CHAPTER – 3

REVIEW OF LITERATURE

INTORDUCTION:

Review of literature has vital relevance with any research work due to literature review the possibility of repetition of study can be eliminated and another dimension can be selected for the study. The literature review helps researcher to remove limitations of existing work or may assist to extend prevailing study.

Several research have been conducted to analyse the different aspects of performance of commercial banks in India and abroad. But there are very few research and literature available on the subject related to financial reforms and its impact on Indian banks. The available literature and research are divided into four major parts according to the area of research i.e literature related to:

1. Review of Literature related to Performance Appraisal of Banks
2. Review of Literature related to Policy Framework and Recommendations for Banks
3. Review of Literature related to Impact of Reforms on Indian Banks
4. Review of Literature related to Service Quality of Indian Banks2

The above mentioned literature have been obtained from following four major sources such as (i) Ph.D. research conducted in India, (ii) The research / studies carried over by the institutions like RBI, ICRA Limited and business magazines like Financial Express, Business Today, Money Outlook, Business India, etc. and (iii) Research Studies of individual scholars published in journals and magazines and (iv) websites of RBI, Govt. of India and websites of various banks. The present study is undertaken in the light of the methodology adopted and conclusions emerged in the earlier studies relating to the performance evaluation, financial reforms and their impact on the Indian banking sector. and a comparison between the two.

3.1 REVIEW RELATED TO DEVELOPMENT & PERFORMANCE MEASURES

Prashanta Athma (2000), in his Ph D research submitted at Usmania University Hyderabad, “Performance of Public Sector Banks – A Case Study of State Bank of Hyderabad, made an attempt to evaluate the performance of Public Sector Commercial Banks with special emphasis on State Bank of Hyderabad. The period of the study for evaluation of performance is from 1980 to 1993-94, a little more than a decade. In this study, Athma outlined the Growth and Progress of Commercial Banking in India and. analyzed the trends in deposits, various components of profits of SBH, examined the trends in Asset structure, evaluated the level of customer satisfaction and compared the performance of SBH with other PSBs, Associate Banks of SBI and SBI. Statistical techniques like Ratios, Percentages, Compound Annual rate of growth and averages are computed for the purpose of meaningful comparison and analysis. The major findings of this study are that since nationalization, the progress of banking in India has been very impressive. All three types of Deposits have continuously grown during the study period, though the rate of growth was highest in fixed deposits. A comparison of SBH performance in respect of resource mobilization with other banks showed that the average growth of deposits of SBH is higher than any other bank group. Profits of SBH showed an increasing trend indicating a more than proportionate increase in spread than in burden. Finally, majority of the customers have given a very positive opinion about the various statements relating to counter service offered by SBH.

Zacharias Thomas(1997)Ph D Thesis, ‘Performance effectiveness of Nationalised Bank- A Case Study of Syndicate Bank’, submitted to Kochin University (1997), Thesis studied the performance effectiveness of Nationalized Bank by taking Syndicate Bank as case study in his Ph.D thesis. Thomas has examined various aspects like growth and development of banking industry, achievements of Syndicate Bank in relation to capital adequacy, quality of assets, Profitability, Social Banking, Growth, Productivity, Customer Service and also made a comparative analysis of 'the performance effectiveness of Syndicate Bank in relation to Nationalized bank. A period of ten years from 1984 to 1993-94 is taken for the study. This study is undertaken to review and analyze the performance effectiveness of Syndicate Bank and other Nationalized banks in India using an Economic Managerial-Efficiency Evaluation Model (EMEE Model) developed by researcher. Thomas in this study found that Syndicate Bank got 5th Position in Capital adequacy and quality of assets, 15th in Profitability, 14th Position in Social Banking, 8th in Growth, 7th in Productivity and 15th position in Customer Service among the nationalized banks. Further, he found that five nationalized banks showed low health performance, seven low priority performance and eleven low efficiency performance in comparison with Syndicate Bank.

Singh R (2003), **in his paper Profitability management in banks under deregulate environment, IBA bulletin, No25**, has analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer non-interest income sources.

Singla HK (2008), in his paper,' financial performance of banks in India,' in ICFAI Journal of Bank Management No 7, has examined that how financial management plays a crucial role in the growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place, Banks in better position to deal with and absorb the economic constant over a period of time.

The focal point of the study made by **Das and Udaykumar Lal (2002)**, in his book **Banking Reforms in Lead Bank Scheme,** (Deep and Deep Publication, new Delhi) was the critical evaluation of the lead bank scheme in the light of banking sector reforms. Das in this book observed that high level of NPAs, large number of un-remunerative branches, low productivity, overstaff and archaic methods of operations have affected the profitability of public sector banks. Das sincerely felt that the whole banking sector in India is to be revolutionized to cope with the changing dimensions of the satellite one world. Further, he felt that the backward areas should be given more funds for investment in priority sectors and more and more people should be brought under its coverage and the procedures of extending credit should be simplified and there should be least hassle cost.

