

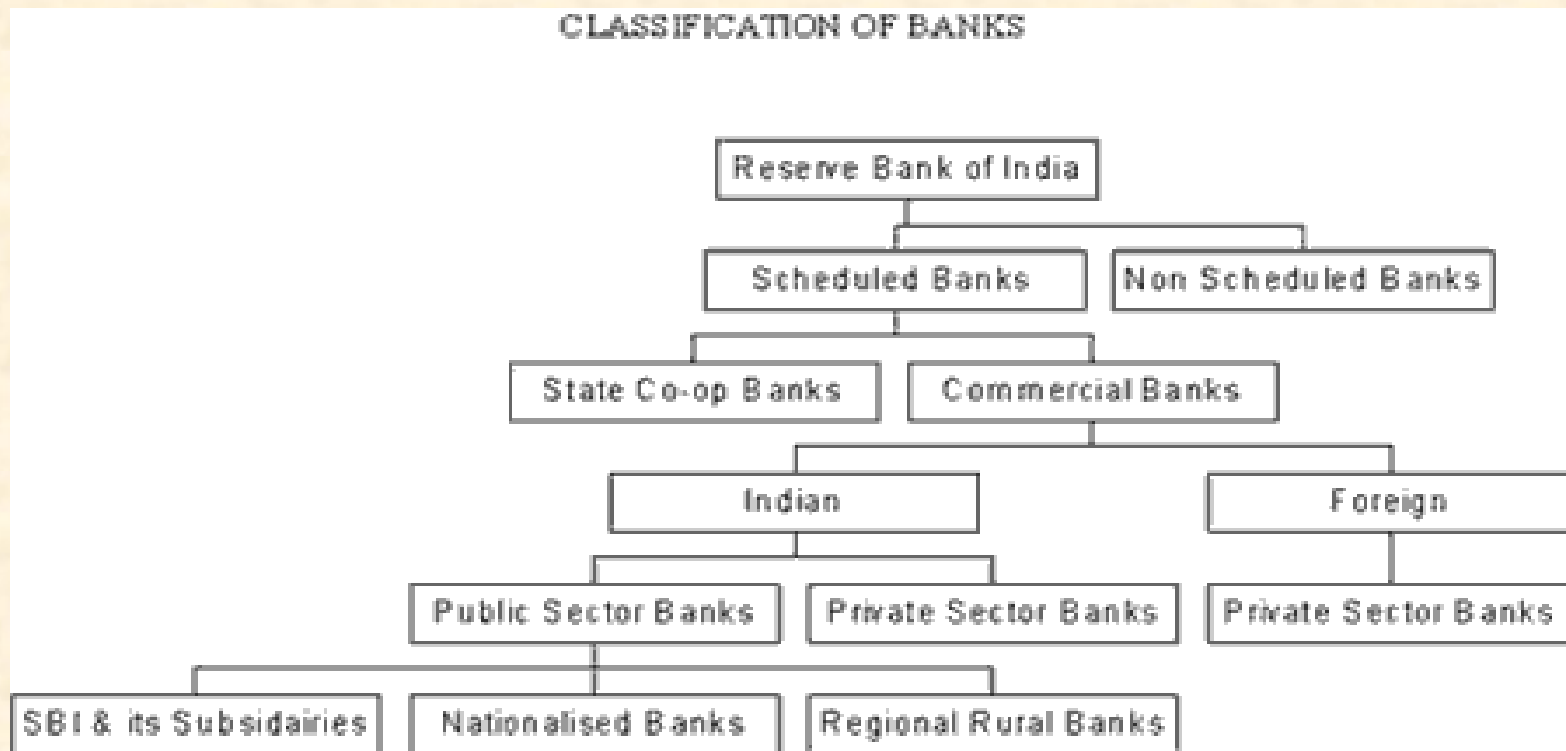
PREPLACEMENT TRAINING - 2011

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Evolution and progress of Indian banking

STRUCTURE OF BANKING IN INDIA

As at the end of March 2007: 20 nationalized banks, 8 SBI banks, 17 old private sector banks, 8 new private sector banks, 29 foreign banks, 96 regional rural banks.



Back drop of reforms since 1991

- In the beginning of 1990, the social banking goals set for the banking industry made most of the public sector banks unprofitable.
- Reasons for poor performance of banks
 - (1) high cash reserve ratios and statutory liquidity requirements
 - (2) low yields on government bonds (as compared with those on commercial advances);
 - (3) directed and concessional lending;
 - (4) administered interest rates; and
 - (5) lack of competition.

