Preface

Financial system is regarded as the backbone of an economy. The literature on financial institutions has always recognised the dominant role of banks in the economic development of countries. The depth with which the role is played largely depends upon the strength and viability of banking system of a country.

The 1980s and early 1990s were a period of great stress and turmoil for banks and financial institutions all over the globe viz. Brazil, Chile, Indonesia, Mexico, Venezuela, USA and many Nordic countries. India too was not immune to this global financial crisis. The fact that the cost of failure of a bank is very high to the society cannot be ignored.

Banking sector dominates the Indian financial System. After the nationalization of major banks in two waves, starting in 1969 in order to achieve the socio-economic objective of the government, the Indian Banking System became predominantly government owned by the early 1990s. Until the beginning of 1990s, the state of the financial sector in India could be described as classic example of “financial repression”. Indian banking system particularly PSBs were characterised as capital, high level of poor quality assets in the form of NPAs, low level profitability and inefficiency. The system of integrated risk based supervision that includes credit risk, market risk and operation risk management has been missing. Thus, financial sector reforms were initiated in India in two phases with the appointment of Narshimam I and II to suggest and to locate the grey areas in the financial sector. The financial sectors reforms were initiated in the early 1990s with objectives to (i) remove financial repression (ii) create efficient, productive and profitable financial sector (iii)
provide operational and functional autonomy (iv) increase global competition, and (v) promote financial stability. With the financial sector reforms, the banking sector has undergone tremendous change in terms of business process, market orientation and management sophistication. The need for understanding the challenges and meaningfully innovate to meet the challenges requires a fundamental appreciation of various financial aspects of business of banking and finance in the ever changing environment. The banks today are focusing on strengthening the balance sheet and improving stakeholders’ value, risk minimisations, customers’ care and competitiveness with private sector banks.

Thus, if banks are not allowed to fail a consolidated approach for performance evaluation needs to be developed. Early Warning Signals (EWS) is needed so that corrective actions could be taken in time to avoid causalities. “CAMELS Model” provides an integrated approach for performance appraisal that covers all variables that are essential for a viable commercial bank.

It is in this background the present study has been designed. All necessary and relevant knowledge to understand the research concept is incorporated in the thesis. This research work is divided into seven chapters and all relevant knowledge that are essential to understand the research concepts are incorporated in the study. The first chapter deals with the “Introduction”, which covers significance of the study, review of literature on the subject, a brief summary of the CAMELS Model and research methodology.

The second chapter, which is, entitled as “Banking Sector in India: An Overview” deals with genesis and structure of banking in India. Vivid discussions on evolution of modern banking in
India in the pre-independence period, pre-liberalisation period and post-liberalisation period have been made.

In the third chapter, “CAMELS Model and its Implementations in Banks”, a detailed discussion on the model has been covered along with the significance of the various parameters incorporated in the model for conducting performance evaluation of NCBs. A detailed discussion on the parameters of the model viz. Capital, Assets Quality, Management, Earnings, Liquidity and Systems and Control along with various ratios has also been covered in research methodology section of Chapter 1.

The fourth chapter entitled as “BASEL Norms and Status of Supervisory Environment in India” covers a brief reviews on BASEL I and II in general and India’s perspective. Supervisory structure in India and PCA Norms has also been mentioned in this chapter.

The fifth chapter “Financial Sector Reforms in India and Their Impact on Banks” covers discussions on scenario that led to reforms in India, areas of banking sector reforms & finally their impact and trend and progress of banking sector in the post reforms period.

The sixth chapter on “Analysis and Interpretation” discusses in the detail the performance evaluation of NCBs for the period of study. Finally, the seventh chapter of the work gives “conclusion and suggestions”. I hope the suggestions recommended in the study will help in identifying potentially weak banks and avoid probability of a bank failure.