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Banking Sector Reforms: Policy Implications and Fresh Outlook

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Abstract: Various reform measures introduced in India have indeed strengthened the Indian banking system in preparation for the fresh global challenges ahead. The present paper reviews the banking sector reforms policy, crucial issues and agenda for the future. On the basis of certain parameters, like productivity, profitability and NPAs' management, the paper concludes that foreign banks and new private sector banks are much better in performance as compared to our nationalized banks in the post-banking sector reforms period. The paper ends with the future agenda for the Indian banking industry, particularly for public sector banks to make them efficient and strong, to compete with the global banks.

Key Words: *Banking Sector Reforms, Rationale, Efficacy, Fresh Outlook*

1. Introduction

Indian banking has come a long way since India embarked on the reforms path about a decade-and-a-half ago in 1991-92. The reforms have unleashed tremendous change in the banking sector. Today, Indian banks are as technology-savvy as their counterparts in developed countries. On the networking front, branch banking – the traditional forte, coupled with ATM networks-the now imperative, have evolved to place the banking services on a new trajectory. The competitive forces have led to the emergence of Internet and mobile banking too, to let banks attract and retain customers.
The banking sector is also gearing up to embrace the Basel II regime, to benchmark with the global standards. Similarly, retail lending has emerged as another major opportunity for banks. All these factors are driving up competition, which in turn forcing banks to innovate. A slew of innovative products, which could not be imagined even a couple of years ago, are a reality now. Even mundane products like Saving Account, Personal Loans and Home Loans have become subjects of innovation.

The Narasimham Committee had proposed wide-ranging reforms for:

1. Improving the financial viability of the banks;
2. Improving the macroeconomic policy framework for banks;
3. Increasing their autonomy from government directions;
4. Allowing a greater entry to the private sector in banking;
5. Liberalizing the capital markets;
6. Improvement in the financial health and competitive position of the banks;
7. Furthering operational flexibility and competition among the financial institutions.

A number of reforms initiatives have been taken to remove or minimize the distortions impinging upon the efficient and profitable functioning of banks. These include the followings:

1. Reduction in SLR & CRR
2. Transparent guidelines or norms for entry and exit of private sector banks
3. Public sector banks have been allowed for direct access to capital markets
4. The regulated interest rates have been rationalized and simplified.
5. Branch licensing policy has been liberalized
6. A board for Financial Bank Supervision has been established to strengthen the supervisory system of the RBI.

These and other measures that have been taken would help the highly regulated and directed banking system to transform itself into one characterized by openness, competition, prudential and supervisory discipline. They will also make the new challenges particularly the growing demands from customers for high quality services. The objective of this is to study, describe and analyze the impact of banking sector reforms on the performance of commercial banks. On the basis of the impact of these reforms, to suggest third new modified reforms in the changing scenario.

2. Second Banking Sector Reforms (1998)

By mid-1997, the RBI reported that the reform process had started yielding results. But as observed by the NC in its second report, the improvement has arrested the deterioration of the system earlier but there is still a considerable distance to traverse. There has been improvement in several of the quantitative indices but there are many areas in which weaknesses still persist. These include customer service, technological up gradation, improvement in house keeping in terms of reconciliation of entries and balancing of books.
The second report was submitted on 23rd April, 1998, which sets the pace for the second generation of banking sector reforms. These include:

1. Merge strong banks, close weak banks unviable ones
2. Two or three banks with international orientation, 8 to 10 national banks and a large number of local banks
3. Increase Capital Adequacy to match enhanced banking risk
4. Rationalize branches and staff, review recruitment
5. De-politicize Bank Boards under RBI supervision
6. Integrate NBFCs activities with banks.

But many cities saw no purpose in setting up the second NC on banking sector reforms within six years and before the full implementation of the recommendations of the first report of 1991. Strictly speaking, there were no new recommendations made in the second report except two on:

1. Merger of strong units of banks
2. Adaptation of the "narrow banking" concept to rehabilitate the weak banks.

Various reform measures introduced in India have indeed strengthened the Indian banking system in preparation for the global challenges ahead.