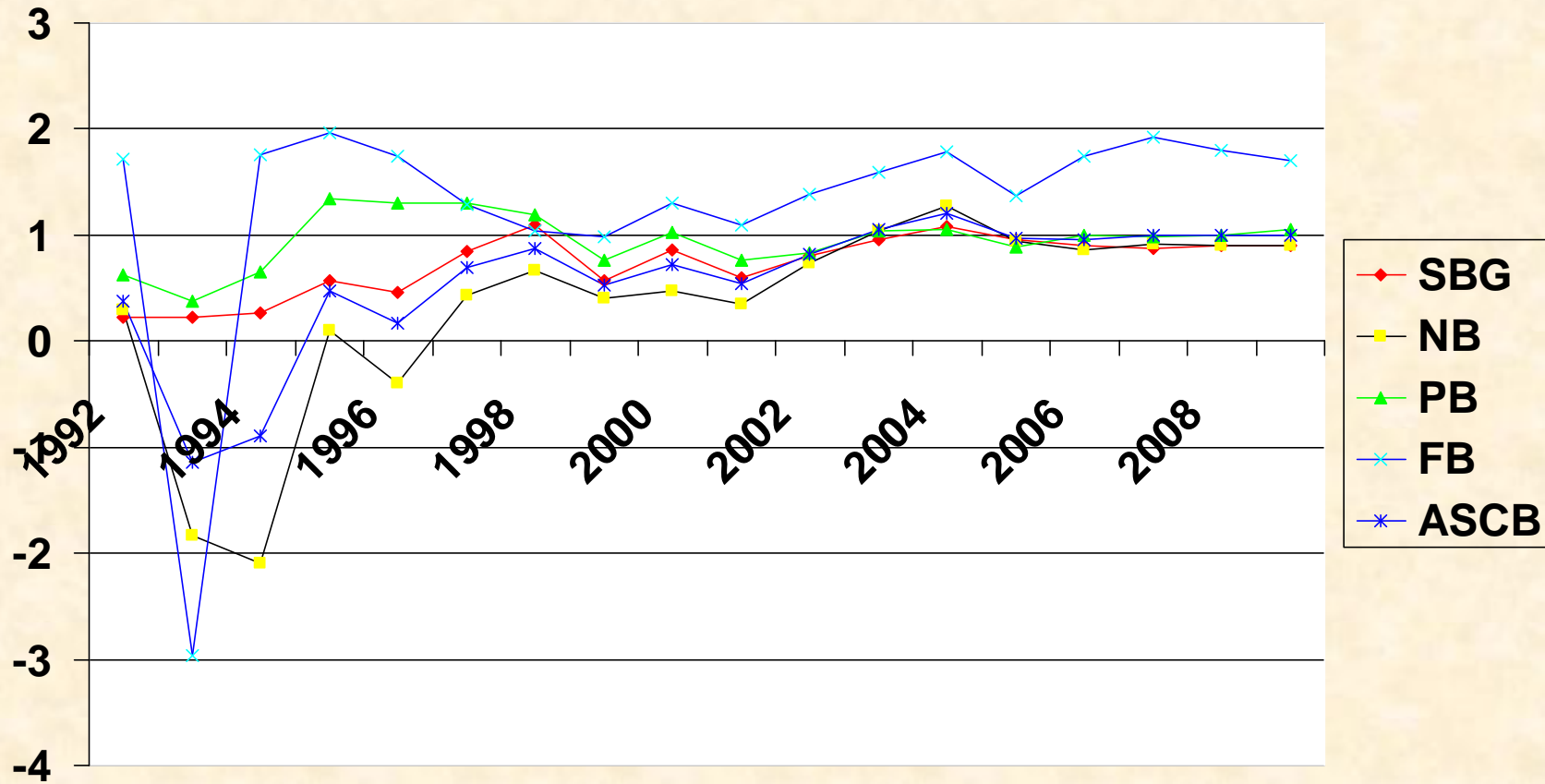
Summary of banking sector reforms since 1991 ...

- First, the CRR declined from 15% in 1991 to 5.0% in 2006. The SLR also declined, from 38.5% in 1991 to 25% in 1997, remaining at this level until today .
- Decline in the CRR and SLR increased banks flexibility in allocating credit and improved their profitability.
- Second, interest rates became flexible as to almost all term deposits rates and lending rates on advances in excess of Rs200,000.
- Interest rate deregulations have encouraged banks to improve their cost efficiency and diversify their business into non-traditional areas.

