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Indian Banking Industry: Agenda for Future

Analysis of Pre & Post e- Banking Period

ABSTRACT

The productivity and profitability is an vital criterion to evaluate the overall efficiency of a bank group. The present paper, on the basis of secondary data examines the comparative trends in employee productivity, Operational productivity & Profitability behaviour of five major bank groups in pre- and post- ebanking period & on the basis of results, highlights a new agenda for Indian banks which has a paramount significance in the new wave of IT & Global changes. The excellent mapping for the banks is a need of the hour. The paper concludes that average productivity & profitability is the highest in case of New Private Sector Banks and Foreign Banks in post- ebanking period. During this period, PSBs has made tremendous and remarkable improvement in many parameters of productivity. But still they are lagging behind in performance when we compare them with Foreign Banks and New Private Sector Banks. The paper offers some measures for IBI, particularly, for PSBs to improve their performance and suggests a new agenda for future.

1. INTRODUCTION

The changes after liberalization and globalization process initiated since 1991 has significant impact on the financial sector particularly on banking industry. The fast pace of changes have radically and perceptibility transformed the operational environment of the banking sector. The IT revolution is of entirely changing the way banking business is done and has considerably widened the range of products and increased the expected demand of the customer. The world is becoming a global market characterized by economic inter- dependence. The national boundaries have become less significant with the inter – linked effect of technology, information flows and foreign investment mobility.In the era of liberalization and globalization, the leading banks, therefore, quickly, shifted their focus to provide prompt, efficient customer service and offering variety of hi-tech banking products/services *(Vashisht , 2004, p.2)*. Economic Reforms in the real sectors of an economy fail to realize their full potential without a parallel reform in the financial sector. The financial sector refers to a general improvement in the functioning and efficiency of the financial system as a whole and the removal of impediments to its long term developments. As a result of financial sector reforms, there is a shift in the focus from quantitative to qualitative growth and Indian banking should be subjected to rigors or prudential norms of operations and competitive environment. The deregulation, the vital component of the financial sector reforms, has increased the overall profitability of the banking industry *(T.T. Ram Mohan, 2002, p. 397)*. The banking sector reforms aimed at enhancing the productivity, efficiency and competitiveness of the banking industry. The financial sector reforms seem to achieve: i) Improvement in the financial health ; ii) Improvement in the competitive capabilities; iii) Improving financial infrastructure relating to supervision, audit, technology and legal framework ; iv) Improvement of level of management competence; v) Suitable modifications in the policy framework, etc.

Of Late, the banking industry has undergone rapid changes, followed by a series of fundamental developments. Most significant among them is the advancement in

Information Technology as well as Communication system. This has changed the very concept of traditional banking activities and has been instrumental behind broadening the dissemination of financial information along with the costs of many financial activities. (*K.K. Bajaj,2000, p.15*) observed that information technology and communication networking systems have revolutionized the functioning of the bank groups. It has also increased the e-commerce in India. *Secondly,* increasing competition among a broad range of domestic and foreign institutions, in product marketing area, has become a prevalent practice. *Thirdly,* in line with the increase in overall economic activities, financial institutions too have modified themselves accordingly in all the spheres including customer services. Consequently, the institutional and systematic structure of the financial sector in general and the banking sector in particular has seen following changes:- Bank Deposits are being replaced by directly issued securities; Emergence of markets for risks in which exposures to specific market or credit risk can be transacted separately from the underlying financial assets ; A sea change has been brought about in the business profile of financial institutions ; Presently, the banking service has been provided by the other institutions, while the banks are entering into non-banking activities ; and Merger and takeovers are leading to transnational conglomerates, which offer traditional, commercial banking services as well as investment banking and insurance services.

In India there are five major bank groups namely, SBI & its Associate Banks, Nationalized Banks, Old Private Sector Banks, Foreign Banks, and New Private Sector Banks (*B. N. Anantha Swamy, 2001, 5)* concluded that the setting up of a new competitive environment has resulted in new challenges for the public sector banks to retain their share.

2. DISCUSSION AND RESULTS

The per employee productivity and operational productivity of various bank groups along with the industry is depicted in Table – 1, which shows the average productivity of various bank groups in pre- and post -ebanking era. G – I & II has shown tremendous and noteworthy improvement in all the parameters of productivity during post – ebanking period. This ratio declined due to the interest de-regulation during banking sector reforms period. In BUS/E, G – II, has edge over nationalized banks. In group G – III & G – IV per employee expenditure also declined due to use of cost effective technology. In G – IV in same parameters, this declined because these banks are on the expansion path. Foreign banks are much better during post – ebanking period due to profoundly use of technology in banking sector. Overall, in the banking industry, there is a increase in all the parameters of productivity. The BUS/E has increased to 0.67 lakhs in this period which shows the positive effect of new technology.