Some of the reforms introduced and their impact on banks and furnished in the table (Indian banking on the reforms path)

After the brief introduction of theme, section II fixes the objectives, hypotheses and methodology along with the database. Section III reviews the related studies and section IV highlights the major issues faced by Indian banking sector. Section V analyses the results and discussions whereas section VII exhibits the future agenda for the third reforms and concludes the paper.

3. Review of Literature

Af-Tamini and Iabnoun (2006) compares service quality and bank performance between national and foreign banks in the UAE. Also the paper compares the importance of the dimensions of the instrument between the two sets of the banks. The financial performance is compared using the of a Whitney non-parametric test. The results of this study will serve as a benchmark for UAE bankers from the 800 questionnaires, 480 responses were received. Ballabh (2001) analyzed challenges in the post-banking sector reforms. With globalization and changes in technology, financial markets, world over, have become closely integrated. For the survival of the banks, they should adopt new policies/strategies according to the changing environment. Kaveri (2001) studied the non-performance assets of the various banks and suggested various strategies to reduce the extent of NPAs. In view of the steep rise in fresh NPA advances, credit should be strengthening. RBI should use some new policies/strategies to prevent NPAs. Kumar (2006) studied the bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. Internationally also efforts are being made to study causes of financial inclusion and designing strategies to ensure financial inclusion of the poor disadvantaged. The banks also need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibilities. Financial inclusion can emerge as commercial profitable business. Laxman, Deen and Badiger (2008) examined that banking industry is undergoing a paradigm shift in scope, content, structure, functions and governance. Their very characters, composition, contour and chemistry is changing. The information and communication technology revolution is radically and perceptibly changing the operational environment of the banks.

Muniappan (2002) studied paradigm shift in banks from a regulator point of view. He concluded the positive effect of banking sector reforms on the performance of banks. He suggested many effective measures to strengthen the Indian banking system. The reduction of NPAs, more provisions for standards of the banks, IT, sound capital bare are the positive measures for a paradigm shift. A regulatory change is required in the Indian banking system. Madhavankutty (2007) concludes the banking system in India has attained enough maturity and is ready to address prudential management practices as comprehensively as possible, which an integral part of policy is making. Banking in India is poised to enter yet another phase of reforms once the door opens further to foreign players in 2009. This requires further improvement in technology management, human resource management and the ability to foresee rapid changes in the financial landscape and adopt quickly. At present, there is a huge hiatus between the top management earnings of state owned banks and private, as well as foreign banks. Banks have to lay down sound risk management strategies and internal capital adequacy assessment committees to ensure that they do not diverge from the prudential requirements.

Nair (2006*)* discusses the future challenges of technology in banking. The author also point out how IT posses a bright future in rural banking, but is neglected as it is traditionally considered unviable in the rural segment. A successful bank has to be nimble and agile enough to respond to the new market paradigm and ineffectively controlling risks. Innovation will be the key extending the banking services to the untapped vast potential at the bottom of the pyramid. Singh (2003) analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer non-interest income sources. Singla (2008) examines that how financial management plays a crucial role industrialists growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place. Banks in better position to deal with and absorb the economic constant over a period of time.

