efficiency of the banks there is a high difference between banks on this parameter. Nationalized banks are way behind on this parameter compared with private sector banks. Non Performing Assets are coming down but here again SBI is way behind other banks. Credit / Deposit ratio is going up which is a healthy sign. Nationalized banks should be allowed to take third party agencies help to tap more market. These banks on there own should also give incentives to their employees to increase the business.

The banks under analysis are seen to have a bias in terms of favored market. The branches opened by these banks are largely in urban areas. SBI now has 10000 branches all over India, the only bank which has more than 50% of their branches in rural India. But other banks, specially private sector banks, need to understand the importance of rural sector. Rural areas are still under banked compared to urban areas. As it is mentioned credit facilities and economic development have a direct correlation. The under banked areas, if provided with adequate banking facilities can help address the unbalanced development.

Suggestions & Recommendations

- Banks, in general, are clocking an impressive growth for the period under consideration, but as it is found out that bank are limiting their efforts largely in urban areas. It is suggested therefore that banks need to give more emphasis on rural market.

- In grabbing more share in the pie of banking business banks should not compromise on ethical issues, even if they are taking help of outsourced agencies their work should be monitored closely. There are many instances where these agencies give false commitments to the customers which leads to unhealthy practices. Customer satisfaction about the long term service the banks provide should maintain the quality of their service as committed initially. RBI has already warned banks to refrain from this in her latest Monetary Policy review. Some banks are heavily fined for continuing such ways. The consumer complaints are on the rise in case of ICICI Bank which is a sign that, though it is increasing in size at a blistering speed, it needs to check the quality of service they provide.

- It is also seen that arm twisting methods are used for recovering the loans, banks should make an effort to be informed about the way their agencies are working and should monitor their work from time to time.

- Many lessons can be learnt from the Sub Prime Crisis in US and in EU, where process of granting loans is faulty, sub prime borrowers were given more loans than what their repayment capacity was, on the basis of value of property they possess. Now with the dramatic fall in real estate prices the mortgaged properties are not valued enough to recover the loan amounts of defaulters. In Indian case retail sector loans are given more as a percentage of total loans, home loans among them are more. Fluctuations in real estate prices in India can create same kind of problem in banking sector.

- Except for one or two banks, like SBI, Indian banks still lack pan India presence. Rural areas are not covered fully. Smaller banks, like AXIS Bank, should either consolidate or increase their own presence in rural areas. The current performance is coming largely from urban and semi urban areas which will keep pace for some time but if banks want to grow faster pan India presence is required.

- Some banks are planning to go global in real sense but their efforts, in most of the cases, look pale than what is needed. Big banks can acquire small foreign banks to tap the market. A strategic partnership with a leading international bank can be considered.

- The full fledged foreign bank's competition that domestic banks will have to face will be a challenge in itself. Domestic banks should keep innovating and introducing new financial products to sustain and increase their customer base. For this they have to continuously understand the changing needs of customers.

- There is a direct linkage between availability of credit and economic development. Rural areas are under banked in the field of agriculture, related fields, SMEs, cottage industries etc. banks should now concentrate more on these sectors. Though economy is increasing at 8-9%, agricultural sector is not increasing at more than 2%, this is where commercial banks can play a vital role in increasing the growth rate by deploying adequate credit and by providing other banking services.

- Bank customers are in golden era today. Banks have placed latest technologies at the service of customers. Banks are improving their performance and are becoming more competitive, it's a win –win situation. But there is a long way to go for Indian banks to be comparable with world's big banks, in terms of size, market and services. Conscious efforts are required by Indian banks to become global in real sense.

The analysis brings out some facts; growth on all parameters, for nationalized banks is in hundreds of percent whereas for private banks it is in thousands of percent. This clearly reveals that private sector banks are working more aggressively. The overall performance of all banks during the period under consideration has been quite impressive. Banks have not only grown strength by strength but introduction of new financial products have certainly been adding to customer satisfaction.

The researcher humbly submits that the hypothesis has been amply proved that, after reforms in financial sector, banks have proved themselves to have changed the way market at large wants them to.

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