3. OVERALL AVERAGE PRODUCTIVITY

The Table 2 indicates the overall productivity of all bank groups irrespective of classification of time period. Almost in all the parameters of productivity, New Private Sector Banks & Foreign Banks have edge over their rivals. Average BUS/E is the highest in New Private Sector Banks i.e. Rs. 8.62 lakhs per employee whereas it was Rs. 8.52 lakhs in Foreign Banks but it was only Rs. 1.97 lakhs in nationalized banks. In D/E, C/E, BUS/E, S/E, NII/WF and S/WF, they are at number one. The ranking of overall average is given in Table 3. G – V banks are at the top in overall average. But old Private Sector banks are lagging behind, they got bottom rank in all the parameters of productivity.

Table 1

Average Extent of Change in Productivity Parameters in Post -ebanking Period(Percent)

Period	D/E	C/E	B/E	TEXP/E	TER/E	EST./E	S/E	II/WF	NII/WF	S/WF
G-I										
Pre- ebanking	.89	.42	1.131	.1	.11	.02	.03	9.18	1.15	2.81
Post- ebanking	1.39	.98	2.32	.12	.16	.03	.06	7.92	1.74	3.22
Extent of Change	.74	.47	1.18	.06	.07	.01	.03	-.82	.2	.14
G-II										
Pre- ebanking	.86	.42	1.28	.11	.11	.02	.03	8.69	1.41	2.82
Post- ebanking	1.6	.89	2.46	.17	.18	.03	.06	7.87	1.61	2.96
Extent of Change	.74	.47	1.18	.06	.07	.01	.03	-.82	.2	.14
G-III										
Pre- ebanking	1.13	.58	1.71	.136	.14	.02	.03	9.82	1.43	2.38
Post- ebanking	2.02	1.15	3.18	.2	.21	.03	.06	8.34	1.77	2.67
Extent of Change	.89	.57	1.47	-1.18	-.07	.01	.03	-1.48	.34	.29
G-IV										
Pre- ebanking	5.66	2.73	8.4	.63	.7	.02	.14	8.46	1.55	2.04
Post- ebanking	4.96	3.85	8.4	.57	.64	.03	.14	6.34	1.81	1.89
Extent of Change	-.7	1.1	0	-.06	-.06	.01	0	-1.96	.26	-.15
G-V										
Pre- ebanking	3.77	2.71	6.49	.71	.78	.06	.21	9.77	2.56	3.31
Post- ebanking	5.41	4.36	9.75	.77	.91	.08	.30	7.79	3.01	3.62
Extent of Change	1.64	1.64	3.26	.06	.13	.02	.09	-2.48	.45	.31
Indian Banking Industry										
Pre- ebanking	.99	.48	1.46	.12	.12	.02	.03	8.99	1.35	2.75
Post- ebanking	1.90	1.15	3.05	.19	.22	.03	.07	7.41	1.65	2.75
Extent of Change	.91	.67	1.59	.07	.1	.01	.04	-1.58	.3	0

Source: IBA Performance Highlights 1997-2006

Table 2

Ranking to Overall Average Productivity of Bank Groups (Per cent)

Bank Group	D/E	C/E	B/E	Texp/E	TER/E	Est./E	S/E	II/WF	NII/WF	S/WF
G – I	1.13	.77	1.97	.13	.14	.03	.04	8.40	1.52	3.02
G – II	1.32	.71	2.02	.11	.12	.04	.05	8.18	1.15	2.90
G – III	1.68	.94	2.63	.15	.19	.02	.05	8.90	1.64	2.56
G – IV	5.2	3.43	8.62	.6	.66	.03	.12	6.09	1.71	1.95
G – V	4.8	3.73	8.52	.48	.86	.08	.27	8.53	2.84	3.51

Source: Same as Table I

Table 3

Overall Group wise Ranking for Productivity parameters (Per cent)

