MR. DEVDATTA DHONDIRAM SHETE

ASST.PROFESSOR- AGASTI ARTS, COMMERCE AND

D.R. SCIENCE COLLEGE AKOLE, TAL-AKOLE.

E-MAIL-prof.shete2013@gmail.com

CONTACT NO-965700327

Implications of Financial Sector Reforms on Banking Sector in India.

Abstract: After 1991, the globalisation era started all over the world along with liberalisation and privatisation in India. It has drastically brought changes in the economies of countries all over the world. In India, financial sector reforms took place causing effects on the whole banking sector. Financial sector reforms refer to the reforms in the banking system and capital market. Financial sector is a backbone of economy of any country. It plays very crucial role in mobilisation and allocation of resources the ingredients of financial sector i.e. Banks, money market, capital market, financial institutions etc. Instruments and markets which mobilize resources from the surplus sector and channelise the same to different needy people.

The main objectives of financial reforms were to create an efficient, competitive and greater stable financial sector which could then contribute in greater measure to stimulate growth. Narasimham committee {1991} analysed the weaknesses of the banking sector and found that banking system was both overregulated & under regulated. Prior to 1991 system of multiple regulated interest rates prevailed. Besides, a large proportion of bank funds was preempted by Government through high Statutory Liquidity Ratio (SLR) and a high Cash Reserve Ratio (CRR). As a result, there was a decrease in resources of the banks to provide loans to the private sector for investment. This pre-emption of bank funds by Government weakened the financial health of the banking system and forced banks to charge high interest rates on their advances to the private sector to meet their needs of credit for investment purposes. Further, the lack of transparency in the accounting practice of the banks and non-application of international norms by the banks meant that their balance sheets did not reflect their underlying financial position.

This was prominently revealed by 1992 scarcity scam triggered by Harshad Mehta. In this situation the quality of investment portfolio of the banks deteriorated and culture of' non-recovery' developed in the public sector banks which led to a severe problem of non-performing assets (NPA) and low profitability of banks. Financial sector reforms aim at removing all these weaknesses of the financial system. Under these reforms, attempts have been made to make the Indian financial system more viable, operationally efficient, and more responsive and improve their allocative efficiency. Financial reforms have been undertaken in all the three segments of the financial system, namely banking, capital market and Government securities market. The prevalent recommendations suggested by the Narasimham Committee are as under-

01. The RBI has issued guidelines priority sector certificates (PSLCS):
According to which bank can issue four different kinds of certificates to remove the shortfalls, marginal and small farmers, micro enterprises lending on priority bases.

02. Reduction in statutory liquidity Ratio (SLR) and cash reserve ratio (CRR):
This is another important financial reform has been done. Reduction in SLR and CRR resulted in availability of more bank credit to the industry, trade and agriculture. The SLR was cut down from 39% of deposits with the bank to 25 %. Similarly CRR which was 15% was reduced phase wise to 4.5% in June 2003. This reduction in CRR made possible in reduction of budget depict of the government. Due to Reduction in fiscal deficit enabled shift to payment of market related rates of interest on government security.

03. End of Administered Interest Rate regime:
It was Basic weakness of Indian financial system that interest rate where administered by the RBI/governments. In the case of commercial banks both deposit and lending rates were regulated by RBI.
04. It is recommended that for raising up capital adequacy norms for banks in order to determine the interest strength of banks and their risk absorption capacity accordingly 9% rate was prescribed w.e.f. March, 2000.
05. To enhance shareholders value a greater autonomy to the board to be given. Now there are clearly norms for income recognition assets classification and provisions. These norms are made more prudent, objective, uniform, transparent etc. which help for meaningful comparison,
06. Convertibility of rupee on current A/C made allowed and convertibility partially allowed on capital account. It is practically allowed linkages for inflows and out flows of capital with ramification on exchange rate management and domestic liquidity. It was also recommended for merger for strong banks and 3 or 4 large banks (including S.B.I.) which must be of international character.

07.The securitization ordinance (June 2000) Promulgated in order to recover NPA’s by taking possession of security without interaction of the court .It is for creation of fear among the defaulters and make them more accountable and responsible for payment of dues

08.Now banks dispose certain key parameter like CRAR , percentage of NPA , provision for NPAS net value of investment profit per employee ,return on capital interest, income etc. Such disclosure will help accurately to assess and evaluate the performance of bank in terms of efficiency, productivity and profitability.

09. RBI has issued guide line for priority sector lending certificates in order to remove short fall in agricultural marginal and small farmers, micro enterprises lending on priority basis.

10. It was also suggested to review and amend the provisions of RBI Act, Banking regulation ACT,1969 so as to bring them in line with the current need of banking industry.

11. In order to improve mechanism of monitory policy and developing further the money and debt market, it has been decided to develop the repos market with appropriate regulatory safeguards .The institution like UTI,LIC,IDBI and other non-banking participants are allowed to access short term liquidity thorough repos.

12. Uniform approach to HRD technology etc. are adopted in banking field to match with economic reform process in other sectors of economy.