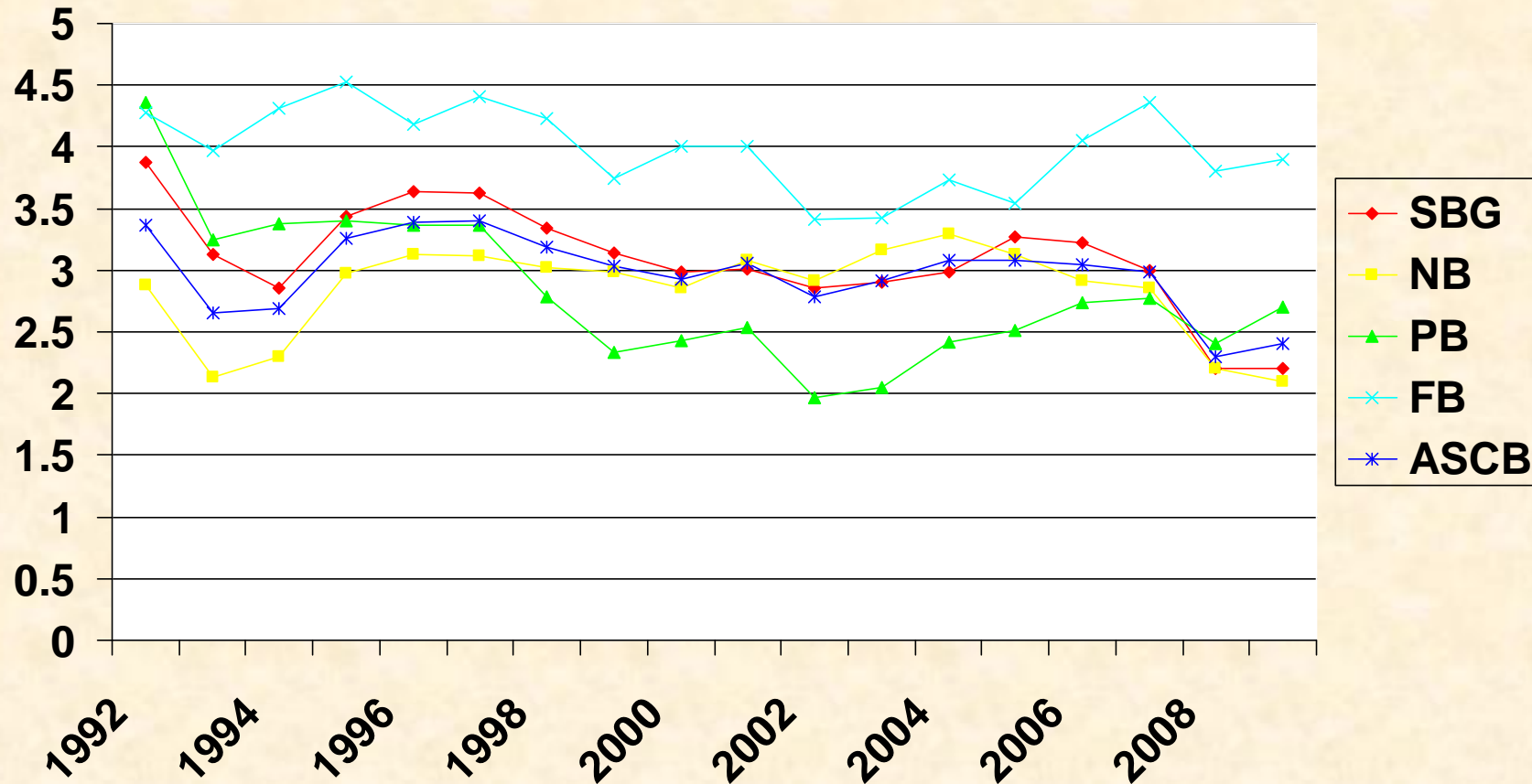
- Third, reform in priority sector lending mainly through the expansion of coverage and interest rate decontrols on advances in excess of Rs200,000 helped banks to mitigate the negative impact arising from such policy loans.
- Fourth, entry barriers were reduced for private sector and foreign banks. The entry of new banks has increased competition. Public sector banks were allowed to rationalize some branches, while branch licensing was removed.

- Fifth, various prudential norms and more appropriate accounting standards were introduced.
- Better accounting standards have revealed some of the true status of NPA problems of public sector banks.
- This enabled the Government to impose appropriate policies to deal with NPA problems.
- Sixth, the Government recapitalized nationalized banks and public sector banks have been partially privatized.

