Analysis of Financial Ratios for Measuring Performance of Indian Public Sector Banks

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ABSTRACT
Banks, as the critical part of financial system, play an important role in contributing to a country’s economic development. If the banking industry does not perform well, the effect to the economy could be huge and broad. So there is a great need to investigate those factors which have impact on performance level of banking sector as whole. First and foremost factor under consideration comes to be all financial ratios liquidity, credit, capital, operating expenses, return on equity(ROE), return on investment(ROI) etc for analyzing the impact on performance level. Bankers from public sector banks accorded more importance to these ratios (measures) of liquidity as compared to those from private sector banks. Financial ratios enable us to identify unique bank strengths and weaknesses, which in itself inform bank profitability, liquidity and credit quality. An efficient banking system is recognized as basic requirement for the economic development of any economy as it has a great impact on the growth of the every organization and also economic growth of the country. The present study is conducted to analyze those financial ratios which play a significant role during performance measurement of Indian public sector banks. And also to find the best and worst practices associated with banking sector to increase the performance ratio.

Keywords--- Liquidity, Return on Investment, Return on Equity, credit, performance.

I. INTRODUCTION

The opening up of the financial sector in 1990 followed by RBI’s reform program which intended to create an viable, competitive and efficient banking system in India had resulted in entry of many private banks both Indian as well as foreign banks and increase competition among the commercial banks in India. Banks are key financial intermediaries or institutions that serve as “middle man” in the transfer of fund from servers to those who invest in real assets as house, equipment and factories. In performing this function financial intermediaries improve the well being of both saver and investor. By improving economic efficiency they raise living standard of the society.

The banking sector is considered to be an important source of financing for most businesses. They play a very important role in the effort to attain stable prices, high level of employment and sound economic growth. They make funds available to meet the needs of individuals, businesses and the government. In doing this, they facilitate the flow of goods and services and the activities of governments.

The commercial Banking system provides a large portion of the medium of exchange of a given country, and is the primary instrument through which Monetary policy is conducted, through their deposit mobilization and lending operations. Commercial banks make the productive utilization of ideal funds, thus assists the society to produce wealth. Commercial Banks are the institutions specifically designed to further the capital formation process through the attraction of deposits and extension of credit.

II. BALANCED SCORE CARD

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a
performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.

2.1 Perspectives

The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

2.1.1 The Learning & Growth Perspective

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people -- the only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization. Kaplan and Norton emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call "high performance work systems."

2.1.2 The Business Process Perspective

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

2.1.3 The Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

2.1.4 The Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

<table>
<thead>
<tr>
<th>Balanced Scorecard strategy</th>
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<tr>
<th>Organization type</th>
<th>For profit</th>
<th>Non-profit organization</th>
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<tbody>
<tr>
<td>How does organization look to</td>
<td>Interest to shareholder</td>
<td>Interest to stakeholder</td>
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<tr>
<td>A type of objective</td>
<td>Financial objective</td>
<td>Non financial: culture or social objective</td>
</tr>
<tr>
<td>Perspective name</td>
<td>Financial perspective</td>
<td>Success perspective Stakeholder interest perspective</td>
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III. PERFORMANCE MEASUREMENT OF BANKS

Although net income gives us an idea of how well a bank is doing, it suffers from one major drawback. It does not adjust for the bank's size, thus making it hard to compare how well one bank is doing relative to another. A basic measure of bank profitability that corrects for the size of the bank is the return on assets (ROA). Secondly, because the owners of a bank must know whether their bank is being managed well, ROA serves as a good method to identify it.

\[
ROA = \frac{Net \ profit \ after \ taxes}{assets}
\]
The return on assets provides information on how efficiently a bank is being run because it indicates how much profits are generated by each dollar of assets. However, what the bank's owners (equity holders) care about most is how much the bank is earning on their equity investment. This information is provided by the other basic measure of bank profitability, the return on equity (ROE).

\[
\text{ROE} = \frac{\text{Net profit after taxes}}{\text{equity capital}}
\]

There is a direct relationship between return on assets (which measures how efficiently the bank is run) and the return on equity (which measures how well the owners are doing on their investment).

