CHAPTER – VIII

CONCLUSION & SUGGESTIONS

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Financial sector of an economy is a multi-faceted term. It refers to the whole gamut of legal and institutional arrangements, financial intermediaries, markets and instruments with both domestic and external dimensions. Finance is the life blood of a modern economy. A financial system helps to mobilizes the financial surpluses of an economy and transfers them to area of financial deficits. It is the linchpin of any development strategy.

After Independence in 1947, Government of India followed a policy of social control of important financial institutions. This was reflected in the Nationalization of the Reserve Bank of India (RBI) in 1948, takeover of the then Imperial Bank of India (rechristened as State Bank of India) in 1956, Nationalization of Life Insurance Corporation of India (also in 1956), Nationalization of 14 major commercial banks in 1969, Nationalization of General Insurance Companies and the setting up General Insurance Corporation (GIC) in 1972 and nationalization of 6 more commercial banks in 1980.

India financial system characterized by barriers to entry, control over pricing of financial assets, high transaction cost and restriction on movement of funds from one market segment to another. It was in this backdrop that wide-ranging financial sector reforms were introduced as an integral part of the economic reforms programme started in early 1990s. These reform have paved the way for integration among various segments of the financial system. It is widely accepted that reduction/removal of financial repression has enhanced the efficiency and potential growth of the India economy.
Indian financial markets have generally remained orderly during 2008-09. In view of the tight liquidity conditions in the domestic money markets in September 2008, the Reserve Bank announced a series of measures beginning September 16, 2008. Thus, the average call rate which was at 10.52 per cent declined to 7.57 per cent in November 2008 under the impact of these measures like:

- Expanding the rupee liquidity,
- included significant reduction in the cash reserve ratio (CRR),
- reduction of the statutory liquidity ratio (SLR),
- opening a special repo window under the liquidity adjustment facility (LAF) for banks for on-lending to the non-banking financial companies (NBFCs),
- housing finance companies (HFCs)
- mutual funds (MFs), and
- extending a special refinance facility,

which banks could access without any collateral.

Banking capital (net) amounted to US$ 4.8 billion in April-September 2008 as compared with US$ 5.7 billion in April-September 2007. Among the components of banking capital, non-resident Indian (NRI) deposits witnessed a net inflow of US$ 1.1 billion in April-September 2008, a turnaround from net outflow of US$ 78 million in April-September 2007.

The reserve money lying with the RBI as on November 21, 2008 as per the January 2009 bulletin, is a total amount of US$ 179.28 billion and RBI’s credit to the commercial sector stood at US$ 3.65 billion. Further, banks in India put up strong growth and profit numbers in the
October-end-December 2008 period owing to high credit growth and easing of yield on government bonds. Top Indian banks have increased their earnings by almost 40 per cent year-on-year for the same period. According to latest Reserve Bank of India (RBI) data, bank credit grew by 24.6 per cent year-on-year as of December 19, 2008. The resulting credit growth was even better at 41 per cent during the April-end-December 2008 period. Deposits grew by 20.6 per cent as of December 19, 2008.

The growth in advances reflects that the net interest income (NIM) too would indicate higher growth rate. RBI has taken a number of steps to lower the cost of credit in this quarter like cutting cash reserve ratio (CRR), the amount of funds banks have to keep on deposit with it, repo and reverse repo rate. The CRR rate, which had been reduced in December 2008, to 5.50 per cent, repo rate to 6.50 and reverse repo rate to 5.00, were further reduced – CRR to 5 per cent, (its lending rate) repo rate to 5.5 per cent and reverse repo, at which it absorbs cash from the banking system, to 4 per cent in January 2009.

Responding to these measures, banks have cut the prime lending rates (PLR). Further, according to several brokerage research teams, NIM may remain stable in the last quarter. For instance, a Motilal Oswal report on earnings preview reveals, "We expect margins to remain stable despite the PLR cut of 125-150 basis points (75 bps w.e.f January 1, 2009), as the banks have reaped the benefit of CRR cut (350 bps in December quarter) and have demonstrated their pricing power to corporate."

Among the banks, SBI, Bank of Baroda and Union Bank stand to gain the most on account of mark-to-market (MTM) reversals.” Banks however, have to face the challenge of rising non-performing assets
(NPAs) owing to the slowdown in exports and industrial production. Also, RBI has taken steps like one-time restructuring of real estate loans and second-time restructuring of loans given to other sectors to counter the NPA scenario.