Subramanian and Swami (1994) in their paper, **Comparative performance of publc sector banks in india" Prjanan, Vol. XXII**, have analyzed and compared the efficiency in six public sector banks, four private sector and three foreign banks for the year 1996-97. Operational efficiency is calculatedin terms of total business and salary expenditure per employee. The analysis revealed that higher per employee salary level need not result in poor efficiency and business per employee efficiency co-efficient was also calculated. Among the PSBs, Bank of Baroda registered the high efficiency and operating profit per employee. Among the private sector banks Indus Bank followed by Citibank Registered highest and second highest operating profit per employee respectively. However, among the Nationalized Banks there existed wide variations in efficiency.

Frequent changes are order of the day for the topics of this nature. Therefore, one should rely on latest information. Some organizations like, RBI, IBA, SBI and ICRA have carried out several research studies on various issues relating to banking and exclusive banking journals/periodicals like Bank Quest, The Bankers, RBI occasional papers, RBI bulletins and general magazines like Business Today, Business India, Finance India, have been publishing papers on various aspects like NPAs, capital adequacy, branch expansion, credit dispensation, deposit mobilization, service quality, technology, performance evaluation, etc. Same studies and papers suitable to this study are being reviewed here.

SBI Research Department in 2000, through its paper "Performance analysis of 27 Public sector banks" published in SBI monthly review performance, Vol XXXIX, was prepared by **Economic Research Department of State Bank of India,** is to analyze the Performance of the 27 Public Sector Banks for the year 1999-2000 vis-a-vis the preceding year. Selecting four different categories of indicators-Business Performance, Efficiency, Vulnerability and labor productivity indicators, carried out the analysis. Altogether, 39 indicators were selected for this purpose. For the purpose of analysis, 27 PSBs disaggregated into four groups, namely, the SBI, ABs (7), the SBGs (8), the NBs (19). During 1999-2000, the PSBs exhibited better show in terms of several parameters studied above. Nevertheless, the problems of NPAs and capital adequacy remain to be taken care of. Researchers in this paper opinioned that greater operational flexibility and functional autonomy should be given to PSBs especially to strengthen their capital base. Further, they felt that since net interest margin will continue to remain compressed in a deregulated interest rate regime, a lot of effect would have to be made to mitigate this through generation of non-interest income. As far as NPAs are concerned, they believe' that, the outdated laws and regulations that pose hindrance to banks in getting back their dues need to be suitably amended.

In a paper published in the Financial Express in 2004, titled "India's Best Banks" has been doing for several years through its annual exercise to evaluate and rate Indian banks. They claim that this survey is a comprehensive one, which evaluates the performance of private, public, Indian, and foreign Banks operating in India. With the objective of making the comparison more meaningful, Banks were categorized into Public Sector Banks, New Private Sector Banks and Foreign Banks. Financial information for the year ending March 31st, 2002 and March 31, 2003 relating to each of the banks falling into the aforesaid categories was collected from the data available from RBI. Five major criteria were identified against which the banks were ranked. 'These criteria are (1) Strength and soundness (ii) Growth, (iii) Profitability, (iv) Efficiency/Productivity, and (v) Credit quality. Considering the current banking, industrial and over-all economic scenario, pertinent weights were assigned to each of the major criteria. In the first category of "State-Run" or Public Sector Banks, State Bank of Patiala and Andhra Bank is the top two. In the category of best old private sector banks, the magazine ranks the Jammu and Kashmir Bank and Karur Vysya Bank as the first best and second best. In the category of 'New' Private Banks, HDFC as number one and ICICI Bank at number two. Finally, in the category of Foreign Banks, the magazine ranks Standard Chartered Bank and Citi Bank at the top two slots.

With an intention to honor excellence, **Outlook Money (2004), titled " The best in the business cover story", (March 2004),** has announcing annual awards for the best performers in the personal finance universe. In the best bank award category, the magazine selected **Corporation Bank among public sector banks and HDFC Bank among private sector banks** and presented outlook money award 2004 to these two banks. A rigorous selection process was devised in consultation with Earnest and Young. The short listed contenders were mailed questionnaires seeking information on operational aspects like Number of Branches, Number of ATMs, Deposits, NPAs, CAR, Return on Assets. They have taken two categories of Banks Public and Private Sector. All Public Sector Banks (except SB!, nominated for Hall of Fame Award), and Private Banks with deposit base of more than Rs. 2,000 Cr as on 31 March 2003 were selected. The jury-A.K. Purwar, Anu Aga, Shitin Desai, Uma Shashikanth and Sandipan Debo-assigned weights to various parameters and choose the winner for 2004.