Another commonly used measure of bank performance is called the net interest margin (NIM). NIM is the difference between interest income and interest expenses as a percentage of total assets.

\[
\text{NIM} = \frac{(\text{Interest income} - \text{Interest expenses})}{\text{Assets}}
\]

One of the bank's primary intermediation functions is to issue liabilities and use the proceeds to purchase income earnings assets. If a bank manager has done a good job of asset and liability management such that the bank earns substantial income on its assets and have low costs on its liability, profits will be high. How well a bank manages its asset and liabilities is affected by the spread between the interest earned on the bank's assets and the interest cost on its liabilities. This spread is exactly what net interest margin measures. If the bank is able to raise funds with liabilities that have low interest costs and is able to acquire assets with high interest income, the net interest margin will be high and the bank is likely to be highly profitable. If the interest cost of its liabilities rises relatively to the interest earned on its assets, the net interest margin will fall, and bank profitability will suffer.

3.1 Strategies And Objectives Under Framework Of Financial Perspective

In the context of this quantifiable area of measuring performance level, there exist 3 generic strategies:

- Product Leadership Strategy.
- Customer Value Strategy.
- Operational Excellence Strategy.

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3.1.1 Revenue Growth objective

In the context of this quantifiable area of measuring performance level, there exist 3 generic strategies:

- Product Leadership Strategy.
- Customer Value Strategy.
- Operational Excellence Strategy.

The interpretations of these strategies in context to financial measures can be projected on Revenue Growth and Productivity objectives.

3.1.1 Revenue Growth objective

This objective can be achieved by developing New Revenue Sources (creating new products and services). This is primarily a projection of Product Leadership strategy. And secondly by Improving Current
Profitability (working on customer value proposition) the objective of Revenue Growth is achievable. This is primarily a projection of Customer Value strategy.

3.1.2 Productivity objective

It incorporates the projection of Operation Excellence strategy by Decreasing Costs and by Resource Optimization.

IV. FACTORS CONSIDERED FOR MEASURING FINANCIAL PERFORMANCE OF BANKS

Among the large set of performance measures for banks used by academics and practitioners alike, a distinction can be made between traditional, economic and market-based measures of performance.

4.1.1 Traditional measures of performance

Traditional performance measures are similar to those applied in other industries, with return on assets (RoA), return on equity (RoE) or cost-to-income ratio being the most widely used. In addition, given the importance of the intermediation function for banks, net interest margin is typically monitored. The return on assets (RoA) is the net income for the year divided by total assets, usually the average value over the year.

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

RoE is an internal performance measure of shareholder value, and it is by far the most popular measure of performance, since: (i) it proposes a direct assessment of financial return of a shareholder’s investment; (ii) it is easily available for analysts, only relying upon public information; and (iii) it allows for comparison between different companies or different sectors.

4.1.2 Economic measures of performance

The economic measures of performance take into account the development of shareholder value creation and aim at assessing, for any given year, the economic results generated by a company from its economic assets (as part of its balance sheet). These measures mainly focus on efficiency as a central element of performance, but generally have high levels of information requirements. Two sets of indicators can then be identified amongst economic measures of performance:

Indicators related to the total return of an investment, based on the concept of an “opportunity cost”; the most popular one being economic value added (EVA).

$$\text{EVA} = \text{return on invested funds} - \left( \text{weighted average cost of capital} \times \text{invested capital} \right) - \left( \text{weighted average cost of debt} \times \text{net debt} \right)$$

Indicators related to the underlying level of risk associated with banks’ activity. A bank to be successful in its operations, managers must weigh complex trade-offs between growths, return and risk, favouring the adoption of risk-adjusted metrics.

RAROC (risk-adjusted return on capital, i.e. the expected result over economic capital) allows banks to allocate capital to individual business units according to their individual business risk. As a performance evaluation tool, it then assigns capital to business units based on their anticipated economic value added.

There are many different measures and different types of indicators under the generic name of RAROC: RORAA (return on risk-adjusted assets), RAROA (risk-adjusted return on assets), RORAC (return on risk-adjusted capital).

Inevitably, different stakeholders in a bank view performance from different angles. For example, depositors are interested in a bank’s long-term ability to look after their savings; their interests are safeguarded by supervisory authorities. Debt holders, on the other hand, look at how a bank is able to repay its obligations; a concern taken up by rating agencies. Equity holders, for their part, focus on profit generation, i.e. on ensuring a future return on their current holding. This focus is reflected in the valuation approaches of banks’ analysts, who try to identify the fundamental value of the firm.

Managers, too, seek profit generation, but is subject to principal-agent considerations and need to take employee requests into consideration. The view of bank consultancies might also encompass the internal struggle of managers.

