INTRODUCTION TO RESEARCH PROBLEM

Indian Banking Scenario:

Indian Banking industry is governed by the Banking Regulation Act, 1949 and is currently in a transition phase. On the one hand, the Public Sector Banks (PSBs), which are the mainstay of the Indian Banking System, are in the process of shedding their flab in terms of excessive manpower, excessive Non-Performing Assets (NPAs) and excessive Governmental equity, while on the other hand the Pvt. Sector Banks are consolidating themselves through Mergers & Acquisitions.

PSBs have share of 84.17% of total bank branches, while private sector banks have 15.42% with corresponding staff position as 75.44% and 2.79% respectively as on 31.3.2011. PSBs hold around 78% of total business while share of private sector banks is 18%. India is the second fastest growing economy of the world and is poised for one of the economic super power by 2025. The Indian Banks are playing vital role in development and growth of our economy through the following specific roles -

a. Merchant Banking

b. Retail Banking

c. Private Banking

d. Universal Banking

e. Commercial Banking

f. Banks as financial intermediaries for poverty reduction

g. Financial intermediaries as markets for firm's assets

Identified Problem Areas
Indian Banking Sector reforms are aimed at induction of best international practices and technological changes for competing globally. RBI had been emphasising transparency, diversification of ownership and strong Corporate Governance to mitigate the prospects of systemic risks in the Banking Sector. Reforms have supported the transition of the Indian economy to a higher growth path, while significantly improving the stability of the financial system. The gains of the past decade have to be consolidated, to drive the Institutions, markets and practices into a mature financial system. The Banking system would, therefore, not only need to be stable, but also supportive of still higher levels of planned investments by channeling financial resources more efficiently from surplus to deficit Sectors. Prudential regulatory requirements have made Banks risk-averse as reflected in their tendency to investment in relatively risk-free gilt instruments. The behaviour and strategies of banking business need changes in favour of risk-taking even while performing core activities.

**Need for the study**

Before implementation of reform measures, Indian Banking System was laden with several weaknesses like low operational efficiency, inadequate Capital base, high NPAs, low profitability, unhealthy Balance Sheet and unsatisfactory customer service. Due to changes in Banking policies and practice during the last 20 years of reform period, it is appropriate to evaluate the impact of reform measures on the efficiency, profitability and overall performance of Commercial Banks in both quantitative and qualitative aspects. By and large, the studies conducted so far had confined to the economic aspects (on profitability) of bank’s performance, while socio- economic factors did not receive the desired attention. Studies were restricted to limited number of Banks, limited number of years and limited number of indicators. Hence there is a need to undertake comprehensive study.
Utility of the study

The findings of the study will immensely help the bank management to -

i. Strategise policy measures for enhancing their competitiveness and opportunities and also to make them operate in a market – led competitive environment.

ii. To introspect how to meet the increasing peer competitive pressure by enhancing customer orientation and increased customer focus.

iii. To shift the focus from process-based management to risk –based management, cost reduction, introduction of innovative new products, especially fee-based services to further improve the profitability.