Ram Mohan TT(2003) , in his paper **'Long run performance of public and private sector bank stocks"** Vol 37, has made an attempt to compare the three categories of banks-Public, Private and Foreign-using Physical quantities of inputs and outputs, and comparing the revenue maximization efficiency of banks during 1992-2000. The findings show that PSBs performed significantly better than private sector banks but not differently from foreign banks. The conclusion points to a convergence in performance between public and private sector banks in the post-reform era, using financial measures of performance

D'souza in his study evaluated the performance of Public sector, private sector and foreign banks during the period 1991 to 1999-2000. The efficiency of the banking system was measured in terms of spread/working funds ratio and turnover / employees ratio. With reference to the spread working funds ratio, the efficiency of the commercial banks as a whole has declined in the post-reform period. The Public Sector Banks' have been responsible for this decline in efficiency, as the efficiency of the private and foreign banks has improved over the course of 1990s. Through the turnover/employee ratio has risen in the public sector banks, the turnover per employee in the private and foreign banks doubled relative to the ratio for public sector banks during this decade. However, the analysis revealed that the profitability of the public sector banks in late nineties improved relatively to that of private and foreign banks.

Kusum W. Ketkar examined the efficiency and productivity growth in the Indian Banking Sector from 1990 to 1995 using the Data Envelopment Analysis methodology. Due to data availability problems at the individual bank level, the study includes only 39 banks. Several conclusions stand out. First, for the sample, the overall technical inefficiency is about 31 per cent and has remained stable over the examined period. Second, foreign banks showed the highest level of efficiency. Third, between 1990 and 1995, state and private banks experienced a reduction in pure technical efficiency, while for the nationalized and the foreign banks, it remained the same. Further, the size has found to be positively related to pure technical efficiency, and to the number of branches negatively. Fifth, fewer branches and metropolitan location of foreign banks, perhaps partially explains their efficiency over domestic banks. This paper finally concludes that Indian domestic banks need to greatly improve their efficiency through introduction of computer technology, improved management skills and through consolidation and merger of banks.

Alamelu and Chidambaram emphasized the profiti1bility aspect in commercial banks. In this paper, the scholar analyzed and compared the performance of public and private sector bank on profitability angle. It was found that all the private sector banks have been registered both high profits and high rate of growth. Better customer service, technology, innovative products, good marketing strategies, proper monitoring of advances, regional orientation are some of factors responsible for the success of private sector banks in India.

Ramachandra Reddyfocused their attention on the seriousness of

NPAs in public sector banks. They argued that with the introduction of international norms of Income Recognition, Asset Classification and Provisioning in the banking Sector, managing NP As has emerged as one of the major challenges facing the Public Sector Banks. They felt that total elimination of NPAs is not possible in the banking business owing to externalities but their incidence can be minimized. To reduce the seriousness of the problem, they suggest that the banks should adopt proper policy for appraisal, supervision and follow-up of advances; special recovery cells may be set-up at regional! zonal levels; Recovery Officers should be appointed at making necessary provisions and contingencies). Seven banks were operating in 'B' category (those banks, which after operating profits have not sufficient funds to provide for the provisions, thereby incurring net losses. And the remaining was placed in the 'e' category (those banks, which were unable to earn significant income to enjoy sufficient operating profits). Apart from studying the profitability of above-mentioned groups of banks, capital adequacy position and other balance sheet trends were also discussed. Moreover, same short-term and long-term strategies for enhancing the profitability level were suggested.

Ramasastri, A.S., Achamma Samuel and Gangadaram, made an attempt to compare the **behavior of interest and non interest income of scheduled commercial banks in India for the period from 1997-2003.** This paper further tries to examine whether non-interest income has helped in stabilizing the total income of schedule commercial banks in the country. The major findings of the study are:

(a) The average net interest income of SCBs. declined during the period 1997-2003,

(b) The non-interest income of all SCBs exhibited an increase over a period of 7 years. It was also observed that interest income was more stable than that of non-interest income, and

(c) In regard to the question about whether non-interest income has helped in stabilizing the total income of banks, it was seen that with respect to the State Bank Group, foreign banks and old private sector banks, non-interest income helped to stabilize total operating income. However, in the case of nationalized bank and new private sector banks, it was seen that non-interest income has not helped in stabilizing their income appreciably.

Nagarajan focused his attention on **'Other income of the banks' and analyzed the trend from 1993-94 onwards** in a wider perspective. He emphasized in this article that other income of the banks has been receiving focused attention mainly for two reasons. First, Banks are being urged to increase this source of income. Second, there was a spurt in other income of banks during 2001-02. Main conclusions of this study are:

(i) Since 1993-94, banks other income has been increasing at a faster pace compared with interest earnings,
(ii) Component-wise, income from commission, exchange and brokerage is most important,
(iii) Income from exchange transactions is also relatively steady,
(iv) Private sector banks have logged rapid rate of growth, which may be attributed to the entry of new banks,
(v) Foreign banks have retained their share,
(vi) e cost of the public sector 'banks, and
(vii) There is unusual increasing in 2001-02 in other income of banks.

The gains of private sector banks appear to be at the **Business India (2003),** in its paper has been conducting the exercise of identifying Best Bank among the Scheduled Commercial Banks operating in India, for over 5 years now. Business India adopted the Internationally renowned CRAMEL Model (with minor modifications) for evaluating banks. Basing on CRAMEL, Business India group constituted a panel of experts. After a thorough discussion, the panel came to a conclusion that **ICICI was the best bank** for the year 2003-04. ICICI Bank drew all round appreciation for its aggressive market and customer acquisition strategy.