Shroff (2007) gives a summary of how Indian banking system has evolved over the year. The paper discusses some issues face by these systems. The author also gives examples of comparable banking system for other countries and the lesson learnt. Indian banking is at the threshold of the paradigm shift. The application of technology and product innovations is bringing about structure change in the Indian banking system. Subbaroo (2007) concludes the Indian banking system has undergone transformation itself from domestic banking to international banking. However, the system requires a combination of new technologies, well regulated risk and credit appraisal, treasury management, product diversification, internal control, external regulations and professional as well as skilled human resource to achieve the heights of the international excellence to play its role critically in meeting the global challenge. This paper mainly concentrates on the major trends that change the banking industry world over, viz. consolidation of players through mergers and acquisitions globalization of players, development of new technology, universal banking and human resource in banking, profitability, rural banking and risk management. Banks will have to gear up to meet stringent prudential capital adequacy norms under Basel I and II, the free trade agreements. Banks will also have to cope with challenges posed by technological innovations in banking

Tiwari (2005*)* proposed a view that among the financial intermediaries banks and financial institutions are vital players in running the funding activities of the industries. In the bank based system the financial institutions dominate in the aggregate assets of the financial system while in market based system, equity market has largest share of assets in the aggregate assets of the financial system. Uppal and Kaur (2007) analysis the efficiency of all the bank groups in the post banking sector reforms era. Time period of study is related to second post banking sector reforms (1999-2000 to 2004-05). The paper concludes that the efficiency of all the bank groups has increased in the second post banking sector reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks. This paper also suggests some measures for the improvement of efficiency of Indian nationalized banks. The sample of the study in Indian banking industry which comprises five different ownership groups and the ratio method is used to calculate the efficiency of different bank groups. New private sector banks are compelling with foreign banks for continuous improvement in their performance. Vashisht (2004) studied recent global developments, which has transformed the environment in which commercial banks operate. Globalization has expanded economic interdependence and interaction of countries greatly. Under the regime of globalized environment, the financial performance of the commercial banks has changed and the commercial banks will face new challenge and also new opportunities in the coming years. Wahab (2001) has analyzed the performance of the commercial banks under reforms. He also highlighted the major issues need to be considered for further improvement. He concluded that reforms have produced favorable effects on performance of commercial banks in general but still there are some distortions like low priority sector advances, low profitability etc. that needs to be reformed again.

Major Issues being faced by the Indian banking industry

Although banking sector reforms have created a high competitive and dynamic environment for commercial banks but at the same time, these reforms have created glaring issues that should be tackled very carefully in the era of IT and WTO. The following are the major issues:

1. A widening gap in the productivity of various bank groups- it is a threat and also motivation for many bank groups.
2. Widening profitability gap among bank groups under study
3. High rate of NPAs
4. Fast shifting of potential customers from public sector banks to new private sector banks and foreign banks and hence created an issue of customer retention for public sector banks
5. Penetration of new private sector banks and foreign banks in semi-urban and rural areas have become survival factor for public sector banks
6. Poor quality of services by many public sector banks created issue of survival in such a competitive environment
7. Lack of autonomy in HRM policies, especially for public sector banks
8. Lack of accountability
9. Loss making branches
10. Technology gap among private and public sector banks
11. Merger and acquisition
12. Privatization of public sector banks
13. Increasing customer expectations and demands
14. Threat of non-banking institutions and non-financial companies
15. Intensified competition within the banking sector, competition from global banking giants.

Hypotheses

1. Profitability per employee is significantly correlated with the expenses per employee, business per employee.
2. Profitability per branch is significantly correlated with the expenses per branch, business per branch.
3. Profitability per employee and per branch is significantly correlated with the Net NPAs to Net Advances.

4. Methodology

Performance highlights of Public, Private and Foreign Banks (various issues, 1999-2000 to 2004-05), IBA, Mumbai the present study is concerned with Indian banking industry, which comprises five major bank groups

G-I Nationalized Banks (19)
G-II SBI & its Associates (8)
G-III Old Private Sector Banks (21)

G-IV New Private Sector Banks (8)
G-V Foreign Banks (31)

The regional rural banks (RRBs) are not included in this study. The performance of the commercial banks is analyzed in the period of post-second banking sector reforms i.e. 1998-99 to 2004-05.
The ratio method is used to calculate the productivity and profitability in terms of following parameters:

1. Per Employee Business
2. Per Branch Business
3. Per Employee Profitability
4. Per Branch Profitability
5. Per Employee Expenses

5. Results and Discussion

This paper contributes to the impact of banking sector reforms on the efficiency of banks in five different bank ownership groups in India during the post-second banking sector reforms period i.e. from 2000 to 2005. The analysis is based on ratio analysis. We used the following parameters to assess the efficiency of Indian bank group's vis-à-vis their counter parts.