Bank Group	R-1	R-2	R-3	R-4	R-5	Total Score	Overall Ranking
G – I	0	12	3	8	2	25	3
G – II	5	0	9	6	3	23	4
G – III	10	0	21	2	0	33	2
G – IV	10	20	0	0	3	33	2
G – V	25	12	0	4	0	41	1

Source: Same as Table I

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4. PRODUCTIVITY IN PRE AND POST E-BANKING PERIOD

In Table 4, average productivity of various bank groups has been depicted & during pre & post – ebanking period. G – IV & G – V bank groups are comparatively much better. But all the bank groups have shown positive results during post – ebanking period. BUS/E has increased to a large extent in all the groups but more & remarkable change is observed in New Private Sector Banks & Foreign Banks. It was only Rs. 6.49 lakhs in G – V in pre – ebanking period which has become Rs. 9.75 lakhs in post – ebanking period. Similarly, is the case of per employee total earnings, which increased to a large extent. It is a welcome step for the whole banking industry & here is a valuable contribution of new technology.

Overall ranking of productivity performance has been shown in Table – 5. It is evident from this table that Foreign Banks & NewPrivate Sector Banks are at the tope during both the periods. But in the post – ebanking period PSBs improved their performance. Along with other factors, technology contributed a lot to improve their productivity performance.

In table 6 overall ranks of productivity of various bank groups has shown. First three bank groups (G – I, G – II & G – III) improved their rank, they are gainer. But in case of G – IV & V, they are already enjoying ebanking facilities & that is why there is no change in their ranks.

5. PRODUCTIVITY AT BANKING INDUSTRY LEVEL

The performance of Indian Banking Industry during ebanking period has tremendous & remarkable progress. This is the result of banking sector reforms & IT. The BUS/E was only Rs.1.46 lakhs in the pre – ebanking period but it became Rs. 3.05 lakhs in post ebanking period. Similarly, per employee total earnings become almost double in the ebanking period

6. PROFITABILITY OF VARIOUS BANK GROUPS & BANK INDUSTRY

Normally the efficiency of the bank is analyzed on the basis of profitability. In all the bank groups, profitability has increased except in group IV which is on the expansion path.

Table 4

Ranking to Overall Average Productivity of Bank Groups in Pre and Post – ebanking period (Per cent)

Bank Group	D/E	C/E	B/E	Texp/E	TER/E	Est./E	S/E	II/WF	NII/WF	S/WF
					Pre – ebanking Period					
G – I	.89	.42	1.31	.1	.12	.02	.03	9.18	1.15	2.81
G – II	.86	.42	1.28	.11	.11	.02	.03	8.69	1.41	2.82
G – III	1.13	.58	1.71	1.31	.14	.12	.03	9.82	1.43	2.38
G – IV	5.66	2.73	8.40	.63	.70	.02	.14	8.46	1.55	2.04
G – V	3.77	2.71	6.49	.71	.78	.06	.21	9.77	2.56	3.31
					Post – ebanking Period					
G – I	1.39	.98	2.37	.17	.16	.03	.06	7.92	1.74	3.24
G – II	1.6	.89	2.46	.17	.18	.03	.06	7.87	1.61	2.96
G – III	2.02	1.15	3.18	.2	.21	.03	.06	3.34	1.77	2.67
G – IV	4.96	3.85	8.88	.57	.64	.03	.14	6.34	1.81	1.89
G – V	5.41	4.35	9.75	.77	.91	.08	.03	7.79	3.01	3.62

Source: Same as Table I

Journal of Commerce & Trade

Table 5
Overall Group wise Ranking for Productivity Parameters in different Bank Groups (Per cent)

Bank Group	R-1	R-2	R-3	R-4	R-5	Total Score	Overall Ranking
Pre – ebanking Period							
G – I	10	0	9	8	1	28	4
G – II	5	8	3	6	3	25	5
G – III	5	0	21	2	1	29	3
G – IV	20	12	3	0	2	37	2
G – V	20	20	0	2	0	42	1
Post – ebanking Period							
G – I	10	8	3	4	3	28	3
G – II	5	4	9	6	2	26	4
G – III	10	0	21	2	0	33	2
G – IV	5	24	0	2	2	33	2
G – V	35	4	0	2	1	42	1

Source: Same as Table I

Table 6
Gainer/Loser Bank Groups

Bank Group	Pre – ebanking Period (Overall Ranks)	Post – Banking Period (Overall Ranks)	Gainer/ Loser
G – I	4	3	+1
G – II	5	4	+1
G – III	3	2	+1
G – IV	2	2	0
G – V	1	1	0

