Trends in Modern Banking

EVOLUTION OF INDIAN BANKING INDUSTRY AND ITS PRESENT STATUS

Globally, Banking evolved with the moneylenders accepting deposits and issuing receipts in their place. Money lending activity in India could be traced back to the Vedic period, *i.e.*, 2000 to 1400 BC. The existence of professional banking in India could be traced to the 500 BC. *Kautilya's Arthashastra*, dating back to 400 BC contained references to creditors, lenders and lending rates. Banking was fairly varied and catered to the credit needs of the trade, commerce, agriculture as well as individuals in the economy. Mr. W.E. Preston, member, Royal Commission on Indian Currency and Finance set up in 1926, observed "....it may be accepted that a system of banking that was eminently suited to India's then requirements was in force in that country many centuries before the science of banking became an accomplished fact in England." An extensive network of Indian banking houses existed in the country connecting all cities/towns that were of commercial importance. They had their own inland bills of exchange or *hundis* which were the major forms of transactions between Indian bankers and their trans-regional connections. Banking practices in force in India were vastly different from the European counterparts. The dishonoring of *hundis* was a rare occurrence. In fact, the classic '*Arthashastra*' also had norms for banks going into liquidation. If anyone became bankrupt, debts owed to the State had priority over other creditors.

I must say that history beckons us to not to mimic the western banking structure and practices blindly but to have an innovative banking structure for serving a billion of our country men and women.

In reality we lost our traditional institutions of banking and their practices during British rule, as the beginning of commercial banking of western variety of joint stock banking was brought to India by the English Agency houses of Calcutta and Bombay (now Kolkata and Mumbai). The first bank of a joint stock variety was Bank of Bombay, established in 1720 in Bombay. This was followed by Bank of Hindustan in Calcutta, which was established in 1770 by an agency house.

The first Indian owned bank was the Allahabad Bank set up in Allahabad in 1865, the second, Punjab National Bank was set up in 1895 in Lahore, and the third, Bank of India was set up in 1906 in Mumbai. All these banks were founded under private ownership. The *Swadeshi* Movement of 1906 provided a great impetus to joint stock banks of Indian ownership and many more Indian commercial banks such as Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were established between 1906 and 1913. By the end of December 1913, the total number of reporting commercial banks in the country reached 56 comprising 3 Presidency banks, 18 Class 'A' banks (with capital of greater than Rs.5 lakh), 23 Class 'B' banks (with capital of Rs.1 lakh to 5 lakh) and 12 exchange banks.

The World War I and subsequent great depression had an impact on the Indian banking industry with the number of banks failing rising sharply due to their loans going bad. Most of the small banks were local in character and had low capital base. As a result, they were not resilient enough. Apart from the global factors, one of the major reasons for failures of small banks was fraudulent manipulation by directors and managers and inter-connected lending. Also, several banks that failed had combined trading functions with banking functions. Partly, in order to address the problem of bank failure, the Reserve Bank was set up in 1935. In fact, central banks in several other countries, including the US, were also set up to address the problem of bank failure. However, the Reserve Bank had a limited control over banks and lack of an appropriate regulatory framework posed a problem of effective regulation of small banks. By the end of this phase, the country's financial requirements were still catered to, in a large measure, by the unorganised sector. The focus of the banking sector was on urban areas and the requirements of agriculture and the rural sector were neglected. Although the co-operative credit movement had a very encouraging beginning, it did not spread as expected despite Government patronage.

THE HISTORY OF INDIAN BANKING CAN BE DIVIDED INTO THREE MAIN PHASES.

Phase I (1786-1969)-Initial phase of banking in India when many small banks were set up.

Phase II (1969- 1991) - Nationalization, regularization and growth.

Phase III (1991 onwards) - Liberalization and its aftermath.

The banking scenario that prevailed in the early independence phase faced three main issues.

First, bank failures had raised the concerns regarding the soundness and stability of the banking system.

Second, there was large concentration of resources from deposits mobilisation in a few hands of business families or groups. Banks raised funds and on-lent them largely to their controlling entities.

