

# Indian Banking - Challenges, Reforms, and Road Ahead

Sunita Chaki\*, Kshamta Chauhan\*\*

## Abstract

Banks invariably are the foundation stone and a catalyst in growth and stability of an economy. It is strong enough a reason, why banks and banking reforms in India have occupied paramount importance since independence. The government has been making efforts to reform the banking sector in accordance with the changing landscape, with-in, and external to our economy. These changes were significantly paramount in molding the economy in the desired direction, nonetheless the changes brought its own peculiar challenges. Some of them were due to the objectives propagated by government and some were offshoot of the reforms introduced. The article tries to give an overview of the various reforms done so far, the challenges faced, in response to policy changes by the regulators and government alike. It also discusses the impact of these reforms specially on the income, earnings and NPAs of the banks. The grey areas that still are very crucial and must be looked into for the growth of banking sector and the economy alike are also mentioned in the article.

**Keywords:** Indian, Banking, Challenges, Reforms, Economy, Catalysts

## 1. Objectives of the Study

1. To study various banking reforms introduced by the government till 2017.
2. To study impact of reforms on profitability provisioning and NPAs of banks.

3. To understand challenges on account of deficiency in application of reforms to be dealt by regulators and banks.
4. To examine the factors required to bring stability in banking sector in future.

## 2. Introduction

Economy after independence imperatively needed reforms which could transform the economy from such a state which had faced colonial exploitations for almost 200 years to a more stable and steady economy considering the underdeveloped state of the economy financial sectors and banking reforms. This required pertinacious and focused attention.

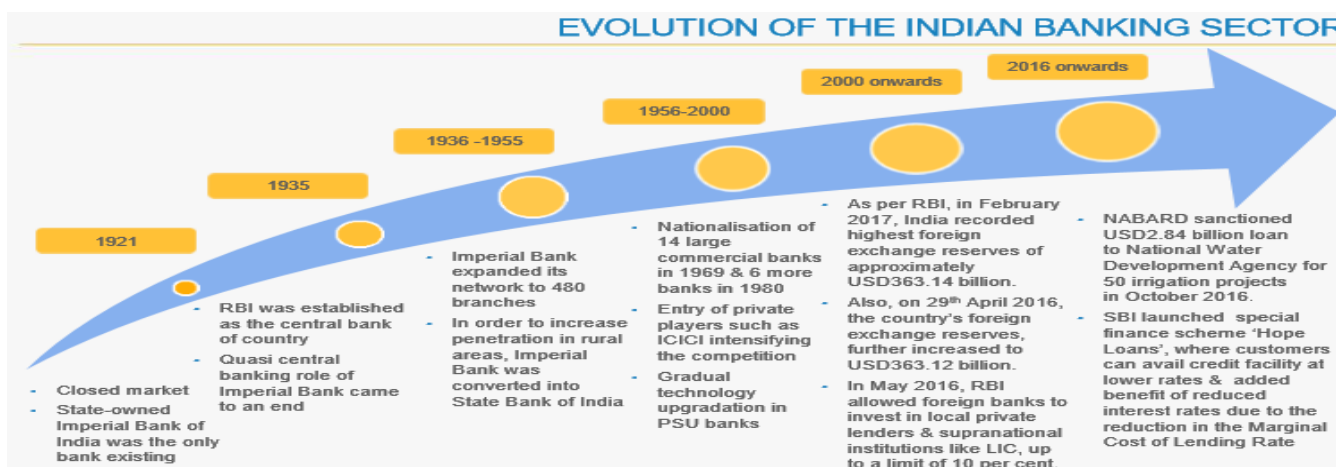
Economy after independence was predominantly guided by objectives of social and financial inclusion. To implement its policies, government channelised banking sector to serve as a tool to implement the above set objectives.

## 3. Reforms Introduced Till 1990

The government transformed commercial banking into social banking through nationalisation of 14 banks in 1969 and six more banks in 1980. The government also focused on expanding the banks through branch expansions, deposit mobilisation and credit creation. RRBs in 1975 and NABARD in 1982 also were brought into existence (Soni & Bhandari, 2016).

\* Department of Business Economics, Dr. Bhim Rao Ambedkar College, University of Delhi, Delhi, India.  
Email: [sunitachaki@gmail.com](mailto:sunitachaki@gmail.com)

\*\* Associate Professor, Amity International Business School, Amity University, Noida, Uttar Pradesh, India.  
Email: [kchauhan@amity.edu](mailto:kchauhan@amity.edu)



Source: IBA, IBEF-2017

**Fig. 1: Evolution of the Indian Banking Sector**

**Table 1: Branches of Scheduled Commercial Banking 1975-2016**

Years	Rural	Semi-urban	Urban	Metropolitan	Total
1975	6807	5598	3489	2836	18730
1980	15105	8122	5178	4014	32419
1985	30185	9816	6578	4806	51385
1990	34791	11324	8042	5595	59752
1995	33004	13341	8868	7154	62367
2000	32734	14407	10052	8219	65412
2005	32082	15403	11500	9370	68355
2010	32430	20788	16684	15254	85156
2015	48247	34113	23115	20824	126299
2016	50554	35959	24363	21958	132834

Note: Data are exclusive of administrative offices

Source: Reserve Bank of India. (ON848) & (ON1220).

The branch expansions after nationalisation happened in significant number. Total number of branches by 1990 rose to 59,752 from a meagre number of 8,262 in 1969. It was an increase of fourteen times more than the numbers in 1969. The population per branch also came down significantly to 14,000 per branch in 1991 from a 60,000 per branch in 1969 (Akhtar & Praveen, 2014). This number of branches by 2016 got expanded to 1,32,834.

There had also been noticeable growth in priority sector lending. Total advances in priority sector has been recorded to be given to 3,38,53,245 accounts with a value of Rupees 60,80,205 lakh by 1995. The credit disbursed to priority sector was 37.8% by public sector banks in the same period (RBI, 2016). Appeased with the results in

terms of steady growth in branch expansion, broad mass base and evenly spread geographical reach of the banks, the government seemed to be satisfied with the banking sector put on a right track, it none-the-less supplemented the economy with inefficiency. Lending priority sector at a concessional interest rate, control beyond optimum level due to overspreading of branches, overstretching of supervision, increase in the cost of lending and deteriorating quality of assets, declining profitability, and competitive efficiency started denting the banking sector.

