The banking sector reforms in india finance essay

[Finance](), [Banks]()

The banking sector reforms in India are aimed at introduction of best international practices and technological changes for making the Indian banking sector competitive globally. The Indian banking system is more efficient and stable today. Consequently there has been a rapid increase in the number of banks in this country. The banking horizon is changing because of the increasing number of private banks and the foreign banks. Apparently there is a cut throat competition between the banks. New and variety of services are offered by banks which are non-conventional and customized as per the customer requirements. Banks began to diversify their services as part of their corporate strategy to cater to various customer segments.

Structure of banking in India

The Indian banking system is classified into scheduled and non-scheduled banks. The scheduled banks are then classified as state cooperatives banks and commercial banks. The non-scheduled banks are classified as central cooperative banks and primary credit societies and the commercial banks.

Commercial banks are classified in both the scheduled banks as well as the non-scheduled banks. Schedule banks are those which are included in the SECOND SCHEDULE of BANKING REGULATION ACT 1956.

To be included in the second schedule a bank

Must have paid up capital and reserves of not less than Rs 5 lakhs.

It must also satisfy the RBI that its affairs are not conducted in a manner detrimental to the interest of its depositors.

File: Scheduled banking structure in India. png

RBI(Reserve Bank of India) is the central bank of the country. As the central bank of the country RBI has the power to supervise and control all the banks with the intensions of developing a sound and efficient banking system. It also performs many different developmental and promotional functions.

The functions of RBI are as followed:

Note issue

Bankers bank

The central bank

Banker to the government

Custodian to Foreign Exchange Reserves

Management regulation of exchange

Credit control

Other functions.

The Indian banking system has witnessed a substantial improvement in both stability and efficiency parameters such as capital position, asset quality, and overall profitability. There has been a remarkable improvement in the financial health of commercial banking sector. The banking sector reforms have improved the stability of the Indian financial system.

PERFORMANCE OF COMMERCIAL BANKS IN INDIA

Indicators

The performance and the efficiency is analysed in terms of profitability, productivity, financial stability, and quality of assets. The following indicators are used:

Profitability indicators: It is measured in terms of net profit of the bank. The interest, non-interest income, and the expenses influence the net profit.

Some of the important indicators of profitability are as follows:

Interest income as percentage of total assets: Interest income

Total assets

Higher ratio indicates higher profitability.

Interest expended ratio: Interest expenses

Total assets

Fall in ratio improves the profitability

Net Interest Margin(NIM): interest income â€” interest expenses

Total assets

A fall in NIM indicates the need to reorient the banks policies.

Intermediation Cost of Assets Ratio (ICAR): Non-interest expenses

Total assets

Lower the ratio higher the efficiency.

Overhead Efficiency(Burden)Ratio: Non-interest income

Non-interest expenses

Higher ratio indicates lower profitability.

Returns on Assets(RoA): Net profit

Total Assets

High RoA indicates better deployment of funds.

Return on Equity(RoE): Net profit

Total Equity

RoE will help the banks to access new capital.

Capital markets indicators: The capital market indicator is based on the EPS and P/E ratio.

Productivity Indicators: productivity indicators are generally analysed in terms of:

Profits per employee

Business per employee

Financial Soundness: Financial soundness is reflected by the Capital Adequacy Ratio.

CAR: Total capital

RWAs

RWAs: Risk Weighted Assets

Higher the ratio better is the sustenance of the banks.

Asset Quality: The quality of assets in the bank is shown by the level of non-performing assets (NPAs). Lower the ratio better is the asset quality. The 2 ratios used are:

Ratio of gross NPAs to gross advances.

Ratio of net NPAs to net advances.

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The above graph has the data of the gross NPAs of the banks. The X axis depicts the years and the Y axis depicts the percentage. The red dotted line is for the Gross NPAs and the blue dotted line is for the Gross advances. Looking at the graph we can confidently state that the Gross NPAs are increasing whereas the Gross advances are decreasing since 2010-11.