Profitability per Employee: The profit per employee is in the range of Rs.0.41 to 2.32 Crores during the study period in G-I, similarly, it was between Rs.0.77 to 2.04 Crores in G-II, Rs.1.08 to 6.15 Crores in G-III and Rs.8.07 to 15.17 Crores in G-V. The G-I, II (public sector banks), even old private sector banks (G-III) have shown poor efficiency in terms of profit per employee as compared to new private sector banks and foreign banks. But our new private sector banks are competing with the foreign banks whose average performance is higher (18.14) as compared to foreign banks where average is only 11.68 in at the end of the study period.

This overall trend of increasing employee profitability may be attributed to the reduction in the number of employees following the launch of VRS by some of the Indian banks as well as higher profits by the banks. On an average, new private sector banks enjoy a higher increase in their profitability per employee, as compared with their counter part public sector banks. This may be attributed largely to the better technology that the new private sector banks employ, besides the advantage of carrying no historical baggage. ICICI and HDFC Banks in G-IV are dominating in profit per employee whereas Corporation Bank, OBC and PNB have the higher per employee profit in G-I whereas Punjab & Sindh Bank, UCO Bank and Dena Bank are responsible for lowering the profit per employee.

Table-1: Profitability per Employee - X_1

(Rs. In Crores)

Years	G-I	G-II	G-III	G-IV	G-V
1999-2000	0.44	0.85	1.08	7.75	8.07
2000-01	0.41	0.77	1.09	5.14	8.35
2001-02	0.65	1.21	1.89	4.56	12.12
2002-03	1.65	1.59	2.62	9.20	15.17
2003-04	2.32	2.00	5.09	5.20	14.89
2004-05	2.03	2.04	6.15	0.77	11.52
Average	1.26	1.42	2.98	5.44	11.68
S. D.	0.85	0.55	2.15	2.91	3.06
C.V. (%)	67.46	38.73	72.15	53.49	26.20

Source: Performance Highlights of 1999 to 2005, IBA, Mumbai

Profitability per Branch: For Indian public sector banks, the profits per branch were in the range of Rs.6.39 to 41.08 cr. during the study period. Among the Indian banks, new private sector banks displayed the highest profits per branch that lie between Rs.19.09 to 174.34 cr. But overall, foreign banks show excellent results in this parameter. The profitability per branch was in the range of Rs.623.56 to 1405.67 cr. On an inter-temporal basis, per branch profits have been increasing gradually in the Indian banking sector.

The growth in branch profits for Indian banks is attributable to the overall increase in profitability in the banking industry. In the case of the foreign peer group, profitability per branch shows a small increase over the period covered by this study. Hence, on an average, branch profitability of foreign banks is higher than that of G-I, II, III & IV. But, we can also say that G-IV is quite active and competing with foreign banks.

Table-2: Profitability per Branch - X_2 **(Rs. In Crores)**

Years	G-I	G-II	G-III	G-IV	G-V
1999-2000	7.43	19.87	14.30	123.70	623.56
2000-01	6.39	16.39	14.24	76.44	637.06
2001-02	14.80	25.37	24.17	83.91	897.33
2002-03	23.50	33.12	35.32	174.34	1032.39
2003-04	32.70	41.08	61.12	123.96	1029.27
2004-05	27.98	41.06	71.87	19.09	1405.67
Average	18.80	29.48	36.84	100.24	937.55
S. D.	10.92	10.61	24.49	52.96	292.25
C.V. (%)	58.19	35.99	66.48	52.83	31.17