Flawed accounting standards, dubious banks’ balance sheets, deterioration of asset quality and structural weakness within them started showing signs of retrogression which the banks till now were trying to camouflage (Kaul, 2013).

#### 4. Reforms Post 1990 till 2000

Period prior 1990 was called to be an era of financial repression in terms of regulated interest rates, puzzling accounting norms, ambivalent viability, and marked segregation of activities for financial intermediaries. There seemed little room for competition, efficiency and productivity (Mohan, 2005). These unfavourable conditions required immediate corrective measures. Policy makers acknowledged the apparent problem and responded to the need.

Early 1990s saw much defined and constructive efforts. These reforms reflected the determination of the regulators to bring banks on to a platform where the banks could

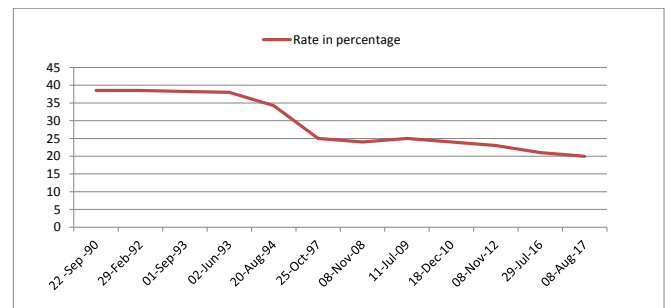
be strengthened internally and could match up with the international standards. The intention was also to increase the ability to be more flexible and adaptable to changing economic and regulatory landscape of the country (Mundra, 2016). These coming reforms proved to be very significant since they laid foundation of an upcoming concrete and strong banking structure and thus impacted the banking sector in a big way till date.

The foundation to a much required banking reforms was outlined by Narshimhan Committee I and II in 1991. It provided a roadmap to broader reforms in coming years. The Committee’s suggestions included de-control of interest rate and credit rate. These reflected the objective to reduce predominance of protection policy of the government (Akhtar & Praveen, 2014).

The prudential reforms related to recognising the income resources of banks, classifying them according to the quality of assets and making provisions for stressed assets (IRAC norms) were to keep a watch on actual loan portfolio position of the banks and to check the deterioration of stressed assets if falling beyond a certain point.

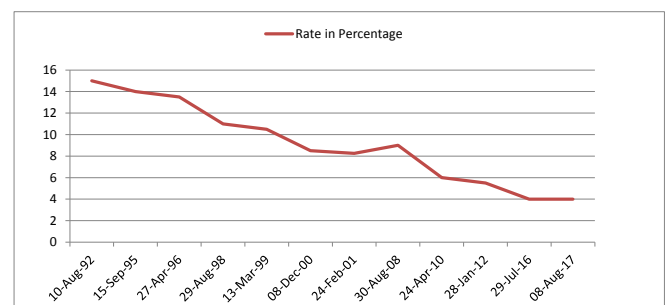
Accordingly in 1993 the regulators deregulated the interest rate and sought to bring down CRR and SLR in a phased manner.

Cash reserve ratio and statutory liquidity ratio which were ruling at as high a level as 15% and 38.5% respectively got reduced to 4% and 20% respectively by Aug 2017.



Source: Thomson Reuters and RBI website

**Fig. 2: Trend of Statutory Liquidity Ratio**



Source: Thomson Reuters and RBI website

**Fig. 3: Trend of Cash Reserve Ratio**

To introduce professionalism in banking sector, the Reserve Bank of India further introduced prudential reforms for the Indian banks. In 1992 it introduced the concept of CRAR i.e. capital to risk weighted assets ratio. Adherence of CRAR was targeted to improve the capital position of the banks against the current liabilities and risk associated with the assets of the banks. The CRAR was intended to ensure that the net worth of the bank was adequate enough to absorb the adverse effects in the value of its assets during volatile times (Mundra, 2016; Diwanji, 2016). The banks were required to maintain a CRAR ratio as per the regulatory changes. In line with BIS (Bank for International Settlements) rules and recommended by Narshimhan Committee, banks were mandated to adhere to the capital requirements and provisioning in phased manner under the Basel Norm II and III.

**Table 2: Structure of Interest Rates in India (1970-70 to 2016-2017**

Year	Call/ Money Rates	SBI Advances Rates	Commercial Banks Lending Rates as prescribed by RBI	
			Minimum Rate (General)	Minimum Selective Credit Control
1970-71	6.38	7.00-8.50	-	-
1971-72	5.16	8.50	-	12.00
1990-91	15.85	16.50	16.00	16.00
1991-92	19.57	16.50	19.00	19.00
1995-96	17.73	16.50	16.50	Free
1996-97	7.84	14.50	14.50-15.00	Free
1997-98	8.69	14.00	14.00	Free
2010-11	5.75	8.25	8.25-9.50	Free
2016-17 \$	6.40	-	8.90-9.15	-

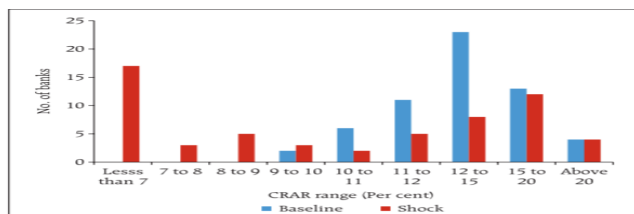
Source: Reserve Bank of India. (ON298), (ON392) & (ON1220)

Note: \$- Up to 15.07.2017.