PERORMANCE OF PUBLIC SECTOR BANKS, NEW PRIVATE SECTOR BANKS, AND FOREIGN BANKS IN INDIA

The comparative performance of public sector banks, new private sector banks, and foreign banks is explained below for the recent years

http://stockshastra. moneyworks4me. com/wp-content/uploads/2012/03/Indian-Banking-Industry-Statistics. png

Productivity and profitability of banks: Productivity is directly related to profitability. It is analysed in terms of business per employee and business per branch.

Business per employee: The business per employee in the public sector banks has increased from Rs 471. 18 lakhs in 2006-07 to Rs1013. 63 lakhs in 2011-12. But is still low as compared to foreign banks. The business per employee for foreign banks has showed a tremendous increase from Rs974. 77 lakhs in 2006-07 to Rs1559. 74 lakhs in 2011-12. The business per employee for the private banks has also increased from Rs695. 23 lakhs in 2006-07 to Rs823. 26 lakhs in 2011-12.

Profit per employee: The profits per employee are the highest in foreign banks followed by new private sector banks in 2011-12. Per employee profit was Rs 16. 3 lakhs in foreign bank, Rs 8. 1 lakhs in new private sector banks and Rs 5. 93 lakhs in public sector banks in 2011-12.

Interest income: The interest income of public sector banks, new private sector banks and foreign banks showed an increase to Rs366318, Rs 96827 and Rs 28520 respectively in 2011-12.

Interest expended ratio: The interest expended ratio same as interest income has showed an increase for all the banks in 2011-12. The figures are Rs231153 lakhs, Rs57115 lakhs, Rs10622 lakhs.

Financial Soundness: The CAR(Capital Adequacy Ratio) is the most important indicator of financial soundness of banks. The capital to risk weighted assets ratio is shown is the figure below. The CRAR of public sector banks has been between 12 and 15 percent. The old private sector had CRAR lying between 12 and 15 percent. The new private sector had CRAR of more 15 percent. It goes the same with the foreign banks for the year ending in March 2012.

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Asset Quality: the asset quality of a bank is shown by level of non-performing assets (NPAs). Better quality of assets is the indicator of efficiency. There is a vast improvement in the efficiency of Indian banks.

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The NPAs as percentage of Average Total Assets are increasing marginally in 2011-12. The NPA of foreign banks rose from 0. 8 in 2009-10 to 1. 4 in 2010-11 to 1. 6 in 2011-12. The new private sector banks showed an increase from 1. 1 in 2009-10 to 1. 2 in 2010-11 to 1. 3 in 2011-12 approximately. The old private sector banks has shown an increase but less as compared to the other banks. The national banks have shown a gradual decrease in the NPAs since 2009-10 to 2011-12.

Customer services: In order to ease customer access to banking facilities, Indian banks have begun offering bouquet of financial services to their clients. The number of branches proving CORE BANKING SOLUTION (CBS) is increasing tremendously. Under CBS a number of services are provided such as ANYWHERE BANKING. The number branches of PSBs that have implemented CBS increase from 35464 in March 31, 2008 to 46304 in March 31, 2011.

ATMs

The banks are providing more and more ATM facilities to the customers. The foreign banks and new private sector banks are the larger contributors in this.

http://www. isrj. net/PublishArticles/img/306_2. gif

The above graph is for the year 2008-09. The highest number of ATMs is provided by the state banks but on-site. The highest number of ATMs provided off-site is by the foreign banks.

NEW TECHNOLOGY IN BANKING

The banks in India are using Information Technology (IT) not only to improve their own internal process but also to increase the facilities and services to their customers. Computerization has taken place all over India. The only motive is to bring banking at the fingertips of the customers and employees.

THE DIFFERENT FACILITIES PROVIDED ARE:

Virtual banking

ATMS

Debit Cards

Credit cards

Point of Sales(PoS)

Door step banking

Internet banking

Mobile banking

Telebanking

Phone banking

Electronic Funds Transfer (EFT)

Electronic Clearing Services (ECS)

Real Time Gross Settlement (RTGS)

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