Source: Performance Highlights of 1999 to 2005, IBA, Mumbai

Expenses per Employee: On average, Indian banks pays less as compared to foreign banks. Among Indian banks, new private sector banks pay on an average Rs.59.83 crores as compared to G-I, II & III who pay Rs.14.00, 14.43 & 18.07 crores respectively. The highest expenses per employee incurred by G-V (foreign banks) having Rs.79.84 crores per employee. G-IV & G-V pays higher and attractive salary to the efficient employees; they also provide better facilities and incentives to their employees. Due to this reason, per employee expenses are higher even return per employee is much higher as compared to their counterparts.

Table-3: Expenses per Employee - Y_1 **(Rs. In Crores)**

Years	G-I	G-II	G-III	G-IV	G-V
1999-2000	9.76	9.93	13.80	44.76	76.33
2000-01	12.22	12.83	15.35	55.26	85.26
2001-02	14.30	14.55	18.34	50.76	92.99
2002-03	15.20	15.62	21.33	100.51	26.17
2003-04	15.85	16.48	19.88	60.91	74.21
2004-05	16.68	17.19	19.73	46.79	64.10
Average	14.00	14.43	18.07	59.83	79.84
S. D.	2.58	2.69	2.91	20.77	10.34
C.V. (%)	18.43	18.64	16.10	34.72	12.95

Source: Performance Highlights of 1999 to 2005, IBA, Mumbai

Expenses per Branch: Among the Indian banks, average per branch expenses incurred by new private sector banks (G-IV) is at the tune of Rs.1169.06 crores as compared to G-I, II % III with branch expenses of Rs.205.34, 303.38 & 228.74 crores respectively. But branch expenses are the highest in G-V having amount of Rs.6364.72 crores for each branch.

Table-4: Expenses per Branch - Y_2 **(Rs. In Crores)**

Years	G-I	G-II	G-III	G-IV	G-V
1999-2000	166	232	182	747	5985
2000-01	189	274	200	820	6502
2001-02	206	304	234	934	6883
2002-03	217	326	288	1905	5866
2003-04	224	338	239	1450	5129
2004-05	230	346	230	1159	7824
Average	205.34	303.38	228.74	1169.06	6364.72
S. D.	23.99	43.43	36.52	441.82	931.51
C.V. (%)	11.68	14.32	15.97	37.80	14.64

Source: Performance Highlights of 1999 to 2005, IBA, Mumbai

Overall, we may conclude that among the Indian bank groups, new private sector banks had shown excellent growth in their efficiency and this group is competing with foreign banks in terms of many parameters of efficiency. Number of factors are contributing in their excellent efficiency performance like work culture, dedication, loyalty, technology, better facilities, new products/services, management, transparency etc.

Business per Employee: Since different employees in a bank contribute in different ways to the revenues and profits of a bank, it is difficult to come up with one universal metric that captures the business per employee accurately. The business per employee is quite low in G-I, II & III as compared to G-IV & V. The average per employee business is the highest in G-IV i.e. Rs.905.83 crores and G-V has an average of Rs.901.50 crores in the study period. Thus, deposits mobilization and advances per employee are higher in G-IV & V.
These bank groups are providing a better interest on deposits and lower interest on advances; their market policies are quite effective as compared to Indian public sector banks.

Table-5: Business per Employee - Y_3 **(Rs. In crores)**

Years	G-I	G-II	G-III	G-IV	G-V
1999-2000	126	122	171	938	699
2000-01	160	160	202	749	817
2001-02	197	182	227	906	958
2002-03	222	205	299	1094	1014
2003-04	256	302	317	873	981
2004-05	308	379	355	875	940
Average	211.50	223.50	261.83	905.83	901.50
S. D.	65.69	93.83	72.32	112.31	119.83
C.V. (%)	31.06	41.98	27.62	12.40	13.29

Source: Performance Highlights of 1999 to 2005, IBA, Mumbai

Business per Branch: On an average, the per branch business is lower in G-I, II & III as compared to that of G-IV & V. it was only Rs.2704.17 crores in G-I whereas it was Rs.17659.17 crores in G-IV and Rs.73263.17 crores in G-V. In this parameter foreign banks have lion's share among all the Indian bank groups.
Hence, the new private sector banks in India have led the way in this regard, because of the better use of technology and other infrastructure.