**Table 3: Scheduled Commercial Banks (% of RWAS)**

Minimum capital ratios	April 1, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019
Minimum Common Equity Tier 1 (CET1)	4.5	5	5.5	5.5	5.5	5.5	5.5
Minimum Total Capital +CCB	9	9	9	9.625	10.25	10.875	11.5

Source: Paragraph 4.5 -Master Circular, RBI



Source: Financial Stability Report 2017

**Fig. 4: CRAR wise Distribution of Banks**

In 1993, RBI further published the framework to open the avenues for private sector banks so as to expose banking sector to more competition. In 1994, six banks including ICICI Bank, HDFC Bank and UTI Bank (later called Axis Bank) and IDBI Bank were given license under private sector category. This was followed by licensing Yes Bank, Kotak Mahindra Bank Ltd, Bandhan Bank Ltd, and IDFC Bank Ltd. The RBI extended the list by sanctioning 11 licenses to set up payment banks and 10 small Finance banks in 2015. As in the year 2017, the numbers of private sector banks in India are 22. Public sector banks were sanctioned to generate capital from capital market through public shareholding in the same year

## 5. Reforms Post 2000

By early 2000s, banking had undergone a huge transformation with deregulation. The banking sector had matured by now in terms of population per branch, credit disbursement and in terms of adherence of prudential norms. Technology had led to more open, competitive and globalised market thereby widening the ambit of banking business environment (Kaul, 2013; Charyulu & Diwedi, 2012; Diwanji, 2016).

The year 2002-03 was registered by a revival in industrial growth and services sector. It led to a more stable and sustainable economy. Scheduled commercial banks

capitalising on conducive environment got over optimistic and too enthusiastic disbursing loans to corporates to such an extent that lenders lost the sensibility to choose quality of assets. This led to uncontrollable rise in non-performing assets (NPA) and significant deterioration in quality of assets in bank statements. The reason of this flaw could not just be attributed to overenthusiasm of the banks in lending but political pressures and weak appraisal by banks before credit disbursement were equally qualified to be the reasons for unprecedented increase in NPAs. The burgeoning and snowballing of NPAs could be sensed by the banks, however they were either too reluctant to show in their balance sheet or were finding themselves incompetent to control it. This problem was supplemented with relatively ineffective NPA management tools which proved to be ineffective to tame or mitigate NPAs. These problems highlighted the importance of greater vigilance and judiciousness in managing banking management and operations.

The emphasis was to improve internal working quality of banks, enhancing the supervision on banking sector, standardising the banks with international benchmarks, changing the ownership pattern among state owned banks and the most immediate need to de-stress the stressed asset especially among PSBs (Charyulu & Diwedi, 2012).

To start with, India became a member of BIS and adopted Basel Norm as prescribed by Basel Committee on Banking Supervision (BCBS). India assumed BASEL Norm I and II in 1999 and 2004 respectively. The banks under these norms were required to manage and revitalise banking parameters so as to full proof it against prevalent risk in banking sector. Basel III is to be brought in force by 2019 (Singh c., 2014). The adoption of BASEL norms was for the banking sector to remain resilient from external shocks like that of financial crisis 2008, ensuring internal stability, maintaining adequate capital requirement to handle unexpected losses or risks and maintaining parity

with the standards maintained by banks of rest of the world.

The regulators, with the focus on to manage the NPA menace, introduced various schemes to prevent the surge of substandard and non-performing assets in banking sector. They were preventive and corrective/ curative in nature.

The preventive measures are reforms related to preliminary appraisal of the projects. The objective was to check the quality of loans so as to eliminate any chances of standard assets becoming stressed assets.

Corrective measures are related to the cases where the accounts show some kind of stress as in case of special mention accounts, substandard or D1 D2 or D3 accounts. The government introduced certain measure like corporate debt restructuring, strategic debt restructuring, scheme of sustainable structuring of stressed assets etc. so that corrective measure may be taken before the stressed loans get transferred to a category of non-performing assets. The corrective reforms were to address the cases where the borrowers or companies were visibly seen under stress though still could be rehabilitated or restructured.

To rehabilitate and restructure, corporate debt restructuring (CDR) scheme was initiated in Aug 2001. The CDR scheme was to address the stresses of the viable industrial establishments which were having problems in repaying the loans by restructuring them. The scheme was further revised in 2005.

In cases where the companies under stress were found to be unviable the Govt empowered the lenders through a scheme in the form of strategic debt restructuring (SDRs) initiated on 8th June 2015. The creditors with this scheme were authorised to convert due amount of debt into equity shares. To further improve and simplify the SDR scheme, RBI initiated an extension of SDR in the form of mechanism called S4A on 13th June 2016. It empowered the lenders wherein they could have more bargaining power forming JLF and formulating Corrective Action plan (Rajan R., 2016).

Besides dealing with the issue of stressed assets and defaults, banks are also required to deal with the projects having long gestation period. Banks are were finding it

difficult to manage its liquidity and maturities mismatch issues because of the projects having longer time of incubation, redemption or having longer period of commitment were being financed by short term maturities assets. Banks needed some measure which got catered by the 5:25 scheme. This helped lenders and borrowers alike since the lenders were now able to manage the asset liability mismatch more comfortably and the borrowers could have better liquidity management.

In cases where stressed assets could not be rehabilitated and restructured and thus declared as NPAs, the banks resorted to the channels to recover the non-performing assets so as to recover maximum value of the concerned assets.

Recovery of NPAs in earlier times were being done either done by civil courts which were too over burdened with regular cases or due to RDDBFI Act 1993, an act which helped creation of DRTs and DRATs.

DRTs and DRATs did provide some temporary relief but with untamable increase in NPA, these institutions being too meagre in number were not enough to manage the ever-growing stressed assets. Presently there are 33 DRTs and 5 DRATs. Further DRTs in the original form had too many ambiguities. These ambiguities were seen as an opportunity for borrowers to bypass the loan payments and thus proved to be a channel misapplied by borrowers and lawyers alike. A genuine need to rectify the legal system and empowerment to lenders pertaining to NPAs got reinstated when the defaulter companies started taking undue shelter under BIFR. At this time reiterating the need to empower the lenders another committee on banking reforms called *Andhyarujina* suggested establishment of securitisation and asset reconstruction companies to authorise lender banks to take charge of NPAs.

With the objective to curtail NPAs, another act called SARFAESI Act got enacted in 2002. This act extended three ways of recovering NPAs, through securitisation, asset reconstruction and enforcement of security. Under this, banks were empowered to recover the loans by taking possession of security against the stressed loan in case of defaults. This tool as shown in table below is the most utilised tool by any bank till date.

