

The Problems of Public Sector Banking In India



Management

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ABSTRACT

Institutional credit support plays a catalytic role in accelerating the pace of economic development of a country. In the context of developing economy of India, bank finance plays a crucial role in pushing the agricultural economy on to the progressive pathway and helping develop rural India. Indian banking, appreciably, over the years, has emerged from being a purveyor of credit to be an engine of economic development. A historic review of the State Bank of India, a giant among the public sector commercial banks, and the subsequently in nationalized commercial banks, reveals the emerging promising trends in the deposit mobilization, deployment of credit with developmental dimension added to it, prioritization of sectoral financing and social responsibility assumed by the banks. Along with promising trends in the progressive march of the public sector banks, certain disturbing trends are noticed. Hence, the vital importance of making an in-depth study of the changing trends & problems of the Indian public sector commercial banks so that policy sector commercial banks can be made for enabling them play a more effective developmental role in the context of resuscitating national economy of India.

Introduction

Banking System in India is dominated by nationalized banks. The nationalization of banks in India took place in 1969 by Mrs. Indira Gandhi the prime minister. The major objective behind nationalization was to spread banking infrastructure in rural areas and make available cheap finance to Indian farmers. Fourteen banks were nationalized in 1969. State Bank of India (SBI) was the only public sector bank in India. SBI was nationalized in 1955 under the SBI Act of 1955. The second phase of nationalization of Indian banks took place in the year 1980. Seven more banks were nationalized with deposits over 200 cores. Banks have been known as organizations that provide services by receiving deposits and use these for funding revenue-generating assets. They are not just mere institutions that would only receive cash or cash equivalents for deposits and place them for safekeeping. They also function as an intermediary between the depositors and the debtors who use the funds for business or other purposes. Banks are also engaged in performing foreign currency trading. They extend loans. But over a period of time there are drastic changes in the functions performed by banks. Especially in the past one and a half decade the services provided by the banks are many. They provide services like the promotion, application and processing of credit cards, debit cards, e-banking and e-trading through banks. Banking systems in emerging economies have been transformed by privatization, consolidation and foreign bank entry. Bank efficiency and performance have improved, apparently in response to a more competitive climate. Countries like China and India are only gradually transferring ownership of major state-owned banks to the private sector. As for bank consolidation, it has been market-driven and foreign banks have played an important role in central and Eastern Europe and Mexico, while the state has played a larger role in Asia. Indian banking system is unique and has no parallels in the banking history of any country in the world.

The main objective of this paper is to show that public sectors banks facing a continuous squeeze on profitability. This is on account of a combination of weak credit conditions that are predicated in part by the structurally constrained growth environment of the past several years, and policy actions that have brought about a decline in lending rates. The significant softening of the interest rate regime has been made possible by a steady decline in the rate of inflation, notwithstanding the government's market borrowings for financing its large and increasing fiscal deficit. In part it has been possible to generate this outcome on account of a closed capital account for resident individuals, a steadily declining current account deficit, and a continuing net surplus of capital inflows.

Issues in Problems, Growth and Profitability in Indian Public Sector Banks:

Many issues in public sector banking mainly employed are not friendly not having proper information about the product, Example for approving loan and taking credit for bank and suicides, customers are believing only because banks are nationalized and operating from long periods and have faith on government. PSBs account for 86 per cent of the non-performing assets (NPAs), while they have 75 per cent assets of Indian banking industry. This is result of their operational inefficiencies, giving loans to people without proper check of their credit histories. Many a times, RBI has to stop PSBs from giving further loans to the customers, as they are not able to meet RBI prescribed reserve ratio. This leads to loss of trust among customers. This further leads to recapitalization of the banks by the government. For last four years, the government has been pumping Rs 10,000 and 20,000 cores per year. The biggest problem of PSB is employees are not interest in upgrading themselves for technical side and behavior of employee with customer has to sanitize them; they have to interact with customer and their problems and new offers and information of the products

Banks entering into the Factoring Business

Factoring is a mechanism of improving the cash flow and increasing the working capital available to an individual. Factoring enables immediate access to cash like normally have tie up for Months, two months, Three months accounts receivable invoices. This would allow one to take advantage of growth opportunities, reducing the debt employed and providing for daily operating expenses. There is no creation of debt on the balance sheet. Rather, factoring simply converts one asset i.e. accounts receivable, into another asset, cash.

Financial Planning Strategy for PSBs:

Identification of customer
Mapping the requirements of customer
Organizing products and offers
Competent services and Information, Technology, Agriculture
Integrated marketing Communication

Invoice Discounting Services:

Most invoice agreements are managed on a confidential basis, where the Customer is unaware of the involvement of the Factor. The Client chases payment from the Customer directly where this payment is made to a nominated Trust Account held under control by the Factor. The customer raises an advance from the factor on the invoice amount.

Services offered to customers under Invoice discounting:

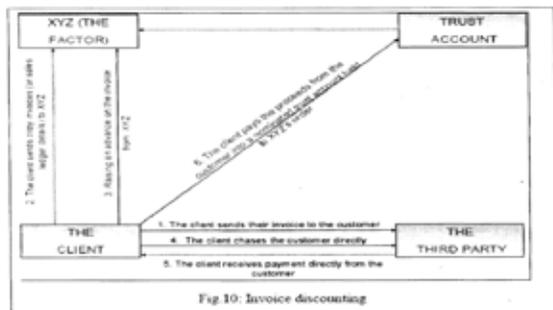


Fig 10: Invoice discounting

Conclusion

It can be concluded that most of the new private sector banks have shown better performance than their public sector the main reasons for their better performance are as follows.

- New private sector banks have shown better net interest income margin and fee income than most of the public sector banks.
- The credit-deposit & investment-deposit ratio of new private sector banks were higher which reflected in higher interest income.
- The operating efficiency was higher for most of the new private sector banks.
- The Return on Equity (ROE) was higher due to better asset quality.

It is clear from the study that the performance of public sector banks improved from time to time by offering varieties of services to the public, by identifying & analyzing the problems of Banks and healthy competition can be observed among these banks. The older generation services were facing large number of problems & cannot compete with the private sector banks. The public sector banks significantly modified and resulted in many changes and improvements with regard to operating procedures, services and financial assistances. One more important fact is that these banks are giving helping hand to the customers by fulfilling their requirements. These banks also strengthened their access controls for on-line banking by storing distinctive information regarding the customers. The important thing is regard to the micro finance concept, which is rapidly gaining the momentum to empower the rural poor and develop the Indian agriculture sector. To sum up, there are significant improvements or changes in the public sector banks in recent years can be seen, by overcoming the problems with innovative services of public sector banks.

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