Das, Abhiman (1999), Profitability in public sector banks – A Decomposition model, have tried to make all attempt to compare the inter-bank performance of public sector banks during the reforms:, period. This study was carried out for a period of three years, i.e. 1992, 1995 and 1998. Das in his paper found a certain convergence-taking place in the performance of the public sector banks during the years of study. He further found that there is growing emphasis on other income and a peculiar tendency to go for risk-free rather than risky loans.

The objective of **Sheeba Kapil's(2007)** paper is to review and analyze the current financial health of the Indian Public Sector Commercial Banks in the light of banking reforms and predict the future and scope of the same. The viability of the 27 public sector banks has been analyzed on the basis of off-site supervisory exam model i.e., CAMEL Model (C for capital adequacy, A for Asset quality, E for Earnings and L for Liquidity). These four components of each bank have been analyzed and rated on a scale to judge the composite rating of the same. The paper finds that the off-site supervisory exam model (CAMEL) has' rated majority of PSBs as non-viable and they require immediate attention and government support. After 19 years of economic and banking reforms, the Indian Banking Sector has still miles to go. Low Profitability, Liquidity, Capital adequacy and high none'-performing assets will definitely make the majority of Indian PSBs a bad bargain in near future.

Singh (2003) analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer non-interest income sources.

Singla (2008) examines that how financial management plays a crucial role industrialists growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place. Banks are in better position to deal with and absorb the economic constant over a period of time.

Wahab (2001) has analyzed the performance of the commercial banks under reforms. He also highlighted the major issues need to be considered for further improvement. He concluded that reforms have produced favorable effects on performance of commercial banks in general but still there are some distortions like low priority sector advances, low profitability etc. that needs to be reformed again.

3.2 REVIEW RELATED TO POLICY FRAMEWORK AND REGULATORY MEASURES:-

Anantha Swami made an attempt in his paper, '**in the context of financial sector reforms, to identify the factors which could have led to changes in the position of four bank groups, i.e. Public Sector Banks, Old Private Sector Banks, New Private Sector Banks and Foreign Banks in term of their share in the overall banking industry during the period 1995-96 to 1999-2000.** For analytical examination of the impact of reforms on the banks' performance, the very performance of a bank has to be evaluated as per appropriate criteria by choosing selected parameters like share of different bank-groups in total assets, share of rural branches, Average branch size, trends in banks' profitability, share of priority sector advances, share of wages in expenditure, provision and contingencies as percentage to total assets, ratio of NPAs to Net advances, ratio of contingent liabilities to total liabilities, spread as a percentage to total assets, Intermediation costs, etc.

By using these parameters, Swami made an in-depth analysis and came out with interesting conclusion like:

(i) The setting up of a new competitive environment has resulted in new challenges for the PSBs and the share of PSBs in the total assets of the banking sector has shown a steady decline while new private sector banks have succeeded in enhancing their position,

(ii) He further observed that foreign banks too have been facing stiff competition from the new private banks,

(iii) The profit performance has been quite varied among different bank groups and within each group in respect of individual banks as well,

(iv) In the face of new competition and recognizing the need to undertake cost reduction, PSBs have brought about reduction in the wage bill component while this has shown an increase in the case of foreign banks and ne\v private sector banks during the period of study,

(v) Foreign banks as well as the new private banks had the advantage of large-sized branches when compared to public sector and old private banks,

(vi) Level of NPAs of PSBs remain high, a noteworthy development has been their significant reduction in relation to net advances in recent years.

Nair KNC (2006*)*in his paper 'Banking and Technology to meet 21st Century challenges', published in Bank net India, has discusses the future challenges of technology in banking. The author also point out how IT posses a bright future in rural banking, but is neglected as it is traditionally considered unviable in the rural segment. A successful bank has to be nimble and agile enough to respond to the new market paradigm and ineffectively controlling risks. Innovation will be the key extending the banking services to the untapped vast potential at the bottom of the pyramid.

Shroff FT (2007)in his paper, Modern Banking Technology, - Bank net Publications has given a summary of how Indian banking system has evolved over the year. The paper discusses some issues face by these systems. The author also gives examples of comparable banking system for other countries and the lesson learnt. Indian banking is at the threshold of the paradigm shift. The application of technology and product innovations is bringing about structure change in the Indian banking system.