13. The prudential norms accounting and disclosure up-graded to global standards. The financial soundness and suspension practices followed for effective banking supervision. It made banking system resilient to global shocks.

14. Modern payment system adopted which include smart/ credit cards, ATMS, NEFT/RTGS, E-CLEARING. e-banking, core banking etc. It has brought efficiency and speed along with cost reduction in banking operation. Due to this Indian bank services became competitive globally.

It has to be noted that RBI has already initiated steps to implement number of measurers recommended by the committee. The main implications and reforms which were observed in Indian Banking after the adoption of financial reforms were as follows…..

01. Computerisation in Banking:

Liberalization all over the world and its application throughout the India has affected all reactors of economy drastically and the center of all activities is the banking system. Due to LPG model (Liberalization, Private and Globalization) and the need felt to banking industries to become more efficient and competitive to face to foreign and other bank for survival and development. In such changing circumstances, to emerging needs the operation needed immediate automation to provide services comparable to best international standards and match technology in bank operation.

Four objectives of computerization in banking are to improve -

a. Costumer services
b. House keeping
c. Decision making
d. Productivity and profitability

The use of computerisation and IT drastically affected on banking activities for e.g. use of ATM, credit cards, debit cards, e-banking, mobile banking, e-payment, online banking etc. In the field of all banking operation through revolutionary charges resulting into efficiency perfection profitability and facing competition successfully in this field. Recent development in banking sector in India are internet SWIFT (society for worldwide bank financial telecommunication) e-clearing, cash dispensers, bank net etc. resulting in reduction in cost, profitability, efficiency, managing the spread and sustain the operating and retaining the current market these in the industries improving the same it enable the banks to services and development and banking business at global level successfully.

02. Banks’ customer centric, proactive and dynamic approach:

The bank are now adopting a customer centric approach. Under this approach, the customers are the main stakeholders of the bank, they expect prompt, economic satisfactory and easy services from bank. In the era of globalisation and competition in the banking. It is utmost essential to retain customers and twin these to loyal customer for the survival and development. Therefore, this is the need of these days as how to adopt productive and dynamic approach for customer services in order to fulfill customer expectation for quick economical and satisfactory services. Computerisation, internet, etc. are now invariably used by banks e.g. debit and credit cards , ATM, mobile banking, e banking, quick loans facilities etc.

Furthermore, now the banks have to be proactive and dynamic for the customers and accordingly policies to be prepared. They have to develop customer relationship management. Now Indian banks have expanded to cover large geographic and functional areas to meet their developmental needs. They have been managing the world information about customers, their profiles, location, etc. They also maintain close relationship with their customers and keeping good knowledge of their needs, requirements and cash positions. In addition banks are paying special attention at strong in-house research, market intelligence in order to face the further challenges of competition of business. Banks are attempting to provide very convenient, economical, quick and satisfactory services.

It is not possible to change in totality the conventional baking in the near future in the countries like India because yet here many people are illiterate and those who are illiterate, the majority of them are having faith and practices in conventional banking. They still have not faith in e-banking/modern banking as they are not well versed in computerisation of banking services and operation and fear to e-transaction.

03. Introduction of e-banking:

The following are the bottlenecks observed mainly in the development of e-banking-

a. The level of acceptance of e-banking channels by average customer remain low due to some physiological factors say fear of the technology.
b. Lack of preparedness on the part of the bank and creation of new centers of change in banking.
c. The cost of acquiring computer internet connection and other equipment is also a limiting factor in development of e-banking facilities.
d. Banks need to address the security threats to reduce the risks of introducing new and advance technology. Enactment of proper cyber laws is also required to punish the enemies in the area of e-banking.

References:

01.An Empirical Analysis of Indian Public Sector Banks. Journal of International Development, Vol.(15), pp. 145-156.

02.Gopinath, S. 2007. Special Features of Financial Sector Reforms in India. Inaugural address delivered at the 18th Annual National Conference of Forex Association of India on April 6, 2007 at Bangkok.

03.Jayadev, M. 2013. Basel III Implementation: Issues and challenges for Indian banks. Indian Institute of Management, Bangalore Management Review, Vol. 25(2), pp. 115-130.

04.Kumbhakar, S. and Sarkar, S. 2003. Deregulation, Ownership, and Productivity Growth in the Banking Industry.

05. Evidence from India. Journal of Money, Credit and Banking, Vol. 35(3), pp. 403-424. Mohan, R. 2003.

06.Transforming Indian Banking: In Search of a Better Tomorrow. Reserve Bank of India Speeches, Reserve Bank of India Bulletin, January.

07.Reserve Bank of India. 2012. Report of the Expert Committee to Revise and Strengthen the Monetary Policy Framework. RBI, Mumbai.

08.. Mohan, R. 2003. Transforming Indian Banking: In Search of a Better Tomorrow. Reserve Bank of India Speeches, Reserve Bank of India Bulletin, January.

09.Rajaraman, I. and Vasistha, G. 2002. Non-performing Loans of Public Sector Banks- Some Panel results. Economic and Political weekly, February, 2002.