4.1.3 Market-based measures of performance

Market-based measures of performance characterize the way the capital markets value the activity of any given company, compared with its estimated accounting or economic value. The most commonly used metrics include:

The “total share return” (TSR), the ratio of dividends and increase of the stock value over the market stock price; The “price-earnings ratio” (P/E), a ratio of the financial results of the company over its share price; The “price-to-book value” (P/B), which relates the market value of stockholders’ equity to its book value; The “credit default swap” (CDS), which is the cost of insuring an unsecured bond of the institution for a given time period.
### VI. REVIEW OF LITERATURE

**Luther (1976)** chaired the committee appointed by RBI to study the productivity, efficiency and profitability of commercial banks. The committee analyzed the various issues related to the planning, budgeting and marketing in commercial banks.

**Vashisht (1987)** evaluated the performance of public sector banks with regard to six indicators, viz. branch expansion, deposit, credit, priority sector advances, DRI advances, and net profit over the period 1971-83. The researcher has used composite weighted growth index to rank the banks as excellent, good, fair and poor. In order to improve the performance, he has suggested developing marketing strategies for deposit mobilization, profit planning and swot analysis.

**Berry and Nix (1991)**, however, cast doubt on the generality of McDonald and Morris results over time, over ratios and over industries. Similar results was obtained for Finnish data in Perttunen and Martikainen (1989) and for Spanish data by Garcia-Ayuso (1994). By comparing value and equal weighted aggregate financial ratios McLeay and Fieldsend (1987) find evidence based on samples of French firms that "the departure from proportionality varies from ratio to ratio, from size class to size class and from sector to sector".

**Published as Timo Salmi and Teppo Martikainen (1994)** discussed that common feature of all the areas of financial ratio analysis research seems to be that while significant regularities can be observed, they are not necessarily stable across the different ratios, industries, and time periods. This leaves much space for the development

<table>
<thead>
<tr>
<th>Financial Ratio</th>
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<tbody>
<tr>
<td><strong>Return on Assets</strong></td>
<td>( \frac{\text{Net Operating Income}}{\text{Total Assets}} )</td>
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<tr>
<td><strong>Return on Equity</strong></td>
<td>( \frac{\text{Net Income}}{\text{Stockholder Equity}} )</td>
</tr>
<tr>
<td><strong>Rate Paid on Funds</strong></td>
<td>( \frac{\text{Total Interest Expense}}{\text{Total Earning Assets}} )</td>
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<tr>
<td><strong>Gross Yield on Earning Assets (GYEA)</strong></td>
<td>( \frac{\text{Total Interest Income}}{\text{Total Average Earning assets}} )</td>
</tr>
<tr>
<td><strong>Net Interest Margin</strong></td>
<td>( \frac{\text{Net Interest income}}{\text{Average Earning Assets}} )</td>
</tr>
<tr>
<td><strong>Provision for Loan Losses</strong></td>
<td>( \frac{\text{Reserve as a percentage of loans}}{\text{Reserve/Total loans}} )</td>
</tr>
<tr>
<td><strong>Long Term Debt to Total Liabilities and Equity</strong></td>
<td>( \frac{\text{Long Term Debt}}{\text{Total Liabilities plus Equity}} )</td>
</tr>
<tr>
<td><strong>Leverage Ratio</strong></td>
<td>( \frac{\text{Stockholders Equity}}{\text{Average Total Assets}} )</td>
</tr>
<tr>
<td><strong>Equity-to-Loans</strong></td>
<td>( \frac{\text{Average Common Equity}}{\text{Average Total Assets}} )</td>
</tr>
<tr>
<td><strong>Tier 1 Capital</strong></td>
<td>( \frac{\text{Stockholder Equity}}{\text{Risk-Adjusted Assets}} )</td>
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<tr>
<td><strong>Total Capital</strong></td>
<td>( \text{Total Capital includes Tier I and the reserve for loan losses (up to 1.25% of Risk Adjusted Capital) plus subordinated notes (to 50 percent of Tier I capital)} )</td>
</tr>
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of a more robust theoretical basis and for further empirical research.

Kwan and Eisenbeis (1997) observed that Asset Quality is commonly used as a risk indicator for financial institutions, which also determines the reliability of capital ratios. Their study indicated that capitalization affects the operation of financial capitalization affects the operation of financial institution. More the capital, higher is the efficiency.

Said and Saucer (2003) evaluated the liquidity, solvency and efficiency of Japanese Banks using CAMEL rating methodology. The study assessed the capital adequacy, assets and management quality, earnings ability and liquidity position.