Table 6: Business per Branch - X_4 **(Rs. In Crores)**

Years	G-I	G-II	G-III	G-IV	G-V
1999-2000	2152	2860	2255	14989	54800
2000-01	2478	3411	2633	11131	62272
2001-02	2446	3793	2904	16673	70929
2002-03	1295	4260	4035	20733	69025
2003-04	3612	6196	3891	20776	67787
2004-05	4242	7454	4149	21656	114768
Average	2704.17	4662.17	3311.00	17659.17	73263.17
S. D.	1058.07	1782.03	812.63	4144.05	21155.42
C.V. (%)	39.13	38.22	24.54	23.47	28.88

Source: Performance Highlights of 1999 to 2005, IBA, Mumbai

High Rate of NPAs: The problem of NPAs is a matter of serious concern. It is a very serious problem for our public sector banks. The report of the RBI on NPAs says that reducing NPAs should be treated as a "national priority". The average rate of NPAs is very high i.e. 6.03 pc in old private sector banks where public sector banks are in succession with 5.29 pc and 4.62 pc in G-I & II respectively, and for this internal and external factors are responsible.

Table-7: Net NPAs to Net Advances - Y_5 **(Percent)**

Years	G-I	G-II	G-III	G-IV	G-V
1999-2000	7.80	6.77	7.06	2.88	2.41
2000-01	7.01	6.27	7.30	3.09	1.82
2001-02	6.01	5.45	7.13	4.94	1.89
2002-03	4.77	4.12	5.54	4.63	1.76
2003-04	3.48	3.06	5.38	1.96	1.02
2004-05	2.65	2.05	3.76	1.69	1.03
Average	5.29	4.62	6.03	3.20	1.66
S. D.	2.01	1.86	1.39	1.34	0.54
C.V. (%)	37.99	40.26	23.05	41.88	32.53

Source: Performance Highlights of 1999 to 2005, IBA, Mumbai

Internal factors such as business failure, inefficient management strained labor relations, inappropriate technology and product obsolescence have also contributed to the rise in NPAs whereas external factors like raw material shortage, price escalation, power shortage, industrial recession, excess capacities and the natural calamities like foods, accidents which leads waiving heavy loans contributed to the rise in NPAs on the books of banks.

Co-efficient of Correlation: Co-efficient of correlation is positive and highly significant at 5 pc significant level among per employee profitability (X_1) and expenses (Y_1) and per branch profitability (X_2) and expenses (Y_2) of G-I and G-II. Correlation among per employee profitability (X_1) and business (Y_3) is positive and significant only in G-II (0.92) at 1 pc significant level and G-II (0.84) at 5 pc significant level, whereas the correlation among per branch profitability (X_2) and business (Y_4) is positive and significant only in G-I at 5 pc significant level and in G-II, III & V at 1 pc significant level. In other cases it is insignificant but positive.
Correlation between per employee profitability and NPAs is highly significant but negative in G-I, II & III and same in the case of correlation between per branch profitability and NPAs whereas it is insignificant but positive in G-IV.

