Literature Review

Banking sector Reforms and NPA: A Study of Indian Commercial banks:
The issue of non-performing assets (NPA), the root cause of the recent global financial crisis, has been drawing the attention of the policymakers and academics alike. The problem of NPAs, which was ignored till recently, has been given considerable attention after liberalization of the financial sector in India. This exploratory paper examines the trend of NPAs in India from various dimensions and explains how recognition of the problem and self-monitoring has been able to reduce it to a great extent. It also shows that public sector banks in India, which function to some extent with welfare motives, have a good record in reducing NPAs as their counterparts in the private sector. The paper also discusses the role of joint liability groups (JLGs) or self-help groups (SHGs) in enhancing the loan recovery rate.

Krishna Goyal and Vijay Joshi, 2012.
Indian Banking Industry: Challenges and Opportunities:
The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspect of banking, i.e., trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, with the changing dynamics of banking, business brings a new kind of risk exposure. In this paper, an attempt has been made to identify the general sentiments, challenges, and opportunities for the Indian Banking Industry. This article is divided into three parts. First part includes the introduction and general scenario of Indian banking industry. The second part discusses the various challenges and opportunities faced by Indian banking
industry. Thirdparty concludes that urgent emphasis is required on the Indian banking product and marketing strategies in order to get sustainable competitive edge over the intense competition from national and global banks. This article is a small seed to existing branch of knowledge in banking industry and is useful for bankers, strategist, policymakers and researchers.

Risk Management in Banking: A study with reference to State Bank of India ( SBI ) and Associates:
Risk management is not something new. Every employee joining a bank starts learning about the risk inherent in banking operations from day one. Risk management is one of the most important practices to be used especially in banks. Risk threats of bank sof course, RBI is issuing guidelines from time to time to maintain solvency of each and every bank. From this viewpoint, internal management of SBI and associates should be checked frequently against this possible risk. An dditis also important that the external credit and risk management agencies should be consulted by each other regularly so that the risk can be controlled and managed. An efficient risk management system is therefore needed.
This paper has provided an overview of 1) the conceptualization of risk management, 2) the management of credit risk by SBI and associates, 3) The component of credit risk management in SBI and associates were analyzed e.g., Non-performing Assets for the period of six years and capital adequacy ratio for the period from 2008 to 2013 (six years period). Due to time and study constraints, the authors have covered only credit risk management. Credit risk management is a vast subject and is very difficult to cover all the aspects of credit risk management in SBI and associates.
Santosh Kumar Das, 2010.

Financial Liberalization and Banking Sector Efficiency:
The Indian financial sector has undergone significant structural transformations since the initiation of the financial liberalization in 1990’s. It brought significant changes in the Indian economy in general and the financial sector in particular. Against this backdrop, the present paper intends to analyze the performance of the Indian banking sector after the initiation of financial liberalization and also to measure the cost efficiency of the Indian banking sector during the post-reform period. The study finds, after deregulation, the concentration has declined which resulted in increasing competition. The share of private and foreign banks in the banking asset, deposit and credit has gone up. The profitability of all bank groups has gone up, but the foreign banks are more profitable.

Using Stochastic Frontier Approach (cost frontier) and RBI data for 60 Indian commercial banks on the basis of empirical investigation (panel estimation), the paper concludes that after financial liberalization there has been no significant change in the cost efficiency of the public sector banks. The findings show a marginal decline in the cost efficiency of the public sector banks in the post-reform period. A comparison among various bank groups in the post-reform period shows, the domestic private banks are becoming more efficient in comparison to the public sector and the foreign banks. However, the study finds the public sector banks to be more cost efficient than the private and the foreign banks.

Anand M B and Dr. Sreenivas, 2013.

A Study of Branchless Banking in India:
As new developments continue to expand, the traditional boundaries of banking, the interface between banks and customers, have also changed drastically from being operations-centric to servicing customers. The shift during this period has been from branch to Branchless such as ATM, Internet and mobile. Branchless banking is a modern mechanism to facilitate
financial services in developing regions. Branches will continue even after the new model spread to rural areas. This paper studies the branchless banking, its performance, cost structures, and issues and challenges on selected parameters.

Dr. Namita Rajput, Ms. Richika Kaura, Ms. Akanksha Khanna, 2013.

Indian banking Sector towards sustainable growth:
The main objective of this paper is to deeply understand how Indian banks are responding to environmental turbulence and to provide an overview of their action in view of green banking adoption, awareness, drivers, challenges, and gap etc. by a structured questionnaire supported by secondary data and reports published. The results reveal that there is a small group of banks in India that are leading the sector in tackling climate change, mapping of carbon footprints internally and externally. Internationally, there are several initiatives underway, but the response of Indian banks is tardy and sluggish, especially in internationally consistent disclosures and environmental protocols, which not only can spur innovation but also helps in pinpointing risk and also generate opportunity.