Third, agriculture was neglected in sofar as bank credit was concerned. In order to address the issue of bank failures, the Banking Companies Act (renamed as Banking Regulation Act in March 1966) was enacted in 1949 empowering the Reserve Bank to regulate and supervise the banking sector. Banks continued to fail even after the Independence and the enactment of the Banking Companies Act, although the number of banks that failed declined.

It was, therefore, felt that it would be better to wind up insolvent banks. The Reserve Bank, therefore, was granted powers in the early 1960s for consolidation, compulsory amalgamation and liquidation of small banks. Although some banks had amalgamated before 1960s, the number of banks amalgamating rose sharply between 1960 and 1966. Several other small banks otherwise also ceased to function. The Reserve Bank was fairly successful in improving the safety and soundness of the banking sector as several weak banks (most of which were non-scheduled) were weeded out through amalgamations/liquidations.

The deposit insurance was also introduced, which increased the trust of the depositors in the banking system and encouraged deposit mobilisation. In early years of banking in India there were thus several instances which suggest that the small and weak banks struggled to survive. Even in recent years, it is several small banks that have merged with the large banks.

Another feature that emerges from the evolution of banking till the end of this phase was that despite the existence of small banks, a large segment of the population remained outside the banking system. In other words, the existence of small banks did not necessarily promote financial inclusion.

On the eve of independence, the banking system was concentrated primarily in the urban and metropolitan areas. Efforts, therefore, were made to spread banking to rural and unbanked areas, especially through the State Bank of India and through the branch licensing policy. The number of bank branches rose significantly between 1951 and 1967, as a result of which the average population per branch fell from 1,36,000 in 1951 to 65,000 in 1969. However, the pattern of bank branches in rural and urban areas remained broadly the same.

Although the Indian banking system had made considerable progress in the 1950s and the 1960s, the benefits of this did not percolate down to the general public in terms of access to credit. This was primarily due to the nexus between banks and industrial houses that cornered bulk of bank credit, leaving very little for agriculture and small industries. Efforts, therefore, were made to increase the flow of credit to agriculture.

However, the share of agriculture in total bank credit remained broadly at the same level between 1951 and 1967. In this period, various objectives such as enhancing the deposit rates, while keeping the cost of credit for productive activities at a reasonably low level led to a complex structure of interest rates and other micro controls.

The second phase after independence (1967 to 1991-92) was characterised by several social controls over the banking sector. The major issue faced at the beginning of this phase was the strong nexus between banks and industry, as a result of which agriculture was ignored. The focus in this phase was, thus, to break the nexus and improve the flow of credit to agriculture. The main instruments used for this purpose were nationalisation of major banks in the country and priority sector lending.

These initiatives had a positive impact in terms of spread of the bank-branch network across the country, which in turn, accelerated the process of resource mobilisation. As a result of rapid branch expansion witnessed from 1969, the average population per bank office, which was 65,000 at the time of nationalisation, declined to 14,000 by end-December 1990. Large branch expansion also resulted in increase in deposits and credit of the banking system, especially in rural areas. The share of credit to agriculture in total bank credit increased from 2.2 per cent in 1967 to 15.8 per cent in June 1989.

However, these achievements extracted a price in terms of health of banking institutions. Banks did not pay adequate attention to their profitability, asset quality and soundness. The increase in credit to the priority sector led to the reduction of credit to the other sectors. Attempts were, therefore, made to bring some financial discipline in respect of credit to the corporate sector. However, norms stipulated for the purpose were found to be too rigid. On the other hand, in order to meet the priority sector targets, credit appraisal standards were lowered. The high statutory pre-emptions eroded the profitability of the banking sector. Lack of enough competition resulted in decline in productivity and efficiency of the system.

At the end of this phase, banks were saddled with large non-performing assets. Banks' capital position turned weak and they lacked the profit motive. During this period, the deposit and lending rate structure became very complex. By the early 1980s, the banking sector had transformed from a largely private owned system to the one dominated by the public sector.

In the mid-1980s, some efforts were made to liberalize and improve the profitability, health and soundness of the banking sector. This phase also saw some diversification in banking activities.

