

CHAPTER – V

Problems Faced By Selected Banks

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5.1 Introduction

No doubt the remarkable expansion of banking infrastructure has given tremendous boost in spreading banking habits among the people and has accelerated growth of banking business but this has not been without strains. Profitability of the banks has been under a constant strain. Over dues in agriculture and blockage of funds in sick industrial units have been on the rise. While there has been an explosion in the number of transaction, the work technology in banks has not changed. Whereas aspirations and expectation of the people from banking industry has increased, customer service has affected adversely.

The process of interest rate liberalization, which started in 1992, was fully liberalized (especially that of deposit rate) in 1998. New private sector banks started entering the banking business in a big way from 1998. Also, the second phase of liberalization in the banking sector started in 1997-98 following the recommendations of the second Narasimham Committee Report in 1998. The Indian financial system comprising commercial banks, the financial institutions and capital markets, has undergone a very rapid transformation. The committee on financial system, well known as the Narasimham Committee, set up in 1991, to recommend measures for bringing about necessary reforms in the financial sector. The first Narasimham Committee found the following distortions (misrepresentations) in Indian commercial banking:

- 1) Decline in the quality of the loan portfolio because of fixation of targets for specific sector lending.
- 2) Inadequate attention to quantitative aspects of lending.
- 3) Improper loan appraisal of credit applications.
- 4) No post-credit supervision and monitoring.
- 5) Growth of overdue and consequent loss of profitability.

The Narasimham Committee had proposed wide ranging reforms for:

- 1) Improving the financial capability of the banks.
- 2) Increasing their autonomy from government direction.
- 3) Restructuring unviable banks.
- 4) Allowing a greater entry to the private sector in banking.
- 5) Liberalizing the capital markets.
- 6) Setting up of proper supervisory system.

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

- 1) Reduction in SLR & CRR.
- 2) Transparent guidelines or norms for entry and exit of private sector banks.
- 3) Direct access to capital markets.
- 4) The regulated interest rate has been rationalized and simplified.
- 5) Branch licensing policy has been liberalized.
- 6) Merge strong banks, close weak unviable ones.
- 7) Strengthen legal framework to accelerate credit recovery.

Overall, the main objective of the banking sector reforms was to improve the efficiency of the banks and prepare them to face the global competition. The post-bank scenario shows that gap between the efficiency in various bank groups has been widen. No doubt, Indian banks are improving their efficiency but the efficiency of foreign banks is much higher than other Indian bank groups.

5.2 Various problems Faced by selected Banks

5.2.1 Changing policies of RBI

RBI changes their repo rates, reverse repo rate, cash reserve ratio, and statutory liquidity ratio as per condition prevail in market. Because of change in fiscal and monetary policies of RBI, banking base rates also change and its effects on interest rates of the banks. Literate borrowers are understand the reason of rise & falls in Interest rates but illiterate borrower think it is banks own profit margin& take objection on banking services.

5.2.2 Expenses on Advertising

Bank must have taken extra efforts to convince and introduce customers about banking transactions & advantages. Bank must have organized bank exhibitions, bank fair, always expending on advertisement, boards, banners, signboards and it require high cost structure.

5.2.3 Problem of Staff because of target given to them :

Now days various private banks, non-banking financial institutions entered in the business which leads to increase competition among bank.

Traditional culture of bank is change, office-time of banks is increased, every bank employee give the target to increase depositors, agents are appointed for increase loan proposals, offer various incentive and fringe benefits to employee to motivate or increase efficiency of employee. But on the other hand it like as exploitation of human resources of banking sector. Their promotion is depending upon target given to them. So instead of quality work banking sector is emphasis on quantity work. So staff is harassed by the working in banking sector and converts towards voluntary retirement. It leads loss of experienced staff. It increase number of deposits & borrowers but also increases frauds and increase NPA's percentages.

5.2.4 Various Avenues for Investments to people

As like banks, non-banking financial companies and capital markets plays important role in Indian capital market. They grew along with the banking co. providing various kinds of financial services. People have opened various ways to invest money like share market, mutual funds, investment in Gold funds etc. There may be chances of getting more profit in minimum period than it getting from banks interest on deposit. It effects on deposits of banks and ultimately effect on lending capacity of bank.

5.2.5 Problems of Non-Performing Asset

Problem of NPA is faced by all type of bank. Though banks observe the principles of lending viz. safety, profitability, liquidity, purpose, risk spread and security every year some proportion of their net advances form in to NPA. Any NPA which results due to the help given to weaker section or needy or

priority sector. Due to removal of restrictions under economic reforms, loans began to be given without proper and adequate security or scrutiny. Due to such indiscriminate lending, recover become difficult and NPA began to grow. A general lack of repayment consciousness among Indian borrowers and especially among the powerful and influential class of borrowers, can be mentioned as another reason for poor recovery and growth in NPAs.

5.2.6 Lack of customers co-operation:

A collection of document from customer is time consuming. It required keen observation of all documents. There may any faulty representation by borrower. Customers are also not responding in positive manner while submitting the papers.

5.2.7 Problems of the bank employees regarding bank computerization

1. Lack of thorough knowledge of technology
2. Lack of confidence in handling automated transactions
3. No direct interactions with the customers
4. Fear about job security.