Braam and Nijsen (2004) engaged in the BSC implementation performance investigation of 41 B to B (business-to-business) companies in the Netherlands, by using objective performance standard – ROI and subjective performance standard – questionnaire investigation; the research result shows that both objective and subjective performance measurement indicators show positive rises.

Papalexandris et al. (2004) studied one Greek software firm implementing the BSC and found that the said firm, after implementing the BSC for one year, showed considerable progress in performance in four perspectives: Financial, Customer, Internal business process, and learning and growth.

Bansal (2005), attempted to find out the impact of liberalization on productivity and profitability of public sector banks in India. While measuring profitability of all the PSBs, the trend analysis results showed that net profits in absolute terms have increased for majority of the PSBs but profitability has witnessed a decline. But a few banks have improved their profitability over the period of study. The main reason for the declining trend in profitability is due to increased competition which has been resulting in a narrowing spread.

Assiri et al. (2006) presented a roadmap for BSC implementation and identified a series of critical factors that must be carefully considered to ensure successful implementation of BSC.

Wong-On-Wing et al. (2007) applied BSC to reduce the conflict between top management and divisional managers because of the failure of the former to evaluate and consider strategy effectiveness in performance evaluation. The theoretical comments of the above authors and empirical studies provide considerable support for this study in theoretical foundation, research method and the entire research framework.

Ved Pal and Malik (2007) in the study examined the difference in financial characteristics of public, private and foreign sector banks based on factors such as profitability, liquidity, risk and efficiency. Most of the studies were concerned of commercial banks as a whole and were covering very limited number of years. PSB’s maintained its dominance in the banking system. Keeping into consideration the research gaps an endeavor is made in the present study to examine the performance of PSB’s by calculating various ratios and their compound annual growth (CAGR’s) and coefficient of variation (CV).

Kavita Chavali and Shefali Jain (2009) evaluated the performance of equity linked savings schemes and concluded that the fund chosen by the investor should match the risk appetite of the investor. Narayan Rao and M. Ravindran evaluated performance of Indian mutual funds in a bear market through relative performance index, risk-return analysis, Treynor ratio, Sharpe ratio, Jensen measure, and Fama’s measure. The results of performance measures suggested that most of mutual fund schemes in the sample of 58 were able to satisfy investor’s expectations by giving excess returns over expected returns based on both premium for systematic risk and total risk. Mutual Fund as an investment vehicle is capturing the attention of various segments of the society, like academicians, industrialists, financial intermediaries, investors and regulators.

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Mabwe Kumbirai and Robert Webb (2010) This paper investigates the performance of South Africa’s commercial banking sector for the period 2005-2009. Financial ratios are employed to measure the profitability, liquidity and credit quality performance of five large South African based commercial banks. The study found that overall bank performance increased considerably in the first two years of the analysis.

CA Ruchi Gupta Faculty, Delhi Institute of Advanced Studies (2013) evaluated that result that there is a statistically significant difference between the CAMEL ratios of all the Public Sector Banks in India, thus, signifying that the overall performance of Public Sector Banks is different. Also, it can be concluded that the banks with least ranking need to improve their performance to come up to the desired standards.

VII. PRACTICES USED TO INCREASE BANK’S PERFORMANCE
Banks face many challenges in today's dynamic marketplace. In a global economy that's become increasingly competitive, Banks need efficient development of products that quickly satisfy a more demanding customer base and build long-term customer trust. Banks must enhance risk management and address a broad range of regulatory changes that require reporting with greater standardization and transparency. Banks must optimize both internal and external innovation, while seeking operational excellence at all levels. We are discussed here both best and wrost practices which is given below:

### BEST PRACTICES:

Many banks today are moving away from traditional practices and adopting forward-thinking "Best Practices" to support profitability, growth and enhance shareholder value. These "Best Practices" are applicable to every area of banking as the industry changes. The recent economic downturn, regulatory change, and emerging technologies have combined to change the way bankers think about Marketing, Product Development, Business Management and Risk Management. These are the best practices which is given below:

<table>
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<tr>
<th>BEST PRACTICES</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>I. Strong corporate governance practices</td>
<td>Strong Corporate Governance would lead to effective &amp; more meaningful supervision and could contribute to a collaborative working relationship between bank management &amp; bank supervisors. Banks need to ensure good Corporate Governance in order to achieve excellence, transparency &amp; for maximization shareholders value &amp; wealth. With elements of good corporate governance, sound investment policy, appropriate internal control systems, better credit risk management, focus on newly-emerging business, commitment to better customer service, adequate automation and proactive policies, banks will definitely be able to grapple with these challenges and convert them into opportunities.</td>
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<tr>
<td>II. Up gradation of technology</td>
<td>Banking industry is growing rapidly with the use of technology in ATMs, online banking, telephone banking, mobile banking, etc., is a plastic card banking products to suit the needs of the retail segment has increased its numbers in geometric progression in recent years. This growth has been strongly supported by the development in the field of technology, without which this would not have been possible of course that will change our lifestyle in the coming years.</td>
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<tr>
<td>III. Human resource development</td>
<td>Compared with all other management functions, human resource management in cooperative banks is more sensitive, personalized, sector are good. Other HRD instruments i.e. job environment, organizational climate, rewarding system etc. are of average nature. context-dependent and cannot be managed through a set of technique. The welfare provisions and the training &amp; development system of the Indian banking Potential appraisal systems' mean value is found to be lowest; bank management should make extra efforts on this factor.</td>
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<tr>
<td>IV. Expansion of capital base with equity participation by private investors</td>
<td>Banks are the intermediaries who facilitate smooth functioning of the financial system by making investors and borrowers meet. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Banks also provide services to entities seeking advice on various issues ranging from restructuring to diversification plans. They provide whole range of services to the entities who want to raise funds from the markets elsewhere. Banks act as financial intermediaries because they act as middlemen between savers and borrowers.</td>
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<tr>
<td>V. Expansion of Priority Sector Lending</td>
<td>Government of India identified certain sectors as priority sectors such as agriculture, artsisans, village and cottage industries, Self Help Groups, SSIs, Micro enterprises, export units etc. Banks were directed to set aside a definite portion of their credit facilities to these sectors. Development of</td>
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### VI. Retail Banking

As new mobile distribution channels quickly change the business landscape, banks are adapting to customer demands for real-time information and mobile payment accessibility, while efficiently handling security and authentication.

### VII. Managing a Bank

One of the unique aspects of banking is that it has many masters. Bank management must recognize that it has a responsibility like any other business to return a profit and/or increase value for the share holders of the company. The Board of Directors must also recognize that basic tenant. Yet both have to acknowledge that this goal must still be compatible with the requirements of regulatory agencies, customers and shareholders because there is a public trust responsibility as well.

### VIII. Privacy

New regulations and a heightened sense of urgency by the regulators necessitate policies and procedures to address this critical area and ensure the bank is in conformance. Perhaps the greatest risk in banks today is the lack of file encryption in transferring data through the internet. "Best Practices" suggests that extensive training be done in this area once systems are in place to provide protection for such data and that performance is closely monitored to insure that privacy and security are not breached. Insurance is also a viable consideration for protecting the bank in this area.

### IX. Enterprises Risk Management

The independence of the Marketing/Business Development effort from Loan Administration has become increasingly recognized as essential to "Enterprises Risk Management". Greater efficiency, minimized risk and enhanced profitability are the by-products. More and more banks are adopting pricing models to ensure profitability from loan relationships. Equally important is the monitoring and management reporting associated with these areas. Management reports at various levels help managers to establish approval authorities and monitor performance. Systems and processes have become the critical ingredients to increasing efficiency in profit models for “high performance banks”.

### X. Expansion of Small Business

Commercial banking can help a small business by making it easier to manage day-to-day financial tasks. An established commercial account with a bank will make it easier to borrow money when you grow your business. Often a business is assigned a representative who works directly with the company to find the best services and solutions for the issues the business is facing.
**WROST PRACTICES**

Indian banking system has achieved a remarkable all round growth during the last 20 years. But there remain some inherent weakness and short comings and efforts should be made to overcome them as early as possible. Some of the weaker points of Indian banking system are as follows:

<table>
<thead>
<tr>
<th>WROST PRACTICES</th>
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<tbody>
<tr>
<td>I. Poorer risk assessment policies</td>
<td>Measuring credit risk for banks is particularly challenging because of the importance of financial linkages in the banking system. Direct knock on effects of corporate defaults on other corporations through financial linkages will typically be fairly negligible. The situation is different for banking systems. The financial network of mutual credit obligations stemming from liquidity management, re-financing, hedging, and security trading creates a potential for contagious insolvencies or domino-effects on top of the common exposure problems.</td>
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<tr>
<td>II. Poor capital base.</td>
<td>The capital structure of a bank (shareholders’ capital plus loans and retained profits) used as a way of assessing the company’s worth is very poor.</td>
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<tr>
<td>III. Human Resource</td>
<td>PSU banks which are a dominating force in the Indian banking system have lacked a proactive HR environment. However, much has changed with the opening of other sectors and increased competition from newer banks in the system. Banks are increasingly beginning to recognize Human resources as a possible area of core competence, and seek to pursue and retain the best talent in the industry. There is a realization that skill development is extremely important for staff retention as well as the quality of manpower, and all respondents to our survey had in place a system of continuous professional learning</td>
</tr>
<tr>
<td>IV. Ineffective and inefficient organizational structure</td>
<td>Bank can be managed effectively, yet, due to the poor operational management, the entity will be performing inefficiently. An inefficient and ineffective bank is set for an expensive failure. In such case there is no proper resources allocation policy and there is no organizational perspective of their future. Banks has leadership issues, high employee turnover rate and no clear vision where the banks will be standing tomorrow.</td>
</tr>
<tr>
<td>V. Non-Performing Assets</td>
<td>NPAs beyond a certain level are indeed cause for concern for everyone involved because credit is essential for economic growth and NPAs affect the smooth flow of credit. Banks raise resources not just fresh deposits, but also by recycling the funds received from the borrowers. Thus when a loan becomes non performing, it affects recycling of credit and credit creation. Apart from this, NPAs affect profitability as well, since higher</td>
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### VIII. CONCLUSION

The banking and financial industry has become a reality in the reality of the banking and financial, as it is witnessing a growing both in terms of the number of such institutions, or in terms of the amount of money managed by or diversity activities, and in spite of this progress and successes achieved by the banking and financial institutions, it still have challenges which will require further intensive efforts on the part of these institutions to enhance the quality of its products and services and diversity, and to keep pace with the rapid developments taking place in the world in this field. Financial inflation

<table>
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<tr>
<th>VI. Institutional overlapping of different financial agencies in rural areas</th>
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<tr>
<td>NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as provision against bad loans. Therefore, the problem of NPAs is not the concern of the lenders alone but indeed a concern for policy makers as well who are involved in putting economic growth on the fast track.</td>
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<th>VII. Impersonal Services to Customer</th>
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<td>The burden of indebtedness in rural India is great, and falls mainly on the households of rural working people. The exploitation of this group in the credit market is one of the most pervasive and persistent features of rural life in India, and despite major structural changes in credit institutions and forms of rural credit in the post-Independence period, Darling’s statement (1925), that “the Indian peasant is born in debt, lives in debt and dies in debt,” still remains true for the great majority of working households in the countryside. Institutional overlapping of different financial agencies in rural areas</td>
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<th>VIII. Unfortunate trend of declining profitability in recent year</th>
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<td>The reforms in banking sector have also brought the profitability under pressure. RBI's efforts to adopt international banking standards have further forced the banks to shift the focus to profitability for survival. Hence, profitability has become major area of concern for banks management. Infact, profit is an important criteria to measure the performance of banks in addition to productivity, financial and operational efficient. An efficient management of banking operations aimed at ensuring growth in profits and efficiency requires up to date knowledge of all those factors on which the banks profit depends. This is only possible through research studies conducted by researchers, economists and analysts.</td>
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<th>IX. Problem of recovery of loans</th>
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<td>One of the most important problems faced by banks in India in recent years is the problem of recovery of loans. The rate of recovery in some areas of the country and some types of loans has ranged between 40 to 50% which is not good sign of banking development.</td>
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<th>X. Poor disclosure standards</th>
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<td>Banks play a major role in maintaining confidence in the monetary system of a country. Hence there is a considerable and widespread interest in the well-being of banks. So, the users of the financial statement of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank.</td>
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and economic instability, so it happened from the global financial crisis and the bankruptcy of many U.S. and European banks and became the alarm beats major European countries impending bankruptcy and cannot pay the interest costs prohibitive. The quality of products, services and process will be highly critical for the success of any business enterprise in the new era. Only the business that offers top quality products and services will succeed in the days to come. The road ahead has immense potential and opportunities but with challenges at every turn. It is only those banks which adapt themselves to the changes, innovate and introduce new technologies to meet the needs of the customer will succeed. Banks which have new and innovative business models in place will be geared to meet the challenges and compete effectively in the market. It is these banks which would attain higher reaches of success in the days to come.

REFERENCES

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