Dr. K Ratna Manikyam, 2014.

Indian Banking Sector – Challenges and Opportunities:
The economic reforms initiated by the Government of India about two decades ago have changed the landscape of several sectors of the Indian economy. The role of banking industry is very important as one of the leading and mostly essential services sector. The significant role of banking industry is essential to speed up the socioeconomic development. Banks play an important role in the economic development of developing countries. Economic development involves investment in various sectors of the economy. The biggest opportunity for the Indian banking system today is the Indian consumer. Demographic shifts in terms of income levels and cultural shifts in terms of lifestyle aspiration
Sowing inclusion, reaping NPAs:

An increase in NPAs is normally attributed to factors such as ownership, management, credit assessment quality, economic downturn, sectorial performance, willful default or just bad luck.

Agriculture has highest NPA ratio for 9 of the 21 banks. The second-highest was industry with 6, followed by personal loans and services with 3 each. Four banks had agriculture as the second-largest sector with high NPAs though services led with 10 banks, followed by industry with 6 and personal loans with 3.

What conclusions may be drawn? First, personal loans appear to be a safe avenue for lending as there is rarely a systemic risk which spreads based on non–performance of a sector like agriculture or industry. As it is well spread across individuals and the ability of an individual to service the loan is not linked with that of any general parameter, the linkage is dispersed.

Second, agriculture is clearly the most vulnerable sector generating NPAs. The issue is tricky because banks are reluctant to admit that farm loans are a drag on their balance sheets as it is politically correct to say that these loans are profitable.

Third, NPAs in industry are also high which can be linked to a great extent with the state of the economy and the virtual standstill of several infrastructure projects or those

Madan Sabnavis, 2014.
related to government spending where there are defaults.
Lastly, service sector loans also have been high for banks and they need to revisit their genesis as NBFCs, commercial real estate and trade are the dominant components here. This should be a worry, especially so since the service sector had been the best-performing sector in the GDP calculations and an increase in bad assets here would tend to reflect more on judgment and could be bank-specific.


Government must let go of its hold on PSBs:
There is a scarcity of bank capital which got created because of the inefficiency and maladministration of the government, either explicitly or implicitly. The government doesn’t allocate as much capital as is needed. It doles out a few thousand crore each year which seems large in absolute terms, but is a pittance in the banking world. Chronic non-allocation of capital due to high-degree myopia and short-termism creates scarcity. When, the problem becomes endemic, the government comes as a knight in shining armor and ‘rescues’ the PSBs. It does sound quite panicky, but a not-so-well-known reality is that PSBs in India are experiencing significant distress and suffer from thin bank capital. Exacerbating the problem is low investor confidence in PSBs, highlighted by the equity issue in January 2014 of State Bank of India—the bellwether for PSBs. SBI sought to raise R9,600 crore via a share sale to institutional investors in the domestic market. However, it could raise only 80% of that amount, R8,032 crore. The reality is, PSBs are currently thinly capitalised, despite inadequate provisioning for stressed assets. They have low and declining return-on-assets, low and declining net interest margin, low productivity which is reflected in the significantly lower market-to-book ratio, and lower fee income as proportion of total income. Taken together, it is hard to escape the conclusion that PSBs remain a drain on taxpayers’ resources apart from being highly susceptible to future shocks—the banking equivalent of Air India.

The government now has two options. Either, it can privatise the PSBs and allow future
solvency of these banks to be subject to market competition, including through mergers. Or, it can design a radically new governance structure for PSBs with minimum intervention from the government. This would better ensure their ability to compete successfully, in order that repeated claims for capital support from the government, unconnected with market returns, are avoided. Either way, the government has to let go its choke-hold on the PSBs

**FE Bureau, 2013.**

Damp Squib:

May be it’s the tough guidelines that accompany this round of bank licenses or simply the complex and huge task that setting up a bank is, but there were no long queues outside the Reserve Bank of India’s Mumbai headquarters on July 1, the last day for submitting applications for a new banking license. Despite finance minister P Chidambaram’s announcement that there was no upper limit to the licenses that could be given out, the response this year has been tepid compared with the last two times licenses were granted. The RBI received only 26 applications this time, compared with 100 applications received in 1993 and 113 applications in 2003. Only 12 licenses have been granted since.