Table-8: Co-efficient of Correlation

Variables	G-I	G-II	G-III	G-IV	G-V
X_1 & Y_1	0.85*	0.90*	0.67	0.62	0.04
X_2 & Y_2	0.89*	0.89*	0.42	0.55	0.42
X_1 & Y_3	0.54	0.92**	0.84*	0.19	0.19
X_2 & Y_4	0.89*	0.93**	0.93**	0.61	0.92**
X_1 & Y_5	-0.95**	-0.98**	-0.93**	0.54	-0.57
X_2 & Y_5	-0.95**	-0.99**	-0.94**	0.47	-0.81

Note: * correlation co-efficient is significant at 0.05 level (2-tailed)
** correlation co-efficient is significant at 0.01 level (2-tailed)

Future Agenda

A national priority status will have to be accorded to the financial sector reforms to strengthen the foundations of the Indian financial system and gear it to meet the challenges of globalization. The on-going reforms process and the agenda for the future reforms have to focus on making the financial system viable and efficient so that it could contribute to enhancing the competitiveness of the real economy and face the challenges of an increasingly integrated global financial architecture. The future agenda would certainly have address to the following:

6. Policies and strategies to reduce high level of NPAs: High level of NPAs is the most crucial challenge faced by the Indian banking sector. To tackle this problem, different options are available which would include:

1. Reducing the existing NPAs and curbing their further build up
2. Exploring avenues of recovering NPAs such as Lok Adalats for recovering smaller loans

3. Applying and enforcing the Revenue Recovery, which is an expeditious process of adjudicating claims.
4. Strengthening the provisions of the Debt Recovery Act for the recovery of dues of banks and FDIs.
5. Increasing the number of Debt Recovery Tribunals
6. Complete ban on generalized loan waivers

Competition from Global Majors: Another challenge is the very large number of un-remunerative branches, low productivity, overstaff and the archaic methods of operations. All these factors have affected the productivity and profitability of public sector banks. Global competition has become threat and motivation for Indian banks. Government should have the way for universal banking with a three-tier structure for the banking system as recommended by the committee (1991) and reiterated in its second report (1998).

Entry of New Private Sector Banks: The government should not put such a number of restrictions for the entry of new private sector banks in Indian banking industry because these banks are generating the element of competition which further improved the quality of services and hence gain importance in foreign markets.

Further Rationalization of Interest Rates: There is a need for further rationalization of interest rates and in particular it is desirable to evolve a Reserve Reference Rate of interest, which could be the basis for determining the entire gamut of interest rates. While these measures need to be preserved, there is need for a cautious step-by-step approach rather than a rapid deregulation of all interest rates in the system. The experience in a number of countries has been that too rapid a deregulation of interest rates can be destabilizing – something which the Indian banking system can ill-afford to do at this stage.

Reviewing the Targets for Priority Sector Lending: At present, it is imperative to review the items included in priority sector and targets of this sector. It is imperative to devise a rural credit delivery system which will net require large subvention.

Quality of Services: Each and every bank should provide efficient quality of services to win the trust of the customers particularly our public sector banks. E-delivery channels should be introduced in a very effective manner.

Autonomy in HRM: Public sector banks should be given full autonomy in HRM related issues as it is given in private and foreign banks. This will help to face the global competition and increase their efficiency to provide better services to their customers.

Strict Rules for Accountability: RBI should make strict rules for the accountability which will help to increase the performance of the employees and hence of branches too as employees with lower performance can be pointed out and that of with good performance can be awarded.

Globalization of Indian Banks: In the era of IT and WTO, Indian banks should also make their place/image in the foreign countries. They should provide the products/services in foreign countries as per their demands and expectations.

7. Conclusion

From the above discussion, it is vivid that to have a cohesive and strong financial system capable and responding to the changed economy, it becomes important to have a dynamic, autonomous and profitable financial system. At present, Indian banking system needs a fresh outlook and keeping in mind the various distortions, government should introduce third banking sector reforms. Indian banking sector industry also should learn many lessons from the global financial crisis. Public sector banks should provide qualitative services with the help of information technology particularly to the rural masses. RBI should give direction and instructions to all the scheduled commercial banks to control the unproductive credit creation.

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