**Table 4: Non-Performing Assets (NPAs) of Scheduled Commercial Banks Recovered through Various Channels in India**

(Rs. in Billion)

Year	Recovery Channel	Lok Adalats	DRTs	Sarfaesi Act	Total
2012-13	1. No. of Cases Referred	840691	13408	190537	1044636
	2. Amount Involved	66	310	681	1057
	3. Amount Recovered*	4	44	185	233
	4. 3 As Per Cent of 2	6.1	14.2	27.2	22.0
2013-14	1. No. of Cases Referred	1636957	28258	194,707#	1859922
	2. Amount Involved	232	553	953	1738
	3. Amount Recovered*	14	53	253	320
	4. 3 As Per Cent of 2	6.0	9.6	26.6	18.4
2014-15	1. No. of Cases Referred	2958313	22004	175355	3155672
	2. Amount Involved	310	604	1568	2482
	3. Amount Recovered*	10	42	256	308
	4. 3 As Per Cent of 2	3.2	7	16.3	12.4
2015-16	1. No. of Cases Referred	4456634	24537	173582	4654753
	2. Amount Involved	720	693	801	2214
	3. Amount Recovered*	32	64	132	228
	4. 3 As Per Cent of 2	4.4	9.2	16.5	10.3

Source: Reserve Bank of India.

Asset reconstruction companies also got originated under section 3 of SARFAESI Act. The intention behind the formation of ARCs was to help banks de-stress themselves from non-performing assets by trading them off to ARCs. Presently being 24 in number the function of ARCs is to secure, supervise and retrieve the non-performing assets (Rajan R., 2016) Certain amendments related to encourage the growth of ARCs was done on 28th April 2017.

CERSAI and CRILC were established to contain the credit risk and early detection and better recovery of NPAs. CERSAI is a central registry which provides a platform to lenders to prevent the borrowers from availing multiple loans against the same security. It was brought into force on March 31, 2011. In 2014 RBI further introduced a collaborative system, Central Repository of Information on Large Credits (CRILC). Its objective was to assist banks to assess their NPAs and furnish information with other institutions. This is being done by sharing information regarding the status of stressed borrowers on quarterly basis.

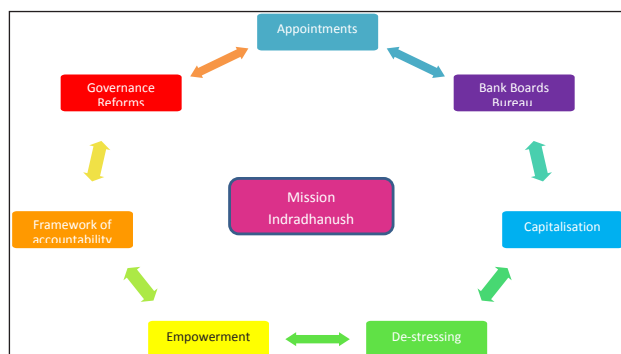
In case where liquidation is considered to be the only alternative, the banks were empowered with the bankruptcy code on 28<sup>th</sup> May 2016. The aim of this code

was to fast track implementation and recovery of NPAs with minimum damage or loss to lenders. It was thought that this would help develop credit market facilitate investment, and encourage the ease of doing business.

Even after the origination and well thought tools in the form of preventive and curative measures, there seemed a grave disparity among public sector banks and private sector banks. The difference ranged from internal working of banks, to credit disbursement, asset quality, stressed assets, technological upgradations and flexibility to the required changes according to changing landscape of economy (FICCI, 2016).

Public sector banks needed a major overhauling considering their poor performance, lagging profitability, weak internal management, low capitalisation and the depressing track record of NPAs compared to private sector banks. With this background, Govt. of India on 14<sup>th</sup> August 2015 initiated seven point agenda called Indradhanush. Indradhanush is said to be the foundation to metamorphose the public sector banks with most exhaustive reforms since nationalisation. The govt through this mission showed the intention to overhaul the public sector banks. The seven points dealt with

changes in overall functioning of banks via setting board of bureau, appointments at top levels, injecting capital in debt ridden banks, de-stressing to reduce lending pressure among banks, empowering them with greater autonomy in hiring of employees, framework of accountability to streamline vigilance process.



Source: FSR, 2017

**Fig. 5: Seven Focal Points of Indradhanush**

More autonomy in banking sector was also achieved by diluting SCBs’ pattern of ownership. The govt. till now have had as much as 100% and non-residents shareholding as compared to a meager 11.9% share in 2015-16.

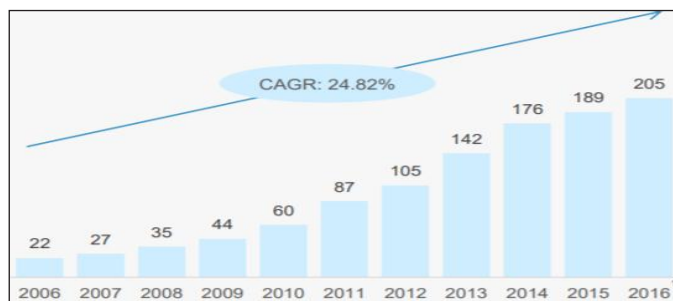
**Table 5: Share Holding Pattern of Public Sector Banks in India (as on 31.03.2014 (%))**

Banks	Govt. and RBI	Financial Institutions	Other Corporate	Individuals
Allahabad Bank	58.90	25.93	2.06	13.11
Bank of Baroda	56.26	34.20	3.85	5.69
Bharatiya Mahila Bank Ltd.	100.00	0.00	0.00	0.00
Canara Bank	69.00	23.13	2.12	5.75
Dena Bank	58.01	16.94	2.86	22.19
Oriental Bank of Commerce	59.13	33.93	1.91	5.03
Punjab National Bank	58.88	35.85	1.24	4.03
Union Bank of India	60.13	25.09	5.26	9.52
State Bank of India	58.60	32.10	3.33	5.97

Source: Reserve Bank of India.

The government however has recently started showing inclination to dilute its shareholding and to guide public sector banks raising required capital through financial markets. This is being done in planned phases depending upon the capital requirements, stock performance, liquidity position and condition of the markets (RBI, 2016; FICCI, 2016). The banking sector by 2012-13 had extended technology intensive regime to bring revolutionary changes in customer services, cost structure and prevailing risk affecting banking sector, augmenting core banking solutions, renovating the modes of payments, improving the ways to identify and mitigating risks.