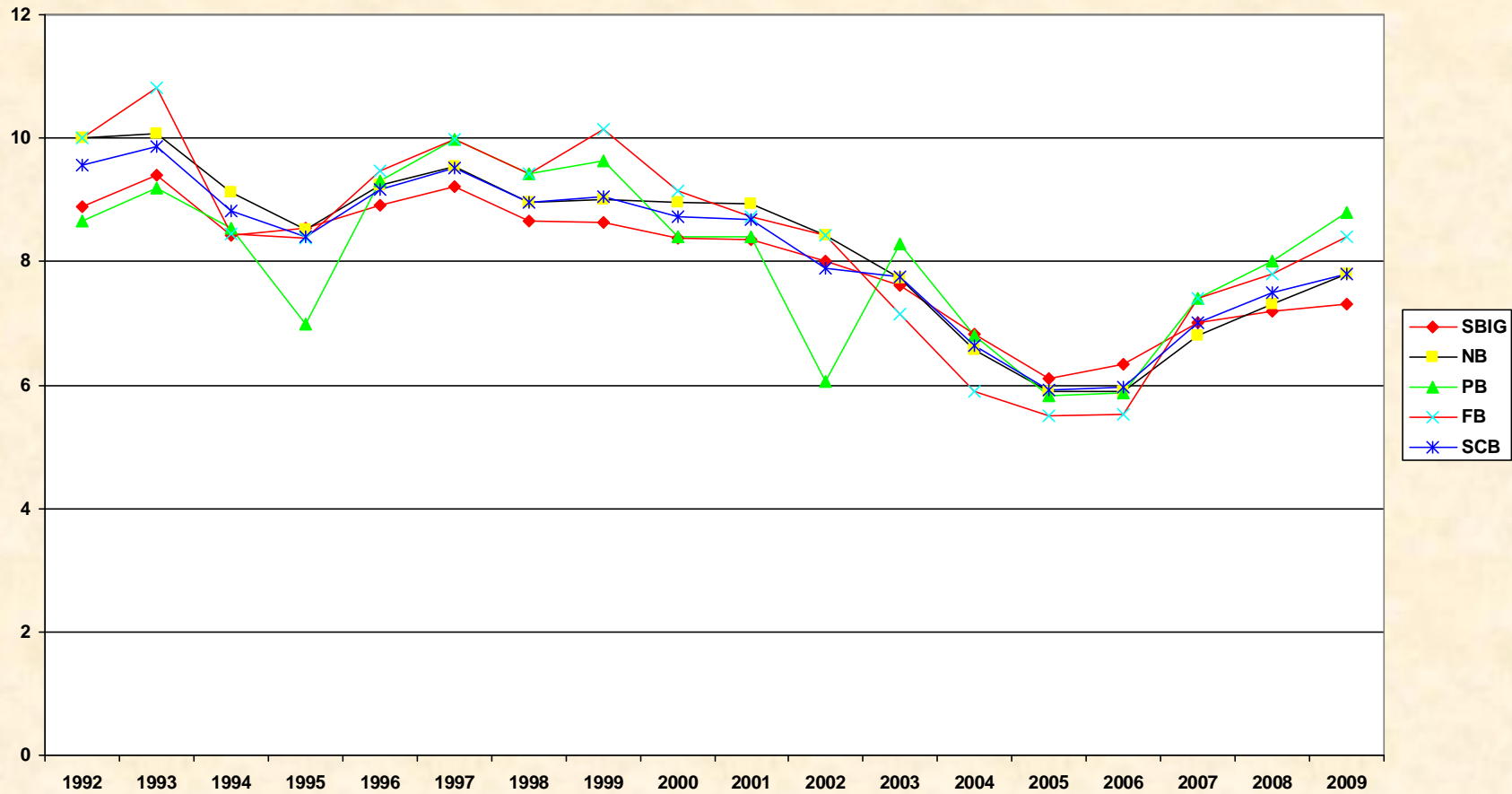
Return on Assets (ROA)