The most significant phase in the evolution of banking was the phase of financial sector reforms that began in 1991-92, which had two sub-phases (1991-92 to 1997-98; and 1998-99 and beyond).

The main issues faced in the first sub-phase (1991-92 to 1997-98) was the weak health of the banking sector, low profitability, weak capital base and lack of adequate competition. The reforms in the initial phase, thus, focused on strengthening the commercial banking sector by applying prudential norms, providing operational flexibility and functional autonomy and strengthening the supervisory practices.

To infuse competition in the banking sector, several measures were initiated such as allowing the entry of private banks into the system. A major achievement of this phase was significant improvement in the profitability of the banking sector. Some improvement was also observed in the asset quality, capital position and competitive conditions, although there was still a significant scope for further improvement. However, banks in this phase developed risk aversion as a result of which credit expansions slowed down in general and to the agriculture in particular.

The focus in the second sub-phase (1998-99 and beyond) was on further strengthening of the prudential norms in line with the international best practices, improving credit delivery, strengthening corporate governance practices, promoting financial inclusion, strengthening the urban co-operative banking sector and improving the customer service. While strengthening the prudential norms, it was necessary to ensure that risk aversion, which had surfaced in the previous sub-phase, did not aggravate.

Focused attention, therefore, was paid to put in place appropriate institutional measures to enable banks to recover their NPLs. The impact of these measures was encouraging as banks were able to bring down their non-performing assets sharply. This was the most important achievement of this phase. As the asset quality began to improve, banks also started expanding their credit portfolio. Capital position of banks also improved significantly. Competition intensified during this phase as was reflected in the narrowing down of margins. Despite this, however, banks slightly improved their profitability among others, due to increased volumes and improvement in asset quality.

Two concerns arose with regard to corporate governance practices followed by banks. These related to concentrated ownership and quality of management that controlled the banks. The corporate governance practices were, therefore, strengthened.

Another major achievement in this phase was the sharp increase in the flow of credit to the agriculture and SME sectors. With a view to bringing a larger segment of excluded population within the banking fold, banks were advised to introduce a facility of ‘no frills’ account. About 13 million `no frills’ accounts were opened in a short span of two years.

With the reforms in Phase III the Indian banking sector, as it stands today, is mature in supply, product range and reach, with banks having clean, strong and transparent balance sheets. The major growth drivers are increase in retail credit demand, proliferation of ATMs and debit-cards, decreasing NPAs due to Securitization, improved macroeconomic conditions, diversification, interest rate spreads, and regulatory and policy changes (e.g., amendments to the Banking Regulation Act).

Certain trends like growing competition, product innovation and branding, focus on strengthening risk management systems, emphasis on technology have emerged in the recent past. In addition, the impact of the Basel II norms is going to be expensive for Indian banks, with the need for additional capital requirement and costly database creation and maintenance processes. Larger banks would have a relative advantage with the incorporation of the norms.

The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPA's. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks. Another major anxiety before the banking industry is the high transaction cost of carrying Non Performing Assets in their books.

The resolution of the NPA problem requires greater accountability on the part of the corporate, greater disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal framework pertaining to the banking system so that court procedures can be streamlined and actual recoveries made within an acceptable time frame. The banking industry cannot afford to sustain itself with such high levels of NPA's thus, "lend, but lent for a purpose and with a purpose ought to be the slogan for salvation."

The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. Information technology (IT) plays an important role in the banking sector as it would not only ensure smooth passage of interrelated transactions over the electric medium but will also facilitate complex financial product innovation and product development. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking.

As an extreme case of e-banking World Wide Banking (WWB) on the pattern of World Wide Web (WWW) can be visualized. That means all banks would be interlinked and individual bank identity, as far as the customer is concerned, does not exist. There is no need to have large number of physical bank branches, extension counters. There is no need of person-to-person physical interaction or dealings. Customers would be able to do all their banking operations sitting in their offices or homes and operating through internet. This would be the case of banking reaching the customers.