ICRA (2003),In a the paper titled "comparative study on Indian banking", tried to analyse the fast-changing environment, the **Indian Bank's Association (IBA) has Commissioned ICRA Advisory Services (ICRA)** to carry out a study to benchmark the strengths and weaknesses of Indian Banks against those of select international banks. The scope of work for the study is to benchmark the performance of Indian Banks vis-a-vis select global banks along three dimensions-structural factors, operational factors and efficiency factors. As suggested by IBA, 21 Indian Banks (those with asset over Rs. 20,000 Crore as on 31st March, 2003) and Seven International Banks have been selected for the study. The parameters, which have been used for benchmarking, are Risk weighted capital norms, Income Recognition norms, asset classification norms, provisioning norms, which come under "Structural Parameters". Return on Assets, Return on Equity, Net interest margin, Operating expense ratio and Asset quality are concerned with "Operational Parameters". Business per employee, Business per branch, Operating expenses per Branch, Establishment expenses per employee, profitability per employee, profitability per Branch are 'Efficient Parameters'.

ICRA Limited, in this study, found that the profitability of Indian Banks in recent years compares well with that of the global benchmark banks primarily because of the higher share of profit on the sale of investments, higher leverage and higher net interest margins. However, many of these drivers of higher profits of Indian Banks may not be sustainable. To ensure long-term profitability, ICRA Ltd. suggest that Indian Banks should diversify their loans across several customer segments; they should introduce robust risk scoring techniques to ensure better quality of loans; they should reduce their operating expenses by upgrading banking technology and they should improve the management of market risk.

Patel has highlighted the problem of bad loans and growing level of Non-Performing Assets in commercial banks in the post-reform period. It was observed that it is important for the banks and' supervisory authorities to adopt more effective lending practices. At the same time, it was also emphasized that corporate entities should be made more accountable through following more stringent disclosure and transparency practices and corporate governance principles. Efficient legal machinery, the larger number of Debt Recovery Tribunals and Settlement Advisory Committees and Credit Information Bureau in banks can prove effective in quick recovers of dues.

Mathur's paper examines the arguments usually extended to build a case for **privatization of public sector banks in India.** An examination of the main arguments usually extended to build a case for privatization of Public Sector Banks (PSBs) in India reveals that the arguments are based on

(a) perceptions, rather than factual analysis,

(b) the use of partial information,

(c) evidence on international experience which is not unambiguous.

Broadly, four main arguments are made by the proponents of privatization of PSBs in India:

(a) frequent recapitalization of state owned banks is a huge burden on the government budget;

(b) state ownership of banks reduces competition and thus breeds inefficiency,

(c) there is no evidence that state Ownership lowers the profitability of banking crisis; and

(d) private and foreign banks stimulate efficiency, innovation and economic growth.

Examination of these arguments reveals that the case for privatization of PSBs in India is not strong enough at least on the grounds usually proposed by the advocates of privatization. Private Sector Banking would have a larger probability of crisis if the' supporting legal and regulatory framework were not sound enough to insulate the systems from extraneous pressures. It may, therefore, be safe to maintain the public sector characters of the banks for privatization are conducive enough.

Nagarajan and Khannan made an attempt to identify the **factors influencing spread of SCBs in India. The study is carried out for the period 1995-96 to 1999-2000 by covering 27 PSBs, 31 PBs and 28 FBs.** Pooled data lode and Generalized Least Square approach was used for carrying the analysis. The researchers in this study found that size of the bank does not necessarily imply higher spreads. Further, they found that non-interest income as a share of total assets enable banks to tolerate low spread. With regard to regulatory requirements variables, it was found that capital plays an important role in affecting spreads of PSBs.

Mukhopadhyay, K.K.threw light on **the challenges that the public sector bank has to face on the initiation of reform measures.** The author expressed that Indian Banking system is passing through a metamorphosis due to the impact of the revolutionary reform process initiated since 1992. The author felt that PSBstoday have already started feeling the pinch and are definitely going to confront for stiffer challenges in the next millennium. Challenges like competition especially from the new private sector banks and foreign banks, low staff productivity, changing life styles of the customers; technological progress, non-performing assets, etc. definitely put the PSBs in a very tight position. So, it is up to the PSBs to welcome them or choose for extinction.

Ballabh (2001) analyzed challenges in the post-banking sector reforms. With globalization and changes in technology, financial markets, world over, have become closely integrated. For the survival of the banks, they should adopt new policies/strategies according to the changing environment.

Shroff (2007)gives a summary of how Indian banking system has evolved over the year. The paper discusses some issues face by these systems. The author also gives examples of comparable banking system for other countries and the lesson learnt. Indian banking is at the threshold of the paradigm shift. The application of technology and product innovations is bringing about structure change in the Indian banking system.

Kumar (2006)studied the bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. Internationally also efforts are being made to study causes of financial inclusion and designing strategies to ensure financial inclusion of the poor disadvantaged. The banks also need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibilities. Financial inclusion can emerge as commercial profitable business.

Laxman, Deen and Badiger (2008) examined that banking industry is undergoing a paradigm shift in scope, content, structure, functions and governance. Their very characters, 57 composition, contour and chemistry is changing. The information and communication technology revolution is radically and perceptibly changing the operational environment of the banks.