There was a significant shift in banking with the advent of internet in India. Looking at the huge Internet savvy consumer base the banks are gearing up to move towards world class internet banking capabilities. Banking has progressed in electronification of payment channels through formulating of Payment & Settlements Systems Act which lays down the guidelines for payment systems prevalent in India. It has further provided RTGS and NEFT platform meant for retail payment system. Regulating ATMs, point of sale, and issuing security measures for all card transactions have encouraged the banking practises among the customers.



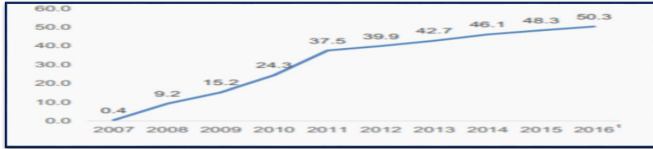
Source: IBEF, March 2017 (Data till Oct 2016)

**Fig. 6: Growth in ATMs (in 000’)**

By 2016 the number of ATMs has increased to 2,05,000 units compared to 22,000 in 2006, registering a compounded annual growth of 24.82 % by 2016 since 2006. Variety of payment channels, introduction of technology platforms, regulatory assistance have made significant progress in achieving the objective of financial inclusion (World Bank, 2012)

The RTGS system was initiated in March 2004 and by June 2017. It had reached to a total of 15,23,41,827 transactions

of 1,26,94,197.84 million rupees. Subsequently, NEFT introduced in Nov 2005 showed a total business by 95,12,055 customer of 83,330.95 million rupees value during the same period. To improve the customer services further, Banking Codes and Standard Board of India released a code (of conduct) for banks in 2006. The criteria of this code were to stimulate best banking practices, intensify transparency and significant surge in trust and confidence among banks and customers.

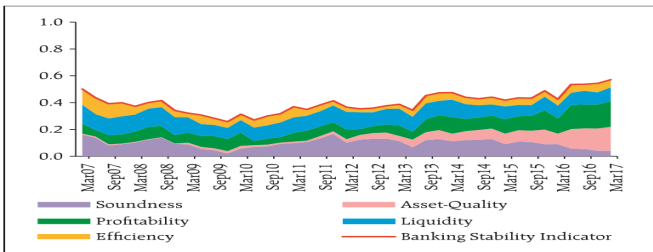


Source: TRAI, IBEF 2016 (Given data is till Jan 2016)

Fig. 7: Rural Mobile Banking (In million Units)

## 6. Performance in Banking Sector

Introduction of reforms in banking sector led to strengthening the sector in some areas and reinforcing the need for more effective measure to rectify the banking problems in others. Fig. 8 shows a trend of stability indicator from 2007 to 2017. Increase in indicator value shows deteriorating stability. The width of each dimension shows how much each factor is contributing towards risks.

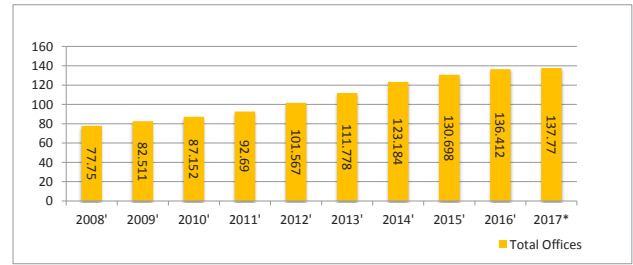


Source: Financial Stability Report, 2017

Fig. 8: Banking Stability Indicators

Introduction of banking reforms showed significant improvement in branch expansion. Priority sector lending also showed some positive results. Credit-deposit growth, profitability, asset quality, NPAs, and customer services however showed mixed results.

## 6.1. Branch Expansion



Source: DBIE-RBI, \* Mar 2017

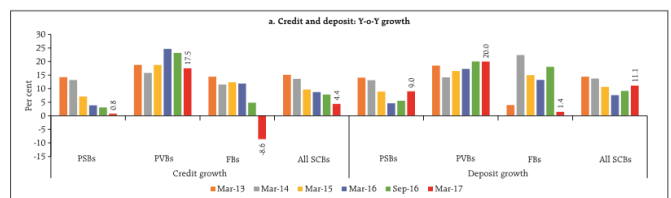
Fig. 9: No of Reporting Offices in SCBs in 000

## 6.2. Priority Sector

The priority sector showed a 16% credit growth in 2015-16, recording a net increase of 6.7% from a relatively smaller growth of 9.3% registered in 2014-15, (Report on Trend and Progress of Banking in India, 2016)

## 6.3. Credit Growth

Credit growth in 2015-16 showed a significant drop of 2.1 % compared to 7.4 % in the last year. According to Financial Stability Report June 2017, credit growth of SCBs showed a decline and deposit growth an upward swing between Sep 2016 and Mar 2017.



Source: Financial Stability Report, 2017

Fig. 10: Performance Indicator of Banks

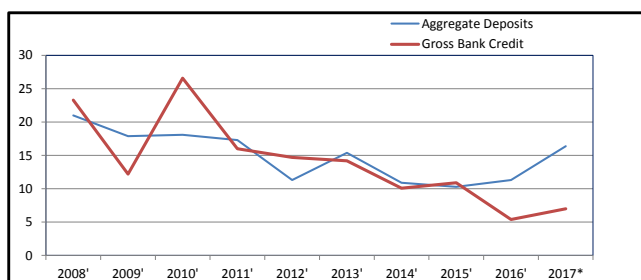
## 6.4. Non-Performing Assets

Banks are Known to respond to poor enforceability of debt contracts (debt recovery) by reducing loan amounts, shortening loan maturity and increasing spreads (Bae, Kee-Hong, & Goyal, 2009). The behaviour was same in Indian banking sector which led to increase in bad loan

and decrease in profitability due to high provisioning on resulting NPAs. This trend was more prominent in public sector banks.

### 6.5. Credit Deposit Ratio

The Credit Deposit Ratio dropped sharply to 26.01% in FY17, compared to 89.8% in FY16. The fall was due to demonetisation, which boosted deposit growth while reducing credit growth. This is the underlying reason for the sea of liquidity in the money markets.