Banking landscape is changing very fast. Many new players with different muscle powers will enter the market. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism. There will be more transparency and disclosures. In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide ample business opportunities to harness. Human Resources Management is assuming to be of greater importance. As banking in India will become more and more knowledge supported, human capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures.

India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. Indian banking industry is the midst of an IT revolution. Technological infrastructure has become an indispensable part of the reforms process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.

Despite significant progress made by banking industry as a whole, still we are hampered by inadequate coverage of the banking and financial sectors. I will explain you further. We are having 157 domestic banks operating in the country [comprising 26 Public Sector Banks, 7 New Private Sector Banks, 13 Old Private Sector Banks, 43 Foreign Banks, 4 Local Area Banks (LABs), and 64 RRBs], just about 40 per cent of the adults had formal bank accounts. Deepening the engagement of formal banking for low income households and providing access to the unbanked would require increasingly innovative approaches (including channels, products, interface, etc.).

In order to address the above issues, Nachiket Mor committee was set up in 2013, to look into the issues relating to financial inclusion and Comprehensive Financial Services for Small Businesses and Low-Income Households. The committee came up with two broad designs for the banking system in the country - the Horizontally Differentiated Banking System (HDBS) and the Vertically Differentiated Banking System (VDBS) based on the functional building blocks of payments, deposits and credit.

In a HDBS design, the basic design element remains a full-service bank that combines all three building blocks of payments, deposits, and credit but is differentiated primarily on the dimension of size or geography or sectoral focus. In a VDBS design, the full-service bank is replaced by banks that specialise in one or more of the building blocks of payments, deposits, and credit. Among others, the Committee suggested licensing of Payments Bank and Small Finance Banks.

PAYMENT BANKS

Payment system has been proving to be the arena where new ideas, products and services have been successfully introduced. Starting from the Real Time Gross Settlement System (RTGS), the National Electronic Funds Transfer (NEFT) system, the Pre and Post Paid Instruments, the card present and absent transactions, the different types of e-wallets and to the mobile banking products, we have been experiencing a payment revolution in our country.

The objective of setting up of payments banks will be to further financial inclusion; the strategies will be by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users. The scope of the activities permitted for the Payment Banks included:

(a) Acceptance of demand deposits. Payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer

(b) Issuance of ATM/debit cards

(c) Payments and remittance services through various channels

(d) BC of another bank and

(e) Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.

As you can see, the scope has been carefully crafted to sub-serve the primary objective of furthering financial inclusion. It is also being insisted that the Payment Bank should be a fully networked and technology driven institution. Though it is very early to comment on the success of payment banks, we can be safely bet that the Payment Banks will further revolutionise the payment arena.

SMALL FINANCE BANKS

A parallel major disruptive innovative change for inclusive growth will be the advent of Small Finance Banks. Smaller banks have greater access to local information, greater commitment to local prosperity, differences in costs and risk management, and competition policy could explain the specific influence of such type of banks on local economic development. In developing countries where economic development is hampered by insufficient and inadequate access to financial services in rural areas, small banks could improve financing opportunities to small and medium size enterprises and encourage entrepreneurship.

Thank you friends, for your patient hearing about the evolution and present status of Indian Baking Industry. Now we will focus on the future of banking industry and try to visualize the vital aspects which will play major role in shaping up banks of tomorrow.

We can broadly categorize the future of banking industry depends on 6 main pillars.

REGULATION & CAPITAL

You are well aware that, RBI is the main regulator of Indian Banks and FIs. RBI uses the following tools to regulate banking business in this country.

- Licensing
- Prescribing capital requirements
- Monitoring governance
- Setting prudential regulations to ensure solvency and liquidity of the banks
- Prescribing lending to certain priority sectors of the economy

I have already touched upon the new vistas opened by RBI in introducing Payment banks and Small Finance banks to bring in new methods in speeding up financial inclusion and payment systems.

Another major area in regulation of banks is prescribing capital requirements for banks. Here RBI the regulator, follows the code of BCSBI, popularly known as basel norms. We have already travelled from Basel I to Basel II and at present our banks are in the midst of implementation of Basel III norms.