Madhavankutty (2007) concludes the banking system in India has attained enough maturity and is ready to address prudential management practices as comprehensively as possible, which an integral part of policy is making. **Banking in India is poised to enter yet another phase of reforms once the door opens further to foreign players in 2009.** This requires further improvement in technology management, human resource management and the ability to foresee rapid changes in the financial landscape and adopt quickly. At present, there is a huge hiatus between the top management earnings of state owned banks and private, as well as foreign banks. Banks have to lay down sound risk management strategies and internal capital adequacy assessment committees to ensure that they do not diverge from the prudential requirements.

3.3 REVIEW RELATED TO IMPACT OF REFORMS :-

Singh, Sultan (2001) made an attempt in his **Ph.D. Thesis titled "An appraisal of banking sector reforms in India"** in Guru Jambeshwar University Haryana, to Access the impact of the reforms on the operational performance and efficiency of the Commercial Banks in India. Ratio analysis has been used as a major tool for assessing the performance of the selected Commercial Banks. The study revealed that total income as a percentage of working funds and/or total Assets and Spread as a percentage of total Income/Working fund/total advances/ total deposits have improved in the reform period against the pre-reform period in most of the banks. Total Income, interest earned, other income, spread, total expenses, interest expended, operating expenses and establishment expenses are comparatively more consistent in the reform period. The hypothesis that the profitability position has improved in reform period may be accepted to some extent. It was observed that in the PSBs the size of NPAs has also been reduced to some extent and quality of service has improved in reform period. The priority sector lending has registered a decline in the deregulation era.

The focal point of the study made by **RadhaT. (2002), in her Ph D Thesis, titled, "Impact of banking sector reforems on the performance of commercial banks in India,** in Andhra University, Visakhapattanam, was to critically evaluate the impact of Banking Sector Reforms on the performance of Commercial Banks in India. In this Study, Radha analysis the magnitude of deposits and borrowings, and trends in branch expansion, advances and investments, trends income and expenditure and also studied the magnitude of achievements in priority sector advances, capital adequacy, CD ratio, staff position in different bank groups and individual banks within the group. This study covered the period 1989-90 to 1998-99. Simple statistical techniques like percentages and growth rates were used in this study. Major findings of the study are..: (i) Total Deposits of all Commercial Banks put together may be divided as SBI (21.5 per cent), Associate Banks (6.6 per cent), Nationalized Banks (58.6 per cent), Private Banks (6.9 per cent) and Foreign Banks (6.3 per cent) respectively, (ii) In the total borrowings of SCBs, Nationalized banks, on an average, accounted for 39.42 per cent followed with 22.77 per cent by Foreign Banks, 23.54 per cent by SBI, 7.76 per cent by Private Banks and 3.47 percent by associate banks, (iii) In Branch expansion, Indian Private Sector Banks, registered 21.36 per cent growth rate which is highest amongst SCBs, during the study period, followed by Foreign Banks with 16.96 per cent, Associate Banks with 12.77 per cent, Nationalized Banks with 11.36 per cent, SBI with 6.23 per cent, (iv) Total investments of Commercial Banks in India increased to Rs. 346271 Crore in 1998-99 from Rs. 97,199 Crore in 1989-90, (v) Priority Sector advances as proportion of net bank credit after exceeding the target of 40 percent in 1991 has been continuously falling short of target up to 1999, (vi) Foreign Banks in India as a group achieved highest capital adequacy ratio among all groups of SCBs, (vii) Among all Indian banking groups, Indian private sector banks recorded highest CD ratio with 67.06 'per cent.

Padwal S.M. in his paper made an attempt to assess **the impact of liberalization on Indian Banking.** Padwal came to a conclusion that high cost of branch expansion, growing percentage of credit portfolio to low yielding assets, increasing operating and establishment expenses have adversely affected banks' profitability. The scholar in this paper strongly felt that deregulation in the banking sector is expected to help to widen credit market, enhance saving mobilization and stimulate competition but there is a need to prepare the banking industry to face the consequence of liberalization

Muniappan (2002) studied **paradigm shift in banks from a regulator point of view in Indian Banking :** Paradigm Shift, IBA Bulletin, No 24 -3. He concluded the positive effect of banking sector reforms on the performance of banks. He suggested many effective measures to strengthen the Indian banking system. The reduction of NPAs, more provisions for standards of the banks, IT, sound capital bare are the positive measures for a paradigm shift. A regulatory change is required in the Indian banking system. Madhavankutty (2007) concludes the banking system in India has attained enough maturity and is ready to address prudential management practices as comprehensively as possible, which an integral part of policy is making. Banking in India is poised to enter yet another phase of reforms once the door opens further to foreign players in 2009. This requires further improvement in technology management, human resource management and the ability to foresee rapid changes in the financial landscape and adopt quickly. At present, there is a huge hiatus between the top management earnings of state owned banks and private, as well as foreign banks. Banks have to lay down sound risk management strategies and internal capital adequacy assessment committees to ensure that they do not diverge from the prudential requirements.