The biggest problem, as experts point out, is the central bank’s financial inclusion agenda, which it is planning to push through the new banks. One-fourth of the branches by new banks have to be in unbanked rural areas, where it is extremely difficult to make profits. The cost and time required to set up a self-sustaining business in these markets may outweigh the need for a bank license, say experts. Add to this the 40% priority sector lending target, which is another major deterrent for new banks.

Other regulatory requirements such as cash reserve ratio (CRR) and statutory liquidity ratio (SLR), which banks have to maintain with the RBI, will be imposed upon these new banks at the start of their operations, not giving them the buffer to use available capital to grow their business.

Nevertheless, those who have applied and others who stayed away, all agree that the banking opportunity in India is huge, as only 35% of the Indian population has formal
bank accounts, as compared to an average of 41% in developing economies. Yet converting this opportunity into a profitable business will be a tough task for the handful of players who eventually get the nod from the RBI in the coming months.


As banks cry over NPAs, debt recovery tribunals sit on cases worth Rs. 1.43 L cr:

Close to 43,000 cases involving a whopping Rs 1.43 lakh crore were pending with 33 debt recovery tribunals (DRTs) across the country at the end of FY13. This has added to the woes of banks and financial institutions and asset reconstruction companies looking to buy out these assets. Of course, the DRTs managed to dispose of 9,816 cases in the last fiscal involving R18,162 crore. But fresh filings of 14,666 cases in the last fiscal with claims of R48,037 crore pushed up the overall pendency.

Incidentally, the net non-performing assets or NPAs (bad loans after making provisions) of banks had gone up 51% in FY13 to R92,825 crore. According to a recent Crisil report, the gross NPAs of banks are slated to increase from 3.3% in March 2013 to 4% by March 2014.

The delays in DRTs have in turn affected the value of assets that are to be recovered, which is a matter of concern for banks, financial institutions and asset reconstruction companies. The rising pendency is due to many reasons including the shortage of DRTs and debt recovery appellate tribunals (DRATs) in the country.

It was suggested by the court that filling up of vacancies for the posts of senior officials be expedited and computerization of publication of notices and auctions on the website should be explored. The apex court also wanted the government to expeditiously implement the "e-DRT Project" to automate and improve DRT services by building IT systems.

FE Bureau, 2014.

Banks unlikely to pass on higher cost of funds:
The Reserve Bank of India (RBI) left the repo rate and the cash reserve ratio (CRR) unchanged at 8% and 4%, respectively, on Tuesday, signaling that it wants rates to remain elevated.

The central bank, however, increased the liquidity requirement under the seven-day and 14-day term repos from 0.5% of net demand and time liabilities (NDTL) to 0.75%, as a result of which the cost of funds for banks could go up slightly. Analysts estimate the rise in costs at no more than 10 bps for those banks who borrow regularly, but do not anticipate any change in loan rates immediately.SBI chairperson Arundhati Bhattacharya confirmed that the move would lead to a slightly higher cost of funds as the rate would be near the repo, but not at the policy rate. She, however, ruled out any change in lending rates in the near term. “It’s not that the change will be transmitted so soon. The RBI is looking to develop better and quicker transmission in the future and wants the call rates to be very close to the policy rates.

The RBI had increased the key repo rate by 25 bps at the last policy review in January, but most banks refrained from hiking their lending rates. Loan growth has been sluggish and banks have been scouting for quality customers to whom they can lend at lower rates.


PSU Banks bear the brunt of NPAs:

Asset quality in India’s banking sector is set to remain weak over the medium term. The banks’ asset quality will be constrained by high interest rates, slackened economic growth, and by corporate India’s reduced profitability and weakening credit risk profile.

The sizeable loan restructuring by banks is indicative of the stress in corporate India’s credit quality, driven largely by reduced profitability, weak demand and strained liquidity. By restructuring their loans, banks enable borrowers to reschedule their debt servicing, and to minimize their immediate principal repayment burden. Sectors with large debt are particularly likely to witness restructuring: nearly 30% of the restructuring is likely in the power sector. The other susceptible sectors include aviation,
construction and engineering, steel, textiles, and telecom infrastructure. Restructuring of loans of more than R1.25 lakh crore were either completed or under way as on March 31, 2012.

The banks’ comfortable capital positions will, however, continue to buttress them against asset quality challenges. The credit risk profiles of the PSBs continue to be underpinned by expectation of ongoing support from the government of India, which has either invested or committed capital of over Rs. 50,000 crore in these banks between 2009-10 and 2012-13. The private sector banks, meanwhile, continue to maintain healthy capitalization, supported by comfortable internal accruals and ability to raise fresh capital. The overall banking sector’s capital coverage for net NPAs remains adequate at around 8 times as on March 31, 2012.