**According to the latest RBI bulletin release**

- On December 8, 2008, the repo rate and the reverse repo rate were reduced by 100 basis points each to 6.5 per cent and 5.0 per cent, respectively. In January 2009, the CRR has been further reduced to 5 per cent, repo rate to 5.5 per cent and reverse repo to 4 per cent.
- Technological upgradation in working of rural regional banks (RRBs) is being implemented. As a first step, RRBs which have either 100 per cent computerisation or are being opened from September 2009, need to be CBS compliant.
- To enhance credit flow to the MSE sector, SIDBI would be provided refinance worth US$ 1.43 billion. The facility, available up to end-March 2010, would be available at the prevailing repo rate under the liquidity adjustment facility (LAF) for a 90-day period, during which the amount can be flexibly drawn and repaid and can be rolled over at the end of the 90-day period.
- As a follow-up to the announcement in November 2008, the policy on premature buyback of FCCBs by Indian companies was liberalised and applications for buyback would be considered under both automatic and approval routes and related compliance terms and conditions have been issued.
As, the Indian banking industry is currently termed as strong, having weathered the global economic slowdown and showing good numbers with strong support flowing in from the Reserve Bank of India (RBI) measures like:

**Government Initiatives**

- During 2008-09 (as per data up to November 18, 2008), as per RBI guidelines, scheduled commercial banks (SCBs) increased their deposit rates for various maturities by 50-175 basis points. The interest rates range offered by public sector banks (PSBs) on deposits of maturity of one year to three years increased to 9.00-10.50 per cent in November 2008 from 8.25-9.25 per cent in March 2008. On the lending side, the benchmark prime lending rates (BPLRs) of PSBs increased to 13.00-14.75 per cent by November 2008 from 12.25-13.50 per cent in March 2008. Private sector banks and foreign banks also increased their BPLR to 13.00-17.75 per cent and 10.00-17.00 per cent from 13.00-16.50 per cent and 10.00-15.50 per cent, respectively, during the same period. Accordingly, the weighted average BPLR of public sector banks, private sector banks and foreign banks increased to 13.99 per cent, 16.42 per cent and 14.73 per cent, respectively.

- The number of automated teller machines (ATMs) has risen and the usage of ATMs has gone up substantially during the last few years. Use of other banks’ ATMs would also not attract any fee except when used for cash withdrawal for which the maximum charge levied was brought down to US$ .409 per withdrawal by
March 31, 2008. Further, all cash withdrawals from all ATMs would be free with effect from April 1, 2009.

**Bank Initiatives**

- Since December 2008, the government has announced series of measures to augment flow of credits to around US$ 2,66,274 to SMEs. To improve the flow of credit to industrial clusters and facilitate their overall development, 15 banks operating in Orissa including the public sector State Bank of India (SBI) and the Small Industries Development Bank of India (SIDBI) have adopted 48 clusters specially in sectors like engineering tools, foundry, handloom, food processing, weaving, rice mill, cashew processing, pharmaceuticals, bell metals and carpentry etc.
- PSBs are now cashing in the auto loan segment after the exit of private players owing to the slowdown. Auto loans usually have three components - car loans, two-wheeler loans and commercial vehicle loans. PSBs are primarily focussing on car and two-wheeler loans. Prevalent interest rates in the car loan segment now range between 11 per cent and 12.5 per cent per annum. For instance, according to the Union Bank of India Chairman and Managing Director, MV Nair, his bank had recently tied up with Maruti Suzuki India for financing the latter's product and it has a US$ 163.84 million auto loan portfolio.
- The government has told public sector banks (PSBs) to extend credit to fund-starved Indian industry, especially exporters and small and medium sector enterprises to address their credit needs.
SIDBI would be lending US$ 1.33 billion out of US$ 1.47 billion credit from RBI to public sector banks. This is being provided to the PSBs at 6.5 per cent (SIDBI is getting the credit at 5.5 per cent) under the condition that the banks will have to lend this credit to the medium and small-scale industry units at an interest rate of 10 per cent before March 31, 2010.

- According to SBI Chairman, O P Bhatt, contribution of small and medium enterprises (SMEs) is nearly 40-50 per cent to GDP growth of the nation, and this sector also accounts for 50 per cent of the industrial output. "Banks could accrue a revenue of over US$ 5.73 billion by encouraging the SMEs," Bhatt said adding, "SME's sector is to grow fastest in the next five years, with 14 per cent growth in terms of revenue and 13 per cent in terms of profits." The bank in order to help units tide over the current downturn, had introduced products like “SME Care” specially in Jharkhand, which provides units to access 20 per cent additional funds over and above their existing overdraft limit. Already, according to an official, the MSME ministry has proposed to RBI that the sector be given a mandatory 15 per cent share of the total priority sector lending.

The banking industry is thereby now lending both strength and support in form of cash and policies majorly in putting back the economy into track and predetermined objectives can be achieved like:

- Furthermore, a report "Opportunities in Indian Banking Sector", by market research company, RNCOS, forecasts that the Indian
banking sector will grow at a healthy compound annual growth rate (CAGR) of around 23.3 per cent till 2011.

- Banking, financial services and insurance (BFSI), together account for 38 per cent of India's outsourcing industry (worth US$ 47.8 billion in 2007).

- According to a report by McKinsey and NASSCOM, India has the potential to process 30 per cent of the banking transactions in the US by the year 2010.