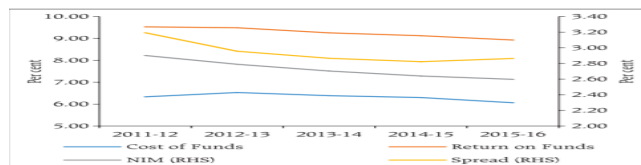
\* Mar 2017, Source-DBIE-RBI

**Fig. 11: SCBs Annual growth Rate (%)**

### 6.6. Financial Performance

The financial position of SCBs, showed 60% decline in net profit due to high provisioning and consolidated balance sheet. This, if seen in isolation, shows increase in profitability but due to asset quality review conducted by RBI in 2017, the provisions mentioned in the balance sheet decreased the profitability of banks. These high provisionings of SCBs were not strictly due to fresh NPAs. The major contributor of the increment in provisioning was that the banks were made to reveal the existing

stressed assets which most of the banks were somehow able to avoid by ever greening of loans. This stress of provisioning was reflected in return on assets and return on equity of 2014-15 as well.



Source: Report on Trend and Progress of banking in India, 2016

**Fig. 12: Financial Performance of SCBs 2011-12 to 2015-16**

### 6.7. NPAs and Recovery

Looking at the recoveries, it showed an aggregate downward trend. However, Lok Adalat and DRTs proved to be comparatively effective as recovery tools compared to SARFAESI. The recovery showed a decline of 52% through SARFAESI channel. With the reforms introduced by RBI banks could reduce their NPAs through the sale of stressed assets to ARC.

**Table 6: No. of ARCs and Assets Acquired from Banks**

(Amount in billion Rs)

Years	Dec-13	Mar-14	Mar-15	Mar-16
No of ARCs	5	13	14	16
Total Acquired From Banks	163.56	351.64	584.79	726.26

Source: IBEF2016

**Table 7: SCBs NPAs Recovered through Various Channels**

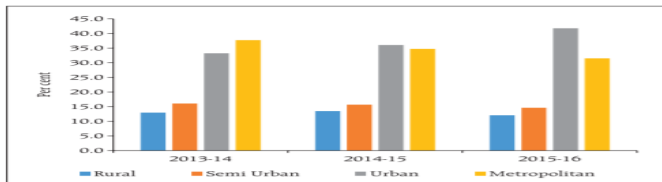
(Amount in billion Rs)

Channel of Recovery	2014-15 (Revised)			2015-16		
	No. of cases Referred	Amount involved	Amount Recovered*	No. of cases Referred	Amount involved	Amount Recovered*
Lok Adalats	29,58,313	309.79	9.84	44,56,634	720.33	32.24
DRTs	22,004	603.71	42.08	24,537	693.41	63.65
SARFAWSI	1,75,355	1,567.78	256.00	1,73,582	801.00	131.79
<b>Total</b>	<b>31,55,672</b>	<b>2,481.28</b>	<b>307.92</b>	<b>46,54,752</b>	<b>2,214.74</b>	<b>227.68</b>

Source: Report on Trend and Progress of banking in India, 2016

## 6.8. Customer Services

Besides this, with setting up of ombudsman banks 95,377 complaints have been reported to be addressed in urban and metropolitan cities against SCBs. This may be taken as an indicator of awareness of institution for consumer's redressal.



Source: *Financial Stability Report, 2017*

**Fig. 13: Population Group Wise Distribution of Complaints Received**

## 7. Challenges and Future Changes

### 7.1. Adoption of Basel III Norms

Adapting to the needs of the economy and fixing the faults in the banking system is requirement of the day. First and foremost challenge which banking sector is facing relates to coping up with emerging regulatory and supervisory framework. With this respect, there are challenges in terms of better risk management system with larger banks in particular especially when they are hesitant for migrations in advanced approaches under Basel II and transition and adoption of Basel III norms (FICCI, 2016; Rajan, 2016a; Mundra, 2016). This would remain on the agenda of regulators to make this transition as smooth and in a time bound manner.

### 7.2. Skill Management

Skill upgradation and changes in IT system of bank are mandatory and are a precondition for successful transformation. To implement schemes like IFRS, technological enhancement with respect to CRM, MIS and regulatory reporting are the defined areas which need to be looked into. There is a genuine need in the area of technology, ICT solution, financial literacy, and credit counselling should and must be corrected (Kumar, 2016; Mundra, 2016). On the other hand, the changes with respect to digitisation and technology must be adopted

judiciously by the banks and must be supervised by the regulators with hawk eyes. The cyber-attacks with a recent incident in Bangladesh Central Banks in 2016 which were related to fund transfers in fictitious accounts and recent ransomware attack on 15<sup>th</sup> May 2017 in India.

### 7.3. Managing Gap between Private and Public Sector

The gap between private sector and public sector seems to be widening with public sector banks having a focus on financial and social inclusion which has proved to be highly unviable and unprofitable. Several initiatives for weaker section on the part of government and 'no frills', small ODs, introduction of general credit card and relaxation of KYC in small value account are still taken as unprofitable and high cost commercially unviable obligations.

Likewise, challenges with respect to infrastructural financing by banks and catering huge and vital infrastructural needs along with less risk need ostentatious attention by regulators. The regulators, in this regard, have come up with schemes like 5:25, yet a lot needs to be done (FICCI Report, 2016).

Further, the govt. has shown a determination to reduce the stake holding in public sector banks to give more independent touch to the banks' boards and internal working among public sector banks. Looking at the low capitalisation and weak confidence in banks, the govt. needs to be more assertive with strong political consensus.

Lot of speculation is on the mergers of the banks. After the successful mergers of SBI and its associate banks, RBI is introspecting mergers of other weaker banks with the stronger ones. This has been looked into with lot of apprehensions by banks and its stakeholders.

The banks especially public sector banks are less adaptive to measures and techniques related to risk assessment. The techniques needs to be more bank-specific rather than adopting a general standardised approach.

In today's competitive world, re-skilling of existing employees and retaining fresh talent has been an issue banks are confronting with (Kaul, 2013). The banks need to raise the measures to increase the accountability of employees looking at their pattern of their performance

on time series pattern. Accountability needs be more on top and middle level employees (Diwanji, 2016).