Source: Derived from Table 5

Table 7
Banking Industry Productivity in Pre and Post – ebanking Period (Percent)

Period	D/E	C/E	B/E	Texp/E	TER/E	Est./E	S/E	II/WF	NII/WF	S/WF
Pre- ebanking	.99	.48	1.46	.12	.12	.02	.03	8.99	1.35	2.75
Post- ebanking	1.90	1.15	3.05	.19	.22	.03	.07	7.41	1.65	2.75

Source: Same as Table I

Table 8
Profitability of Bank Groups and Banking Industry

Bank Group	Pre – ebanking Period	Post – Banking Period	Gainer/ Loser
G – I	.38	.95	*
G – II	.62	.91	*
G – III	.66	.87	*
G – IV	.95	.93	*
G – V	.51	1.23	*
Banking Industry	.51	.92	*

Source: Same as Table I

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In nationalized banks, it has become almost three times more in ebanking period & in Foreign Banks it has become more than double times. In case of Indian Banking Industry, it is almost double time in post – ebanking period. It was only 0.51 per cent in pre – ebanking period but in post – ebanking period it has become 0.92 per cent. We may say that it is a forgotten achievement in post – ebanking period.

From the forgoing analysis we may conclude that in post – ebanking period all bank groups & Indian Banking Industry has made forever remember able achievements in various parameters of productivity & profitability. IT & some other parameters favourably affected the productivity and profitability of banks.

7. EMERGING ISSUES

Although liberal policies adopted by the PSBs but still there performance is below the expectations due to many reasons. The globalization & opening of WTO has awakened the PSBs to improve their structural & re-engineering the business process. The following issues are emerging in Indian banking industry, particularly for PSBs.

- wast branch Net – Work in rural sector
- excess staff in manual branches
- lack of Experts & trained employees particularly in PSBs
- lack of Spirit and Competency
- high pressure of Govt.
- lack of Infrastructure
- lack of effective Customer Relationship Management
- social Relationship Marketing
- low level of technology

Some PSBs has effectively tackled the above said issues and their profitability is quite high. But some banks like Punjab & Sind Bank, UCO Bank, Dena Bank etc. are still many challenges.

8. CHALLENGES

After the introduction of financial sector reforms in 1992, PSBs are facing numerous challenges like increasing competition from private and Foreign Banks, low productivity, high operational costs, pressure on spreads and NPA management due to tightening of prudential norms. Corporate clients are demanding loan at sub – PLR due to funds in the domestic as well as international markets at much cheaper rates. Many low productivity and profitability banks are facing the following challenges:

i) Human Resources Management in Banks - It is a very vital challenge for many PSBs to manage human resources in the era of IT & VRS in banks. The mismanagement & misappropriate human resources in banks has become a heavy burden for the banks. Per employee productivity is low & it also affects the per employee profits.

ii) High NPAs in PSBs - No doubt in the reforms, NPAs has declined but still they are very high in case of PSBs. They are adversely affecting the profitability of PSBs.

iii) Technology in Banks - PSBs have started computerization & use of IT in banks but only 20% transactions are done through e – channels where in case of New Private Sector Banks & Foreign Banks 70 per cent transactions are done through IT. There is 100 per cent computerization. On technology front our PSBs are lagging behind and due to this factor customers are shifting from these banks to New Private Sector Banks and Foreign Banks.

iv) Capital Structuring - There is a need to tap the capital market at fairly regular intervals to augment capital. PSBs are experiencing very poor response to collect the capital. There is a need win the market confidence in the fierce market competition era.

v) Merger & Acquisition - Many PSBs are unable to adopt the strategy of merger & acquisition to force the cut-throat market competition. But New Private Sector Banks & Foreign Banks have started merger & they are ready to face the global competition.

vi) Risk Management in Banks - Today, instead of banks managing the risk, risk is managing the banks. A clear understanding of the risk return profile of each activity of the bank is crucial to ensure the sundress & solvency of the organization. Skill up gradation and preparing a cadre for the risk organization is a major challenge for PSBs, particularly in the wake of high labour turnover.

vii) Actionable Planning - Lack of planning or ineffective planning is very geronane to PSBs. Though all the banks have established elaborate performance budgeting systems and created voluminous MIS, it does not meet the management's present day requirements. Basically, the entire planning process is still deposit and credit oriented, that too, without any cost & yield linkages.

