Financial sector liberalization have led to a transformation of the Indian Banking

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The Indian Banking sector has emerged as one of the strongest drivers of India’s economic growth. The Indian Banking industry (Rs.732 trillion) has made an outstanding advancement in the last few years. Even during the times when the rest of the world was struggling with financial meltdown, India’s economic development and financial sector liberalization have led to a transformation of the Indian Banking sector over the past two decades. Among the domestic commercial banks, Private Sector Banks are smart enough to absorb and adopt new technologies earlier with the help of information technologies. Public Sector Banks seem to be somewhere blocked or reluctant to change and adopt the advancement of information technology.

The Public Sector Banks, which had a monopoly earlier, started facing problems with deteriorating performance. The protected environment has given rise to several lacunae in the banking system. In an administered interest regime, discretion of management was limited and consequently, the risk parameters in these spheres were unclear and not quantifiable. The share of Private Sector Banks was not substantial while operations of foreign banks were also restricted. Staff orientation especially at the branch level is a key ingredient for success and neither the older private banks nor the nationalized banks were successful in that respect.

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Introduction

Banking is mainly a client oriented business. High-quality of services to the client is crucial for the growth and stability of any bank. A wider distribution and access of financial services helps both consumers and producers to raise their welfare and productivity. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, avail credit, and more importantly, insure themselves against income shocks and emergencies.

To survive in an increasingly competitive environment, banks need to come up with various facilities like Internet Banking, Mobile Banking and the like. With the onset of Mobile Banking, the industry finds itself at the threshold of the next major technological leap. Quality of the service offered to the customers has become the most important parameter. In spite of considerable extension of banking and further financial facilities, some kind of criticism on the functioning of Public Sector Banks could not be averted. There was a general opinion that the commercial banks follow rules and regulations rigidly. There is no flexibility on their part. They favour only corporate loans and government securities. Small borrowers find it difficult to bank with them. Interest rates quoted by the commercial banks are not closer to the market rates. Branch managers do not enjoy adequate freedom in assessing their own area requirement and doing business. Within short span of time, Private Sector Banks have gained considerable customer confidence, and they have concentrated more on high growth urban areas. As efficiency is the main focus, Private Sector Banks have leveraged on their strengths and competency, such as, management, operational efficiency, flexibility, superior product positioning and higher employee productivity skills. Private Sector Banks have progressed well with technology up gradation in their operations, extension of business hours, introduction of new products and services like Tele Banking, Automatic Telling Machines, Electronic Clearing Service, Swift Fund Transfer and the like. All these new initiatives have helped the banks to improve their efficiency and performance. The competition has made the Public Sector Banks also to enhance their operating efficiency. Present financial market necessitates every bank to be aware of their operating efficiency and employing an effective operating strategy. With the prevailing tough competition between Public Sector Banks, Private Sector Banks and foreign banks in India, retaining and enhancing the customer base has become the order of the day.

At present, banking is changing from a seller driven process to a buyer driven process. Gone are the days that the banks would provide customers with the services and products that they wished to provide. Now buyer power dictates, that is, the customer will determine with whom they will bank; which products they will use; which delivery channels they choose to use. Thus Indian Banking industry has undergone qualitative changes due to banking sector reforms. Indian Banking Sector, which is dominated by state controlled banks, has been facing formidable challenges. Owing to this new emerging competition, Indian banks, especially Public Sector Banks are trying their best to improve their efficiency.

Review of Literature

Karunakar and Mrs. K. Vasuki (2008) Emphasis on various theoretical aspects oscillating from the factors causing NPA, magnitude of NPA and their impact on the Indian banking system and finally the measures to control the rise of NPAs.

Rajesham and Rajender (2008) Described the causes and consequences of NPAs in Public Sector Banks. The result of study showed the efforts required at the headquarters of ministry of finance, RBI and Banks's to control the issue. It also parleys about the opportunity cost between profitability and social welfare.

Vadrale Kavita (2008) A case study on the green banking initiatives undertaken by three private and three public sector banks from 2010-2015. Green Banking Initiatives by Indian Public and Private sector banks.

Akhan (2009) Highlighted the present level of NPAs of NBFCs and measures to control the same. NBFCs are found to be performing better in comparison to the Scheduled Commercial Banks in NPA management.

Dhanda and Rani (2009) Presented the status of NPAs in different segments of public sector banks in India and to ascertain the relative importance of different causes of NPAs as per opinion of bank employees.

Uppal (2009) Examined the priority sector lending and targets achieved by various bank groups in 2006 and 2007 of the Indian banking industry. The study resulted that the public sector banks did not achieve the target due to priority sector lending process in comparison to the Private and Foreign Banks.

Financial Structure

The Indian financial system comprises the following

Institutions:

1. Commercial banks

a. Public sector

b. Private sector

c. Foreign banks

d. Cooperative institutions

(i) Urban cooperative banks

(ii) State cooperative banks

(iii) Central cooperative banks

2. **Financial institutions**

a. All-India financial institutions (AIFIs)

b. State financial corporations (SFCs)

c. State industrial development corporations (SIDCs)

3. Nonbanking financial companies (NBFCs)

4. Capital market intermediaries

About 92 percent of the country's banking segment is under State control while the balance comprises private sector and foreign banks. The public sector commercial banks are divided into three categories.

What are Public Sector and Private Sector Banks?

Public Sector:

- Public Sector Banks (PSBs) are those banks where the government holds more than 50% ownership.

- Further, the government regulates the financial guidelines, because of government ownership, most depositors believe that their money is more secured in public sector banks.
  - As a result, most public sector banks have a large customer base.
- For example, The State bank of India (SBI) is the largest public sector bank in India.
  - In this bank, the Indian government holds more than 63% share.

- **Private Sector Banks:**

  Private sector banks are those banks where private individuals or private companies own a major part of the bank's equity.
  - Even though these banks follow the nation's central bank's guidelines, they can formulate their independent financial strategy for the customers.

Why is there a Need to Privatise Public Sector Banks?

- **Issues with Public Sector Banks:**
  - **NPA's:**
    - Non-Performing Assets (NPA) are loans that the borrower fails to pay back to the bank, further high levels of NPAs erode a bank's profitability.
    - Most of PSBs are also unable to maintain a capital adequacy ratio.
    - In the case of many a PSBs, the RBI had to restrict the normal functioning of the banks — this is referred to as the banks being put under Prompt Corrective Action (or PCA) — and forced them to improve their financial performance metrics before being allowed to resume normal banking activities.
  - **Losses in Rural Branches:**
    - Most of the rural branches are running at a loss because of high overheads and the prevalence of the barter system in most parts of rural India.

- **Bureaucratisation:**
  - The smooth functioning of banks has been hampered by red-tapism, long delays, lack of initiative, and failure to take quick decisions.
- **Financial Burden to Government:**
  - Rather than wasting taxpayers' money to recapitalise PSBs**,** the government should simply sell them off to the private sector**.**
  - This would reduce the financial burden on the government while also ensuring that PSBs become more efficient and profit-making entities under private ownership.

Conclusion

A banking system is a collection of institutions that provides us with financial services. These organizations are in charge of running a payment system, making loans, accepting deposits, and assisting with investments. The Reserve Bank of India (RBI), commercial banks, cooperative banks, and development banks comprise India's banking system (development finance institutions). The core of India's financial system is these institutions, which serve as a meeting point for savers and investors. Private sector banks are working to earn maximum profit and the responsibility of the growth and the welfare is on Public Sector banks. Public sector banks are working to provide higher loaning amount, credit facility and investment opportunities to weaker section. In the present era, government is working to give the boost to public sector banks to maintain their strong financial position

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