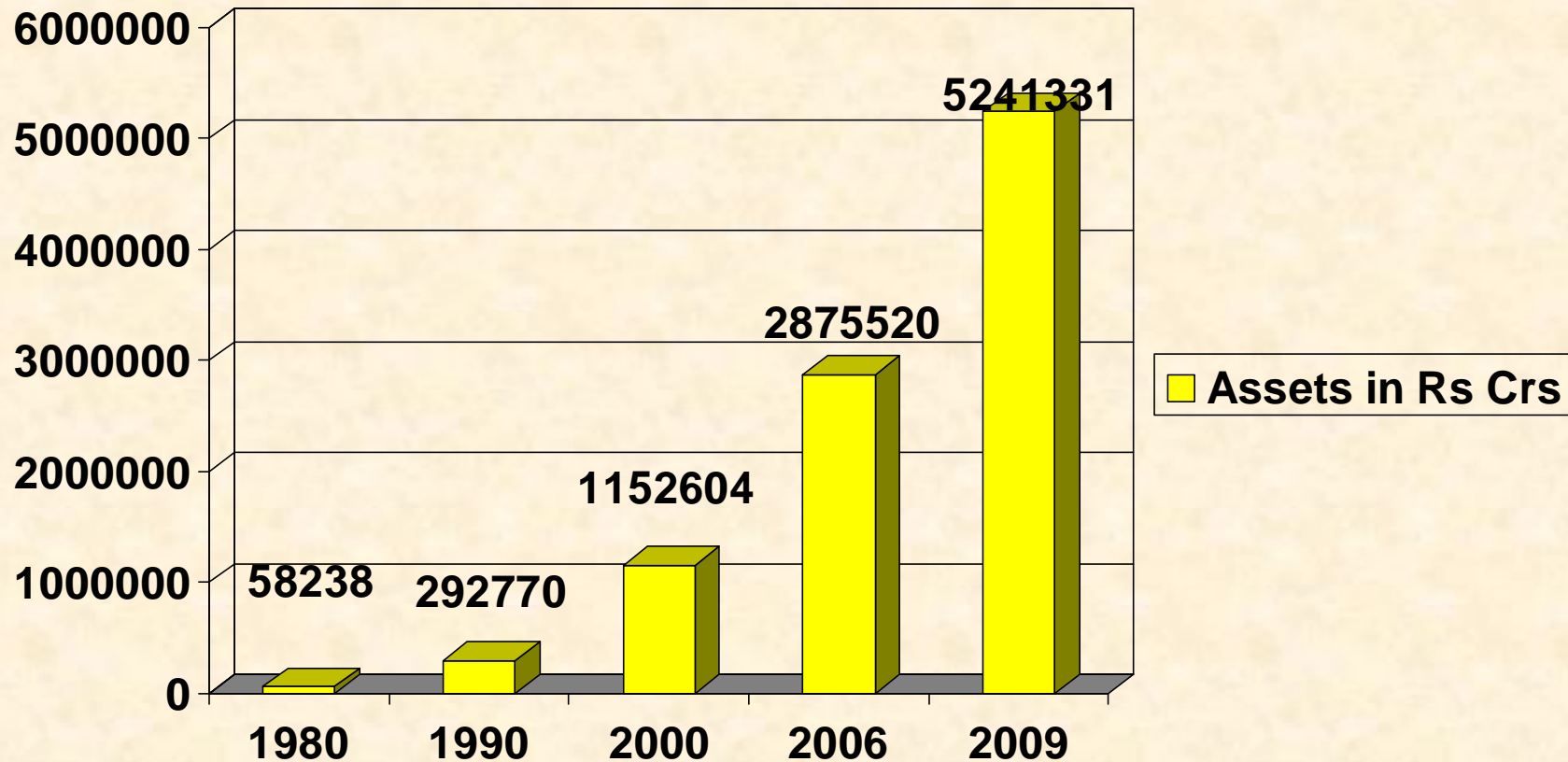
Net Interest Margin (NIM)



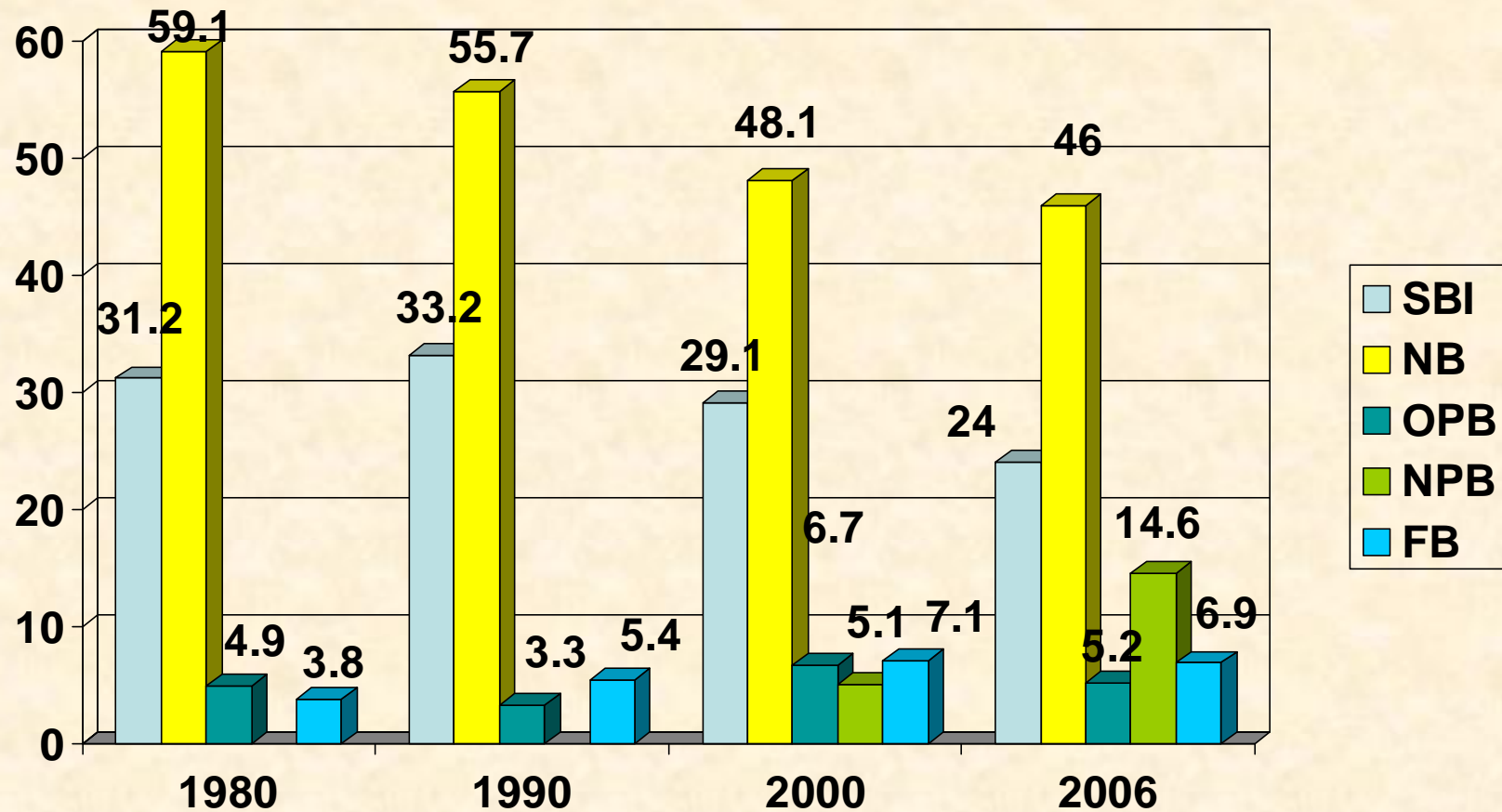
Operating Cost Ratio (OCR)