A general problem affecting the banking system (both public sector and private sector banks) is the efficacy of the legal system in enforcing creditor rights. At present, the legal procedure is dilatory and there are difficulties associated with enforcing recovery through seizure and sale of collateral or through forced liquidation. Looking at the global slowdown decline in quality of assets can't be ruled out. But the extent of deterioration can be curtailed (Mundra, Banking Sector reforms, 2016). NPAs are leading to rise in borrowing costs for Indian companies further leading to a downward hit on already anemic private sector investment and resulting in holding back of faster GDP growth<sup>1</sup>.

To improve the status of NPAs specially when these have been clustered around limited industrial houses RBI, has declared 12 accounts in its first list of defaulters, who are responsible for 25 per cent of NPAs. Recent changes in the law enable banks to seize collateral, but the process of the sale of collateral remains difficult.

The government has introduced Insolvency and Bankruptcy Code in 2016 to address and speed up the bad loans resolution process. Its efficacy however is yet to be evaluated.

Internally banking systems needs lots of changes. Corporate governance standards are weak in banking sector. Even though sharing of credit information is being capitalised but it still is in infant stage and is infested with integrity and timeliness issues. Intermediation cost is still very high posing important hurdles to make product pricing competitive. The reforms as being done, there is still a lot of scope in the areas of cleaning up of the balance sheet of the banks, meeting the provisions of the Basel III norms increase in mkt share in growth funding which eventually will help recapitalize the bank (Mundra, Banking Sector reforms, 2016). The banks besides this need more autonomy. According to Mr SS Mundra Deputy Governor, RBI, the govt. need not be the major stakeholder in public sector banks. Being the largest shareholders would still enable the government to remain competent to channelize these banks towards the

objectives of financial and social inclusions. This would further save the banks from overlapping controls, an issue which the banks are still juggling with.

Customer service also has often been put at stake when the banks are to choose between profit and services. 40% Indians still lack access to even simplest kind of formal financial services, creating social tensions and retarded growth (Mundra, 2016). According to SS Mundra, only 14% of the banks were rated high ranking regarding the adherence of consumers' right policy codes, 49% were ranked above average and 21% got average ratings<sup>2</sup>. Sh M Damodaran, Chairman of Reserve Bank of India's Committee on Customer Service in Banks have advocated reforms in retail, small and pensioners segment, shows the inadequate services provided to these sectors

## 8. Conclusion

Looking at the credit ratings by national and international agencies, the confidence in Indian banking is yet to be managed in more consistent and reliable way (IBEF, 2016). The regulators and banks need to keep themselves in sync with prudential norms and supervision system, lessen the stake holding in public sector banks, supplemented with a strong legal system with less loopholes, advocate adoption of bank-specific reforms including reskilling and retention of talent and contain the deterioration of quality of assets which would lead to upward movement of GDP a basic requirement of any economy.

## References

- Akhtar, J. S., & Praveen, S. (2014). An Assessment of Branch Expansion of Scheduled Commercial Banks in India. *Journal of Business & Economic Policy*, 85-96.
- Badar, M., Javid, A., & Zulfiqar, S. (2013). Impact of Macro economic forces on Nonperforming loans an empirical study of commercial banks in Pakistan. *Elixir Marketing Mgmt.*, 56A, 10808-13813.
- Charyulu, D. K., & Diwedi, A. K. (2012). Efficiency of Indian banking industry in the post-reform era. *International Journal of Business Continuity and Risk Management*.

<sup>1</sup> [http://economictimes.indiatimes.com/article-show/59449678.cms?utm\\_source=ETnotifications&utm](http://economictimes.indiatimes.com/article-show/59449678.cms?utm_source=ETnotifications&utm)

<sup>2</sup> <http://indianexpress.com/article/> /Written by Anil Sasi | New Delhi | Updated: July 15, 2016 7:22 am