viii) Non – Accountability in PSBs- In Public Sector Banks no one is responsible for losses, even high profitable branches are not rewarded. This is again a major reason for this poor performance & PSBs are facing this curable challenges.

ix) Corporate Governance in Banks- Deregulation & self-regulation go hand-in-hand. Good corporate governance also encompasses the area of compensation to the employees. But in PSBs, there is a lack of proper corporate governance. But on the other hand there is a good corporate governance in New Private Sector Banks & Foreign Banks & that is why their performance is better & employees are ready to work hard for the bank.

x) Autonomy - PSBs need operational freedom and autonomy. PSBs have not such type of autonomy as Private Sector Banks are enjoying in our country. The privatization of PSBs is the need of the hour. Already 12 partially privatized banks have improved their performance.

xi) Public Perception about the Bank - In the ultimate analysis it is the public perception that will decide the future of PSBS. The steps to improve internal operational efficiency & external systematic support are all very important but there is also a need to change the public perception about the PSBs.

9. STRATEGIES TO ENHANCE BANK PERFORMANCE

To make banking sector efficient & globally competitive, many new practical strategies are the need of the hour. Every bank should remain very conscious regarding their future. The following are some strategies/steps which can helpful to enhance the performance of the banks:

- Become more customer – centric, offering a wide range & products through multiple delivery channels.
- Become proficient in managing assets and liabilities according to risk and return.
- Invest in technology for better MIS, product development (including derivations), risk management, funds management and customer-service.
- Pay greater attention to profitability, including cost reduction and increasing fee-based income.
- The key to meeting these challenges lies in putting in place the necessary systems and skilled staff, training and equipping the work force and making all-out efforts to motivate and retain staff with expertise.
- The first step to making employees more productive, therefore, is to communicate the need for change throughout the organization and build commitment at all levels.
- Rewards, recognition and incentives to employees who perform will send the right signal, ensuring job satisfaction booting and employee morale and building employee commitment.

· To increase employee productivity, banks need to identify and outsource non-strategic work, leaving employees free to concentrate on core banking activities especially high value-added activities.

· There is no doubt that keeping employee skill updated enhances productivity. For imparting new skills, the training systems of banks need to be revamped so as to train maximum staff through training programmes at various locations including at their work place/branches. In fact, using technology like video conferencing, a video and audio tape, CD-ROMs etc. to train employees involve less time than classroom environment and is also cost effective.

· Raising the skill base at entry level is another step to ensure that people with the requisite skills get into banks.

· Employees need to be fit in body and mind so that they are at their productive best. To actively encourage physical fitness in employees banks can organize an on-going basis stress management programmes, yoga etc.

· A bank has good image in the eyes of public. The body language of staff members dealing with the customers, the speed of our responses to customer queries, our eagerness to serve the customers, public meetings, media coverage, regular announcements about new products or product upgrades in case of existing products are various ways in which banks can change the public psyche.

· Indian banking should continue to develop a strong institutional framework which can assimilate the best of banking practices – managerial and business practices.

· Indian Banking should work towards creating a few multinational banks in the true sense of global presence & the ability to compete globally.

· Indian banking should sharpen the dynamics of social banking with capabilities to support growth & development to core sectors of agriculture, infrastructure and employment.

10. A NEW AGENDA FOR THE FUTURE

In the era of LPG, the future of all banks look with full of competition. The survival of PSBs, in new millennium is difficult, if they will not modify their present policies & strategies. Each bank and group should think about – merger & acquisition, banking with technology, HRM, Autonomy, NPAs, accountability, profit planning, business re-engineering, capital re-structuring & CRM. Each bank should discuss the above said issues for their bright future. A fresh look is needed for:

- Globalization of Indian banks
- E-banking – feasibility and viability in rural and semi urban areas
- Merger of non-banking financial institutions in banks
- Fresh VRS for employees
- Further extension of retail activities of the banks
- Work-Culture in Banks, particularly in PSBs
- Full Autonomy to PSBs

11. CONCLUSION

The paper concludes that employee productivity, operational efficiency & profitability of all bank groups including Indian banking industry has increased remarkably. There is a tremendous increase in productivity & profitability of all New Private Sector Banks & Foreign Banks. Along with other factors, technology is a prime factor which is affecting performance of all bank groups. There is an urgent need of the hour to revamp the backward pushing policies of the bank groups. The banks with their sincere efforts can convert emerging challenges into opportunities & face the global competition.

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