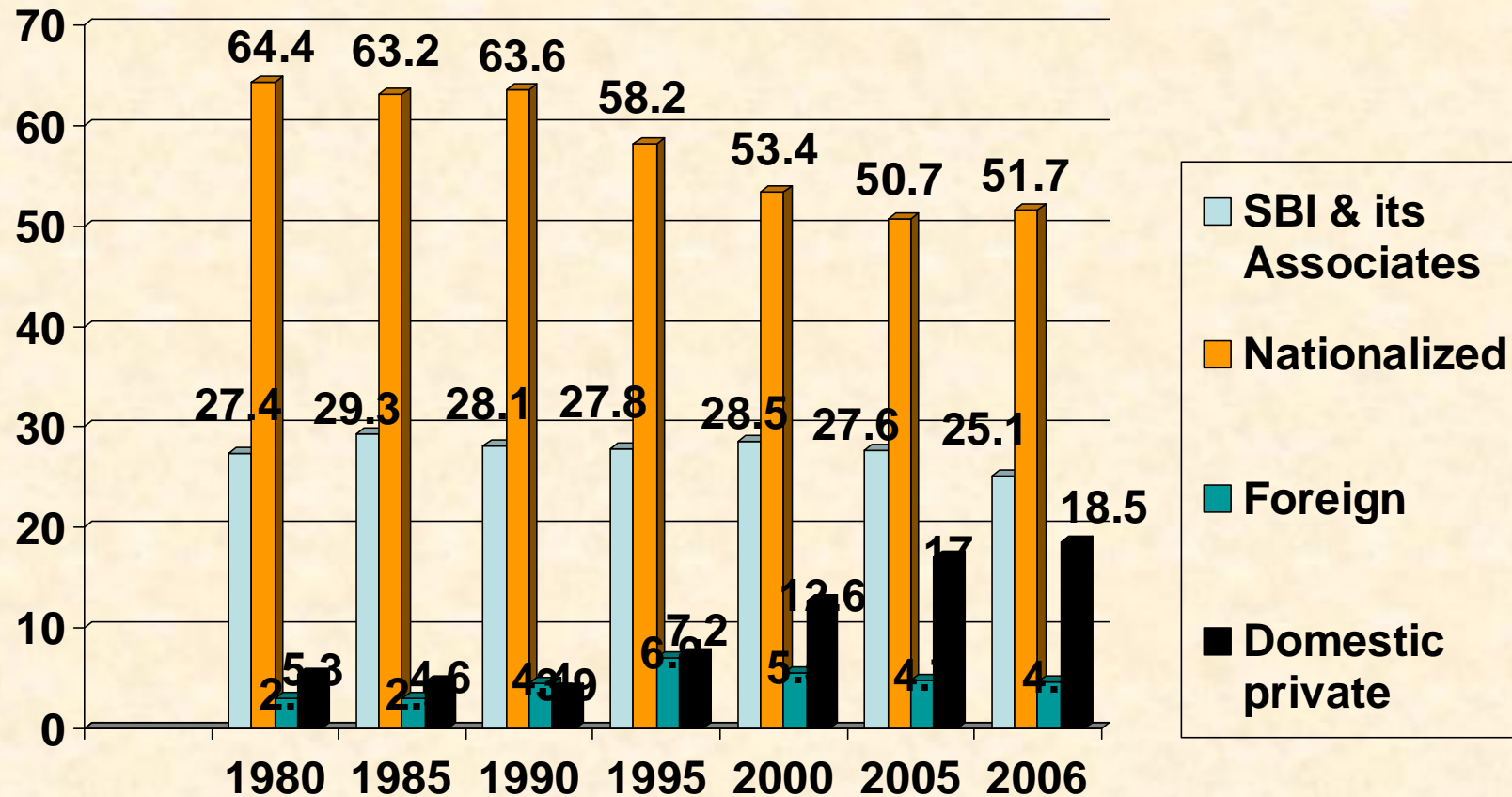
Growth of assets in Indian banking