- Das, S., & Dutta, A. (2014). A study on NPA of public sector banks in India. *IOSR Journal of Business and Management (IOSR-JBM)*, 16(11), 75-83.
- Gowri, M., Malepati, V. R., & Reddy, B. (April 2013). Non-performing Assets in Public Sector Commercial Banks: A Retrospect. *International Journal of Financial Management*, 3(2), 46-53.
- Joseph, A. L. (2014). A study on analyzing the trend of NPA level in private sector banks and public sector banks. *International Journal of Scientific and Research Publications*, 4(7), 1-9.
- Kalluru, S. R., & Bhat K. S. (2009). Does foreign bank entry affect operations of domestic banks? A study on Indian public sector banks. *The IUP Journal of Managerial Economics*, 7(3 & 4), 200944, 13.
- Kanoria, H. (2016). Quo Vadis, Indian Banking? *Financial Foresight*, 10-13.
- Kathuria, R. (2016). Next phase of banking reforms. *Financial Foresights-FICCI*, 17-20.
- Misra, B. S. (2003). Indian Banking system in the post-reform period: A state level analysis. *Reserve Bank of India Occasional Papers*, 24(3), 161-186.
- Nishanth, K., & Dhoble, N. (2015). *Stress testing credit risk of Indian banks*. Chennai: IFMR FINANCE Foundation.
- Prajapati, B. D., & Prajapati, B. D. (n.d.). The integrated approach to management of NPAS In axis bank. *International Research Journal of Management Sociology & Humanities*, 4(2), 1060-1071.
- Rajan, R. (16 August 2016). Interesting, profitable, and challenging - Banking in India today. *FICCI-IBA (Federation of Indian Chambers of Commerce & Industry – Indian Banks' Association)*. Mumbai: RBI website.
- Rajan, R. (2016). Resolving stress in the banking system. *ASSOCHAM (Associated Chambers of Commerce and Industry of India)*. Bengaluru: RBI website.
- Rajaraman, I., & Vasishtha, G. (Feb. 28, 2002). Non-Performing Loans of PSU Banks: Some Panel Results. *Economic and Political Weekly*, 37(5), *Money, Banking and Finance*, pp. 429-431+434-435.
- Reddy, P. (2002). A comparative study of Non Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures.
- Singh, D. I. (2015). Explanatory variables of credit risk: An empirical study of Indian banking industry. *Indian Journal of Management Science (IJMS)*, 5(1), 50-57.
- Tondan, D., & Tandon, N. (2016). *Management of Banks*. Delhi, India: Taxmann Publication(p) Ltd.
- ASSOCHAM, PwC. (2014). *Growing NPAs in banks: Efficacy of credit rating agencies*. Retrieved JAN Wednesday, 2017, from <http://www.pwc.in/assets/pdfs/publications/2014/growing-npas-in-banks.pdf>: <http://www.pwc.in/>
- Bae, K. H., & Goyal, V. K. (2009). Creditor rights, enforcement and bank loans. *Journal of Finance*, 64(2), 823-60.
- Bhattacharya, A. (2016, May). Reforms an immediate agenda for public sector banks. *Financial Foresights, FICCI*, 5-9.
- Dhal, R. R. (2003). Non-performing loans and terms of credit of public sector banks in India: An empirical assessment. *Reserve Bank of India Occasional Papers*.
- Diwanji, A. (2016). Stressing on Distress. *Financial foresights-Views Reflection and Erudition FICCI*, 36-41.
- FICCI. (2016). *Banking Reforms*. Delhi.
- Hajra, S. (2016). Asset quality of Indian banks: Are we barking up the wrong tree? *Financial foresights-Views Reflection and Erudition*, 14-20.
- IBEF. (2016). *Banking*. Delhi.
- Indian Institute of Banking and Finance. (2017). *Legal and regulatory aspects of banking*. New Delhi: Macmillan Education.
- Chakrabarty, K. C. (2013). Two decades of credit management in banks: Looking back and moving ahead. *Bancon2013*, (pp. Annex- 2, pp.30). Delhi.
- Kaul, A. (2013). *Banking reforms: Journey from nationalisation to globalisation*. Delhi, India.
- Kothari, V. (2017). *Securitisation*. Delhi: LexisNexis.
- Kumar, S. (2016). Indian Banks and NPAs: looking beyond the pain. *Financial foresights-Views Reflection and Erudition*, 41-45.
- Mohan, R. (2005). Financial sector reforms in India: Policies and performance analysis. *Economic and Political weekly*, 1106-1112+1115-1121.
- Mundra, S. S. (2016, Aug 24). *Banking Sector reforms*. Retrieved Jan 21, 2017, from [www.rbi.org.in](http://www.rbi.org.in): [https://www.rbi.org.in/scripts/BS\\_SpeechesView.aspx?Id=1019](https://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=1019)
- Mundra, S. S. (2016). Indian banking sector - gazing into the crystal ball. *Mint Annual Banking Conclave*. Mumbai: RBI.
- Pathak, B. V. (2011). Management of Non-Performing Assets by Banks. In B. V. Pathak, *The Indian*

- Financial System: Markets, Institutions and Services, 3rd Edition* (pp. 508-536). Delhi: Pearson India.
- Rajan, R. (2016). Interesting, profitable, and challenging - banking in India today. *FICCI-IBA (Federation of Indian Chambers of Commerce & Industry - Indian Banks' Association)*. Mumbai: RBI website.
- Rajan, R. R. (2016., 11 February 11). Issues in banking today. *Confederation of Indian Industry's (CII) first Banking Summit*, Mumbai: RBI.
- Ranjan, R., & Dhal, S. (2003). Non-performing loans and : Terms of credit of public sector banks in India: An empirical assessment. *Reserve Bank of India Occasional Papers*, 24(3), 81-122.
- RBI. (2016, December 28). *Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances*. Retrieved January 11, 2017, from [https://www.rbi.org.in/scripts/FS\\_Notification.aspx?Id=10801&fn=2&Mode=0](https://www.rbi.org.in/scripts/FS_Notification.aspx?Id=10801&fn=2&Mode=0): <https://www.rbi.org.in/>
- RBI. (2016). *Regulation, Supervision and Financial stability Report*. Delhi: RBI.
- RBI. (2016). *Report on Trend and Progress of Banking in India*. Delhi.
- RBI, R. R. (March 12, 2016). India in the global economy. *Ramnath Goenka Memorial Lecture*. New Delhi: RBI.
- Roy, R. (2016). Public sector banks-a spectrum of reforms, a few Shade Brighter. *Financial Foresights-FICCI*, 21-24.
- S., M. S. (2013). A study on causes and remedies for non performing assets in Indian public sector banks with special reference to agricultural development branch, state bank of Mysore . *International Journal of Business and Management Invention*, 13.
- Shabbir, N., & Mujoo, R. ( 2014). Problem of non performing assets in priority sector advances in India. *Journal of Economics and Development Studies*, 2(1), 241-275.
- Shah, R. (2016). Role of ARCs in NPA Management. *Financial Foresights*, 5-9.
- Singh, A. (2013). Credit risk management in Indian commercial banks. *International Journal of Marketing, Financial Services & Management Research*, 48.
- Singh, C. (2014). Basel banking norms. *IIMB-WP N0. 470*, 1-46.
- Singh, P., & Singh, K. (2015). Efficiency assessment parameters of public sector banks in India. *Global Business Review*, 16(6), 1112-1126.
- Sinha, A. (2011, Nov 6). *Indian banking - journey into the future - Bank for .* Retrieved Jan 21, 2017, from [www.bis.org.in: www.bis.org/review/r120201c.pdf](http://www.bis.org.in: www.bis.org/review/r120201c.pdf)
- Soni, H., & Bhandari, K. (2016, April). Indian banking sector: Then, now & the road ahead. *International Research Journal of Engineering and Technology*, 3(4), 1982-1988.
- Suyash, A. (2016). Agenda for a rebound in Public sector Banking. *Financial foresights-Views Reflection and Erudition FICCI*, 27-31.
- Suyash, A. (2016). Indradhanush to benefit public sector banks; but capitalisation to be a key challenge. *Financial Foresight-FICCI*, 25-27.
- Tiwari, D. (2017). *Govt in talks with RBI to defer Basel III norms for banks*. Delhi: Economic Times.
- Toor, N. S. (2016). *Handbook of Banking Information*. New Delhi: Skylark Education.
- Varshney, P. N. (2016). *Banking Law and Practice*. New Delhi: Sultan Chand & sons.
- World Bank. (2012). *Global Financial Development Report 2013: Rethinking the role of the state in finance*. Washington DC: World Bank. doi:10.1596/9780-8213-9503-5.