- Outsourcing by the BFSI to India is expected to grow at an annual rate of 30–35 per cent.

- According to a study by Dun & Bradstreet (an international research body)—"India's Top Banks 2008"—there has been a significant growth in the banking infrastructure. Taking into account all banks in India, there are overall 56,640 branches or offices, 893,356 employees and 27,088 ATMs. Public sector banks made up a large chunk of the infrastructure, with 87.7 per cent of all offices, 82 per cent of staff and 60.3 per cent of all ATMs.
SUGGESTIONS:

- Banks should concentrate on study of the success stories as well as bank failures. Internationally, there are elaborate documented studies on bank failures; Barings is just one example. We too need to make an incisive analysis of banks that failed in our country and learn not to commit similar mistakes.

- Banks will need to be given more autonomy, and more important, they should assert their autonomy. Here lies the importance of industry associations. The scope for self regulatory industry norms and banking industry protocol should be explored. This will bring about more flexibility to banks and less regulatory intrusion.

- I noticed a suggestion in one of the papers to make Mumbai as an international financial centre. Similarly suggestions have been made in the past and we have some reservations, but we always have an open mind. A number of issues have to be clarified in our minds - whether such a financial centre can be started before we reach international standards? Whether we need to promote such a centre at this stage of financial sector reforms or at a later stage? Please study these issues in a more detailed and formal manner, and then we can take a view.

- There is a lot of interest from foreign entities in the opening up of the insurance sector in India. Perhaps, both banks and policy
makers need to assess whether domestic banks, particularly larger banks, have an opportunity to enter into either general or life insurance through subsidiaries or collaborations, to take advantage of their existing market penetration. Could this really add to the competitive strength of the banks in financial intermediation?

➢ The banking sector in India saw greater emphasis being placed on technology and innovation. Banks began to use technology to provide better quality of services at greater speed. Internet banking and mobile banking made it convenient for customers to do their banking from geographically diverse places. Banks also sharpened their focus on rural markets and introduced a variety of services geared to the special needs of their rural customers.

➢ Indian Banking system should continuously peruse technological innovation to improve their performance in the cut-throat competition scenario. Indian banking system should adopt TQM (Total Quality Management) through continuous enhancement of their quality of service. With advanced technology, automation of the banking sector through Intranet, Internet, Telephone Banking, ATM, Service Online, Voice Mail, Computer Supported Cooperative Work Systems, Distributed Operating Systems, Groupware, and other Electronic Communications.

➢ Mostly in private banks every thing is centralized and every customer of the bank is not able to get through the process designed for and ultimately dissatisfaction is generated in the mind
of customer and he back out from the bank and he advertise too to his circle. Bank should establish a system by which the proper resolution can be made at locally or branch level. Customer satisfaction is must in every case.

- We all are quite aware that banks are already utilizing 'n' number of ways to service their customers also these ways is working effectively. Now, in my opinion, the job of Bank manager it to analyze the service options that he/she is spending on via any CRM tool and work for the betterment of that service system which the segment the bank is catering to, prefers the most.

- If all the banks do just care the banking needs of its existing and newly walking in customers, it would elevate the bank's standing in all parameters, instead of spending a lot capital on advertisements and doing nothing when the customer approaches them would not serve the purpose, of course innovations, value additions and updating of technology are must for the growth?

- The skills of bank staff should be upgraded continuously through training. In this regard, the banks may have to relook at the existing training modules and effect necessary changes, wherever required. Seminars and conferences on all relevant and emerging issues should be encouraged.
➢ Banks will have to set up Research and Market Intelligence units within the organization, so as to remain innovative, to ensure customer satisfaction and to keep abreast of market developments. Banks will have to interact constantly with the industry bodies, trade associations, farming community, academic / research institutions and initiate studies, pilot projects, etc. for evolving better financial models.

➢ Create a unified regulator, distinct from the central bank of the country, in a phased manner to overcome supervisory difficulties and reduce compliance costs.

➢ Old private sector banks also have the need to fundamentally strengthen skill levels. However, even more imperative is their need to examine their participation in the Indian banking sector and their ability to remain independent in the light of the discontinuities in the sector.

➢ New private banks could reach the next level of their growth in the Indian banking sector by continuing to innovate and develop differentiated business models to profitably serve segments like the rural/low income and affluent/ HNI segments; actively adopting acquisitions as a means to grow and reaching the next level of performance in their service platforms. Attracting, developing and retaining more leadership capacity would be key to achieving this and would pose the biggest challenge.
➢ Focus strongly on “social development” by moving away from universal directed norms to an explicit incentive-driven framework by introducing credit guarantees and market subsidies to encourage leading public sector, private and foreign players to leverage technology to innovate and profitably provide banking services to lower income and rural markets.

➢ Payment and settlement system will have to be strengthened to ensure transfer of funds on real time basis eliminating risks associated with transactions and settlement process.