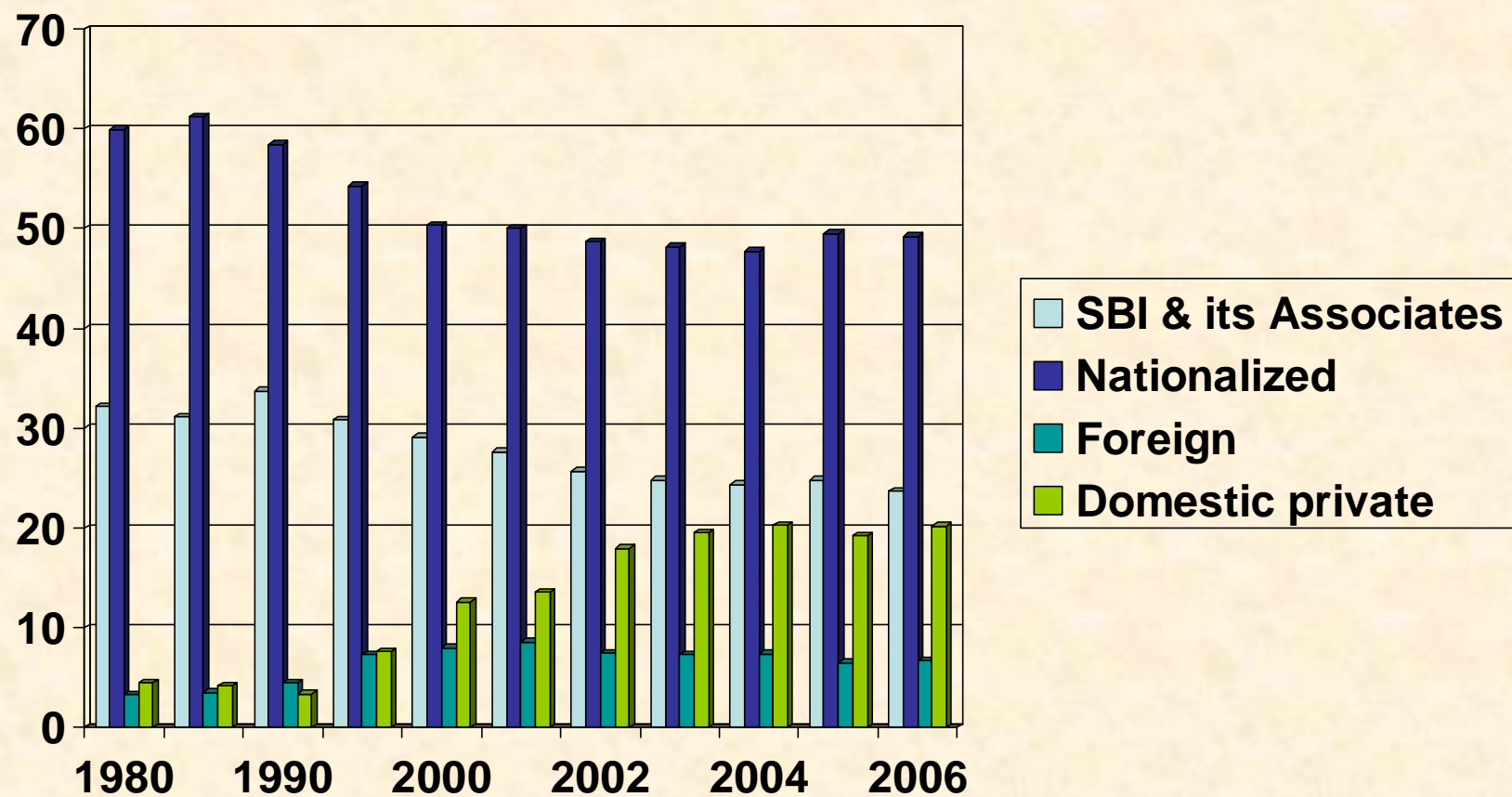
Asset Structure of Indian Commercial Banking System