Basel III framework was basically the response of the global banking regulators to deal with the factors, more specifically those relating to the banking system that led to the global economic crisis or the great recession. In the advanced economies, there was a huge fiscal cost for protecting the financial system, which those governments did not want a repeat of. The framework therefore sought to increase the capital and improve the quality thereof to enhance the loss absorption capacity and resilience of the banks, brought in a leverage ratio to contain balance sheet expansion in relation to capital, introduced measures to ensure sound liquidity risk management framework in the form of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), modified provisioning norms and of course enhanced disclosure requirements.

In India, Basel III capital regulation has been implemented from April 1, 2013 in phases and it will be fully implemented as on March 31, 2019. Further, we have also introduced Basel III Liquidity Coverage Ratio (LCR) to be implemented by banks in India from January 1, 2015 with full implementation being effective from January 1, 2019.

Let us ponder over the challenges posed in implementing Basel III norms and the changes it will bring in. Any change, big or small, of whatever nature brings with it challenges. The issue one must look at is whether the challenges are as onerous as one would think them to be and whether the challenges are worth facing up to.

The first element in this debate was whether we needed Basel III at all for a country like India. On this, Dr. Subba Rao, the then Governor of RBI[1] made an interesting point and I quote him:

"One view, although not explicitly spelt out in that form, is that India need not adopt Basel III, or should adopt only a diluted version of it, so as to balance the benefits against the putative costs. To buttress this view, it is argued that Basel III is designed as a corrective for advanced economy banks which had gone astray, often times taking advantage of regulatory gaps and regulatory looseness, and that Indian banks which remained sound through the crisis should not be burdened with the 'onerous' obligations of Basel III.

The Reserve Bank does not agree with this view. Our position is that India should transit to Basel III because of several reasons. By far the most important reason is that as India integrates with the rest of the world, as increasingly Indian banks go abroad and foreign banks come on to our shores, we cannot afford to have a regulatory deviation from global standards. Any deviation will hurt us both by way of perception and also in actual practice.

The 'perception' of a lower standard regulatory regime will put Indian banks at a disadvantage in global competition, especially because the implementation of Basel III is subject to a "peer group" review whose findings will be in the public domain.

Deviation from Basel III will also hurt us in actual practice. We have to recognize that Basel III provides for improved risk management systems in banks. It is important that Indian banks have the cushion afforded by these risk management systems to withstand shocks from external systems, especially as they deepen their links with the global financial system going forward."

To sum up, adoption of Basel norms are very crucial though requirement of capital from PSBs is huge and major share should be met by Government of India.

TECHNOLOGY & INNOVATION

Technology was identified by banks as a crucial element in their strategy to improve productivity and render efficient customer service. The computerisation of bank operations in a big way began in the early 1990s following the agreement between the Indian Banks' Association (IBA) and employees. Over the years, the use of technology increased significantly.

These early steps slowly improved to total computerization of banking operations especially on the advent of new private sector banks. PSBs who were lagged behind in adopting new technologies slowly but steadily progressed in technology arena.

Now time has come for moving further in technology wave and new digital India. The rush to move into digital banking is very visible across all major banks in India.

Retail banks across the globe have adopted digital technologies — be it internet banking or mobile/smartphone banking — to improve operational efficiency and the ability to manage customers. In parts of Asia with a significant millennial demographic, banks have successfully managed to motivate their customers to go digital. For example, in countries like South Korea, Singapore, Australia and Hong Kong, over 90% of banking customers are digital and interact with their banks via digital channels. Nations like Malaysia, Thailand and Indonesia are beginning to catch up with digital adoption rates of 30-40%.

With digital banking penetration of just 15-18 per cent, India still has a lot of ground to cover. However, the fact that India has the highest internet user base after the US and China, and very high mobile phone penetration also represents an upside for banks.

Digital technologies present a huge opportunity for Indian banks to not just deepen customer relationships, but also expand their customer base. Banks are able to understand their customers better, online. They have greater insight into spend patterns, investment records, mortgage payments and so much more about their customers' lifestyles. Overlay broader browsing behaviours, and banks can create a close-to-perfect personal of the user to effectively cross-sell more banking products. Hyper-personalisation is no longer an abstract technology — it is already feeding customised promotional offers. While devising and implementing digital banking strategies, banks must look at operational and cost efficiencies as well as the speed and convenience of services.