Subbaroo PS (2007), in his paper **Changing Paradigm in Indian Banking-** Gyan Management, has concluded that the Indian banking system has undergone transformation itself from domestic banking to international banking. However, the system requires a combination of new technologies, well regulated risk and credit appraisal, treasury management, product diversification, internal control, external regulations and professional as well as skilled human resource to achieve the heights of the international excellence to play its role critically in meeting the global challenge. This paper mainly concentrates on the major trends that change the banking industry world over, viz. consolidation of players through mergers and acquisitions globalization of players, development of new technology, universal banking and human resource in banking, profitability, rural banking and risk management. Banks will have to gear up to meet stringent prudential capital adequacy norms under Basel I and II, the free trade agreements. Banks will also have to cope with challenges posed by technological innovations in banking.

Tiwari S (2005) in his paper **" Development of Financial Institutions in Indian Banking- A paradigm Shift**, Punjab Journal of Business Studies, has proposed a view that among the financial intermediaries banks and financial institutions are vital players in running the funding activities of the industries. In the bank based system the financial institutions dominate in the aggregate assets of the financial system while in market based system, equity market has largest share of assets in the aggregate assets of the financial system.

Uppal and Kaur (2007), in their paper titled, **"Analysis of the efficiency of all the bank groups in the post banking sector reforms era". Their time period of study was related to second post banking sector reforms (1999-2000 to 2004-05).** The paper concludes that the efficiency of all the bank groups has increased in the second post banking sector reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks. This paper also suggests some measures for the improvement of efficiency of Indian nationalized banks. The sample of the study in Indian banking industry which comprises five different ownership groups and the ratio method is used to calculate the efficiency of different bank groups. New private sector banks are compelling with foreign banks for continuous improvement in their performance.

Vashisht A K (2004), studied commercial banking in the globalized environment, published in Political Economy Journal of India, has presented the recent global developments, which has transformed the environment in which commercial banks operate. Globalization has expanded economic interdependence and interaction of countries greatly. Under the regime of globalized environment, the financial performance of the commercial banks has changed and the commercial banks will face new challenge and also new opportunities in the coming years.

Wahab A (2001)in his book **"Commerical Banks under reforms-performance and issues",** book edited by Deep and Deep Publications New Delhi, has tried to analyze the performance of the commercial banks under reforms. He also highlighted the major issues need to be considered for further improvement. He concluded that reforms have produced favorable effects on performance of commercial banks in general but still there are some distortions like low priority sector advances, low profitability etc. that needs to be reformed again.

With the initiation of reforms, some authors made sincere attempts to bring out books that emphasize its impact on various aspects of banking. Relevant book on this topic is mainly written by **Dr. I. V. Trivedi**. He made a sincere attempt to bring out the book based on research papers contributed in the seminar organized by M.L.S. University, Udaipur. Paper contributors in this book observed that growth of NPAs, unplanned branch expansion, dearth of skilled manpower, ineffective MIS, interference of politicians, declining customer service and attitude of trade unions have contributed a lot for the increasing strain on the banking sector. Another paper presenter felt that foreign shareholding, universal banking and restructuring of banks will influence the banking sector considerably in the next millennium. Another contributor observed that banking structure in the country has not provided any benefits to the tribal population in our country.

The RBI (1999)through its study Report on Currency and Finance, provides the Central Bank's perspective on how deregulation had impacted on bank performance. The RBI's review covers all categories of banks, not just PSBs. The principal findings of this review are worth highlighting:

I. There has been a decline in spreads, a widely used measure of efficiency in banking, and a tendency towards their convergence across all bank-groups, except foreign banks.
II. Intermediation costs as a percentage of total assets had also declined, especially for PSBs and new private sector banks, largely to a decline in their wage costs.
III. Capital adequacy and asset quality (measured by the net NPAs as a percentage of net advances) have both improved over the period 1995-96 to 1999-2000.
IV. Median Profit per employee of PSBs witnessed a significant rise between 1996-97 and 1999-2000, due largely to a rise in the same in the case of the SBI Group.
V. Non-Interest income to working funds rose moderately for the median PSBs.
VI. The ratio of wage bill to total expenses remained at a high level of PSBs.

VII. The cost to income ratio declined both at the SBI Group and the Nationalized Banks.

Joshi Vijaya and Little observed that on the eve of banking reforms Indian Banking Sector was financially unsound, unprofitable and inefficient. They made a critical examination of the changes that have taken place in the banking sector after reforms. Further, what remains to be done with respect of pre-emption of bank resources, directed credit, deregulation of interest rates, etc. in the field of banking sector were also elaborately discussed.

Joshi, P.N. has made an attempt to analyze the **'impact of financial sector reforms on the weaker sections of society.** Joshi in this article felt that Financial Sector reforms may have encouraged banks to go in for innovative measures, develop business, earn profit and benefit the shareholders, however, the social content of banking has suffered continuous neglect. The social objectives before banks were side tracked and the emphasis today in a financial strength, capital adequacy and profitability. The banking philosophy in the country changed mercilessly against the poor. Today, 60 per cent of India's population including the weaker sections of society is without banking facilities. At one stage, Josh(emphasized that rural branches accounted for 576 per cent of the total branch network but at present, it forms only 50 per cent of total branch network. Between 1992 and 1999, the number of borrowal accounts declined by exactly 13 million. Credit-Deposit ratio which was 47.32 per cent in March 1996 declined to 39.35 per cent in March, 2000 and in Semi-urban areas it was 40 per cent in 1996 declined to 34.38 per cent in March, 2000.