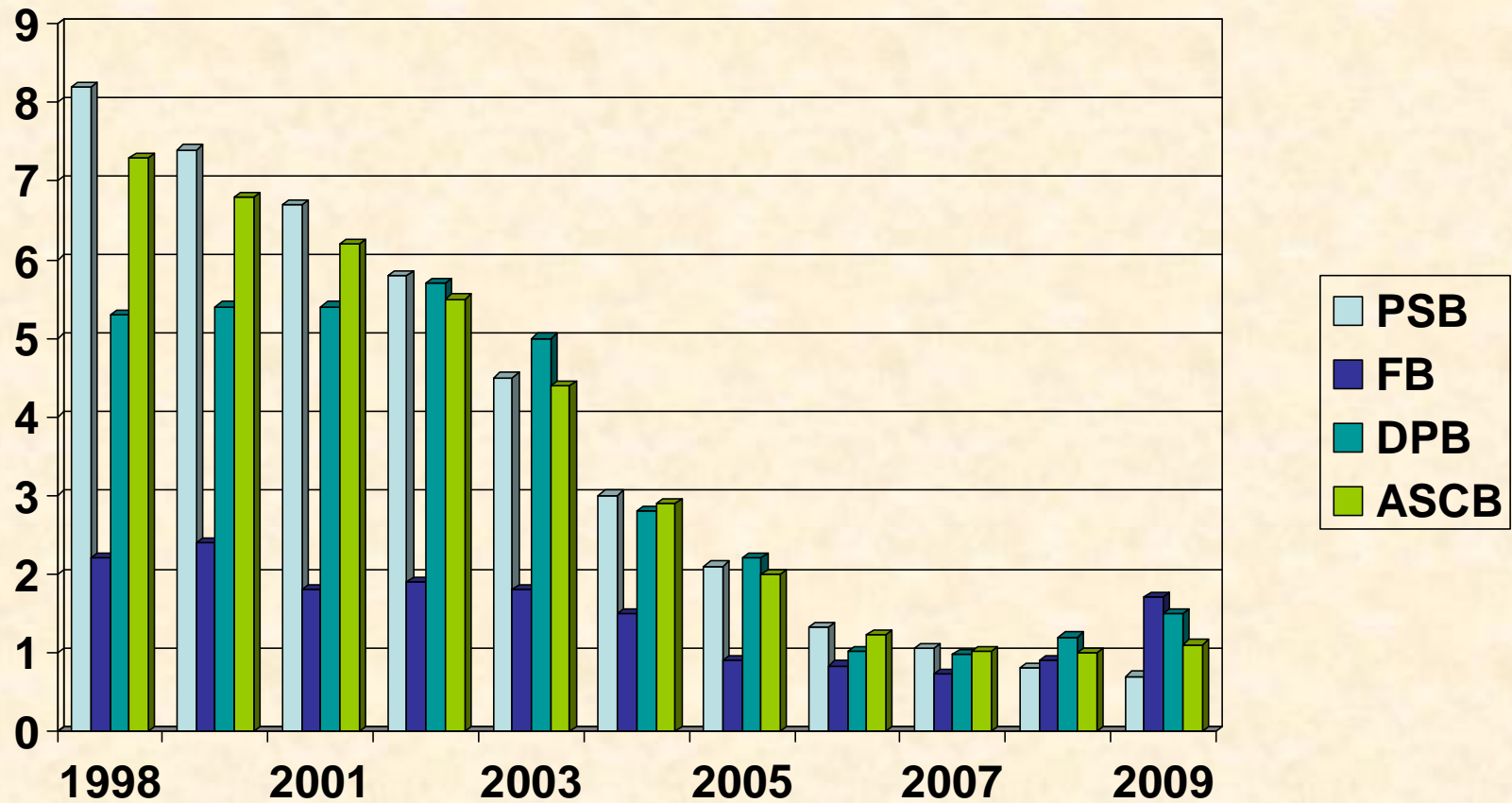
Bank group wise deposits of Scheduled Commercial Banks to Total Deposits in percentages



Bank group wise share of advances of scheduled Commercial banks to Total advances in percentages



NPA s of Scheduled Commercial Banks as percent of Net Advances (Bank Group-wise)



Distribution of Scheduled Commercial Banks by CRAR

Year	Bank Group	SBG	NB	OPB	NPB	FB	SCB
1995-1996	< 4	-	5	3	-	-	8
	4-8	-	3	3	-	3	9
	8-10	6	7	7	1	12	33
	>10	2	4	12	8	16	42
2008-09	< 4	-	-	-	-	-	-
	4-8	-	-	-	-	-	-
	8-10	-	1	-	-	-	1
	>10	7	19	15	7	30	78