Digital banking is also turning out to be a very effective tool to increase customer base. A case in point is the jan dhan yojana. Launched last year with the goal of opening a bank account for every household for greater financial inclusion, it has resulted in a whopping 125 million new bank accounts. In order to unearth the wealth at the bottom of the pyramid, banks should look at tapping this vast number of account holders and interacting with them in simple and cost-effective ways.

The low penetration of digital banking in India is largely owing to cultural and trust issues. While India is still a largely cash-based economy, more important is the trust factor. There is an inherent suspicion or lack of comfort in going digital and interacting with a 'virtual' bank. Many customers are still more comfortable walking down to their neighborhood banks and find security in having a physical entity safeguard their savings. This is a significant barrier.

A contrast of sorts is presented by the e-commerce industry in India, which has transformed the retail industry and growing at an impressive 30-40 per cent every year. Customers no longer hesitate to shop online, armed as they are with multiple payment options. Key among them is cash on delivery, which accounts for around 75 per cent of online transactions in India and has helped e-commerce players build consumer trust. Banks also need to think innovatively about ways in which to win new customers and build relationships.

CUSTOMER SERVICE

Retail banks today are under pressure to improve their quality of service, while also reducing costs to remain competitive in an extremely volatile and uncertain market. Improving customer service is imperative for banks in the current market and economic scenario, where product and price no longer provide a clear competitive edge. Distribution channels play a key role in delivering an enhanced customer experience as customer interactions begin and end with channels.

Banking customers are increasingly expecting more convenience, accessibility, personalization, and reliability across the distribution channel network. Banks need to deliver these features by leveraging innovative technologies and solutions for a seamless and personalized experience. There is a clear demand for banks to invest in their channel networks to make them more customer-centric and user-friendly, while in the process improving the channel efficiencies for better return on investment and increased profitability.

These changes have led to the emergence of five key trends across retail banking channels

- Increased online market presence using advanced technology platforms such as Web 2.0 and social networks.
- Investment in enterprise mobile financial service solutions to drive innovation and reduce costs.
- Increased push towards web-based activities to put the online channel on an equal footing with branch networks.
- More emphasis on seamless multi-channel integration to better serve clients and gain competitive edge.
- Increased spending on customer analytics tools to improve customer relationships.

While banks will have to overcome the above challenges, Web 2.0 technologies can help firms realize the full potential of their online platforms by creating new possibilities for enhanced communication with their clients. For example, banks can start blogs or forums to discuss new products or services with clients, or participate in social networks to increase transparency and foster customer loyalty. Web 2.0 can also help banks reduce their overall channel costs by opening up significant opportunities to sell complex products and services through the online channel, resulting in faster turn around and much lower operational costs.

RISK MANAGEMENT

Risk is inevitable in the banking business and hence, a sound risk management framework is the touchstone of an efficient bank. The risk management effectively aims at balancing the Risk-Return Trade-off which is “maximizing return for a given risk” and “minimizing risk for a given return”. The responsibility of setting a risk appetite for the bank as a whole is that of the Board and the Top Management. In practice, however, we seldom see the articulation of an objective risk appetite statement by the PSBs. If you haven’t set out a risk limit for each type of risk that the bank runs and an aggregate risk appetite for the bank as a whole, how do you measure and monitor risk? We must understand that risk management is integral to the success of the bank and hence, the Top Management should strive to put in place an efficient risk management framework keeping in view the changing market dynamics and the regulatory prescriptions.