3.4 REVIEW RELATED TO SERVICE QUALITY

Af-Tamini and labnoun (2006) compares service quality and bank performance between national and foreign banks in the UAE. Also the paper compares the importance of the dimensions of the instrument between the two sets of the banks. The financial performance is compared using the of a Whitney non-parametric test. The results of this study will serve as a benchmark for UAE bankers from the 800 questionnaires, 480 responses were received.

Kaveri (2001) studied the non-performance assets of the various banks and suggested various strategies to reduce the extent of NPAs. In view of the steep rise in fresh NPA advances, credit should be strengthening. RBI should use some new policies/strategies to prevent NPAs.

Muniappan (2002) studied paradigm shift in banks from a regulator point of view. He concluded the positive effect of banking sector reforms on the performance of banks. He suggested many effective measures to strengthen the Indian banking system. The reduction of NPAs, more provisions for standards of the banks, IT, sound capital bare are the positive measures for a paradigm shift. A regulatory change is required in the Indian banking system.

Nair (2006) discusses the future challenges of technology in banking. The author also point out how IT posses a bright future in rural banking, but is neglected as it is traditionally considered unviable in the rural segment. A successful bank has to be nimble and agile enough to respond to the new market paradigm and ineffectively controlling risks. Innovation will be the key extending the banking services to the untapped vast potential at the bottom of the pyramid.

Subbaroo (2007) **concludes the Indian banking system has undergone transformation itself from domestic banking to international banking. However, the system requires a combination of new technologies, well regulated risk and credit appraisal, treasury management, product diversification, internal control, external regulations and professional as well as skilled human resource to achieve the heights of the international excellence to play its role critically in meeting the global challenge.** This paper mainly concentrates on the major trends that change the banking industry world over, viz. consolidation of players through mergers and acquisitions globalization of players, development of new technology, universal banking and human resource in banking, profitability, rural banking and risk management. Banks will have to gear up to meet stringent prudential capital adequacy norms under Basel I and II, the free trade agreements. Banks will also have to cope with challenges posed by technological innovations in banking

Tiwari (2005) proposed a view that among the financial intermediaries banks and financial institutions are vital players in running the funding activities of the industries. In the bank based system the financial institutions dominate in the aggregate assets of the financial system while in market based system, equity market has largest share of assets in the aggregate assets of the financial system.

Uppal and Kaur (2007) analysis the efficiency of all the bank groups in the post banking sector reforms era. Time period of study is related to second post banking sector reforms (1999-2000 to 2004-05). The paper concludes that the efficiency of all the bank groups has increased in the second post banking sector reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks. This paper also 58 suggests some measures for the improvement of efficiency of Indian nationalized banks. The sample of the study in Indian banking industry which comprises five different ownership groups and the ratio method is used to calculate the efficiency of different bank groups. New private sector banks are compelling with foreign banks for continuous improvement in their performance.

Vashisht (2004) studied recent global developments, which has transformed the environment in which commercial banks operate. Globalization has expanded economic interdependence and interaction of countries greatly. Under the regime of globalized environment, the financial performance of the commercial banks has changed and the commercial banks will face new challenge and also new opportunities in the coming years.

3.5 CONCLUSION

In all the above review of literature various review of made by various researchers, authors have made evaluation of the performance of commercial banks the earlier studies differed from one another in the selection of period, selection of banks, selection of indicators and selection of statistical tools and techniques. In contrast, **the present study focuses its attention on the impact of reforms on Indian banking system in post liberlisation era. The period therefore starts from the year 1991-92 i.e. the year from which reform measures were initiated up to 2010-11 twenty year period for which data are available.** The study, instead of taking a large number of parameters, of which some are alternative specifications, took six parameters to evaluate the efficiency of banks, five to assess profitability and health parameters, i.e. Non-performing assets and capital adequacy. Apart from quantitative aspects, this study has taken qualitative aspect, i.e., customer perceptions on service quality of selected public and private banks as an ancillary to the main study.

This chapter has exhibited the studies conducted and review of literature available on the subject of research. It has been divided into four major parts according to the subject area. After this review of literature it is found that, though there are several studies conducted on the subject, most of the studies are conducted on performance appraisal studies or impact studies of financial reforms and its impact on individual banks. There are very few studies have been conducted on the financial reforms and its impact on Indian public sector and private sector banks. Thus there was a gap of the study on the subject. Therefore after finding the gap of research, the study has been undertaken on the above mentioned subject. After the review of literature, we will study the development and reforms taken place in the post liberalization period in both public and private sector banks.