ASSET QUALITY

Though on the whole, the banking system has remained resilient, asset quality has seen sustained pressure due to continued economic slowdown. The levels of gross non-performing advances (GNPAs) and net NPAs (NNPAs) for the system have been elevated. As on March 15, while the GNPAs have increased to 4.45% for the system as a whole, the NNPAs have also climbed up to 2.36%. When seen in isolation, the NPA ratios do not appear very distressing; however, if we add the portfolio of restructured assets to the GNPA numbers, this rises alarmingly. Stressed Assets Ratio (Gross NPA+ Restructured Standard Advances to Gross Advances) for the system as a whole stood at 10.9% as at the end of March 2015. The level of distress is not uniform across the bank groups and is more pronounced in respect of public sector banks. The Gross NPAs for PSBs as on March 2015 stood at 5.17% while the stressed assets ratio stood at 13.2%, which is nearly 230 bps more than that for the system.

It is pertinent here to also note the observations made in the Global Financial Stability Report released by IMF recently. Referring to the high levels of corporate leverage, the report highlights that 36.9% of India's total debt is at risk, which is among the highest in the emerging economies while India’s banks have only 7.9% loss absorbing buffer, which is among the lowest. While these numbers might need an independent validation, regardless of that, it underscores the relative riskiness of the asset portfolio of the Indian banks.

In addition to present steps which are in vogue to improve the system’s ability to deal with corporate and financial institution distress i.e. a) formation of Joint Lenders’ Forum (JLF), b) Corrective Action Plan (CAP), c) ‘Refinancing of Project Loans’, d) ‘Sale of NPAs by Banks’ the main legal and technical hurdles in reducing the delay in early resolution to be focused upon. Otherwise, many smaller and midsized banks will face enormous stress on their profitability as well as continuity.

HUMAN RESOURCES

HR management is an important function for banks covering the whole gamut of areas such as recruitment, role mapping, training, skill set identification, building up of HR data base, and performance assessment. It is very important for this function to be taken up as a specialised area and given its due importance rather than as just a routine operational work to be done.

HR is going to be at the forefront of change in the years to come and it should be understood that banks having clear HR policies with awareness of employee engagement and development will gain a vital competitive edge in a tough market environment in the years ahead.

The HR function world over has undergone many developments/evolution over the years, particularly from its administrative beginnings to a strategic orientation as is seen today. However, it is a fact that in a majority of the banks in India even today, the HR function is at best a supplementary function which is not given its due importance in the banking hierarchy.

There is a need for change in the mind set to underscore the fact that to drive your efficiency, as well as the topline and bottomline in your balance sheets, you need skilled resources. Such skill resource base is not possible if you do not have a structured approach to the entire gamut of HR management.

HR is an essential element of corporate strategy and is invariably linked to the performance of banks as well.

TRAINING METHODOLOGIES AND INTERVENTIONS

With a fast changing environment, skills and qualifications acquired could fast become redundant if there is no on-going updation. While it needs no emphasis that the initiative should also come from the employees themselves to keep abreast of the developments, it is also the duty of the organisation to equip their employees by providing a minimum training support at periodical intervals. Apart from taking away the monotony of their daily work, and expanding their horizons and knowledge levels, it can also change employee attitude and behaviour, thereby contributing to the organisational performance.

Studies have shown that training and effectiveness programs have a positive impact on employee performance.

We need to combine the training programmes with certification which will improve training efficiency and will offer quality assurance. This will also ensure that training efforts are taken seriously by the recipients.

The next set relates to the steps needed to be taken on a system-wide basis to drive capacity building. We need to look beyond an individual institution's perspective and consider various measures on a system-wide basis to support and drive capacity building. The success of these measures would hinge on coordination and collaboration of all relevant stakeholders.

Public sector banks have been witnessing increasing number of younger officers at top levels of hierarchy over the last few years. Some of them have risen rapidly to senior positions over a short period of time. While this can bring fresh perspectives on various issues, it is also a fact that given the strategic importance of leadership at the top, it is important to understand the training requirements of top management & fulfill the same.

Banking sector plays a very important role in the economic growth of the country and our banking system has to ensure that its capacity to deliver has to continuously evolve and adapt to the developments in above vital areas. Banks have to make conscious and structured effects in bringing innovation so that they can reach new horizons which ultimately results in serving more than a billion people in a sustainable manner and lead our country in a secure path.

Quote from Mahatma Gandhi "Poverty is the worst form of crime" Let us eradicate the poverty in India by strengthening our banks with innovation and empowerment.

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