CHAPTER-4

FINANCIAL AND BANKING SECTOR : REFORMS AND RECOMMENDATIONS

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System have seen several reforms and so many changes. It is assumed, in general, that change is necessary for better performance. But, this is a scientific fact that every change in any system brings both positive and negative things. Some of which are expected and wanted while others may be unexpected and unwanted. Today's banking system looks very fast and customer friendly when we compare it with banking system of 100 years back. But if we compare non performing assets (NPA) of both times, it can be understood easily that the present day banking system is having a large amount of NPA which was almost unknown or negligible in past.

4.1 Banking in the Pre-reform Period[1]

The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly European shareholders.

In 1865, Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank and Bank of Mysore were set up. Reserve Bank of India came in 1935.

During this period, the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with The Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority.

During those days, public has lesser confidence in the banks. As an aftermath deposit mobilisation was slow. Abreast of it the savings bank facility provided by the Postal department was comparatively safer. Moreover, funds were largely given to traders.

Indian Government took major steps to reform Banking Sector after independence. In 1955, it nationalised Imperial Bank of India (later which was renamed as State Bank of India) with extensive banking facilities on a large scale specially in rural and semi-urban areas. Meanwhile, the State Bank of India became the principal agent of Reserve Bank of India and authorized by Union Government to handle banking transactions of the Union and State Governments all over the country.

Seven banks forming subsidiaries of State Bank of India were nationalised on 19th July, 1969. It was the effort of then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in the country were also nationalised.

Second phase of nationalization of Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership.

The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country:

1949 : Enactment of Banking Regulation Act.

1955 : Nationalisation of State Bank of India.

1959 : Nationalisation of SBI subsidiaries.

1961 : Insurance cover extended to deposits.

1969 : Nationalisation of 14 major banks.

1971 : Creation of credit guarantee corporation.

1975 : Creation of regional rural banks.

1980 : Nationalisation of seven banks with deposits over 200 crore.

After the nationalisation of banks, the branches of the public sector banks in India rose to approximately 800% in deposits and advances took a huge jump by 11,000%.

Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

In the early 1990s and afterwards, in the process of reform of Indian Banking Sector and favouring liberalization policy, Indian government permitted private sector banks and then foreign banks to work in India and to give a healthy competition to existing public sector banks. These reforms made revolutionary changes in Indian Banking Sector. Due to increase in competition between banks, computerization, ATM facility, debit card, credit card facility, internet banking, on-line bills payment and so on ever-increasing facilities to attract customers make the banking business much more customer oriented. The fear of loosening of the business is one of the reason of increase in non-performing assets in banking sector. Due to this fear, the loan sanction policies became very liberal and fast. Every bank wants to increase its amount of sanctioned loans to earn more and more profits as interest and in this process, the loans have been often sanctioned to such concerns and persons whose re-payment ability have not identified properly. Hence, it can be seen that although profit of majority of banks is increasing but at the same time, non performing assets (NPA) are also increasing and Reserve Bank of India issuing circulars from time-to-time to make aware all the banks about NPA and giving them instructions to recover existing NPAs and make their loan sanctioning system more active to do adequate enquiry before sanctioning any loan. After sanctioning loans, proper monitoring of loan is also necessary by banks.

It is useful to briefly recall the nature of the Indian banking sector at the time of initiation of the phase of financial sector reforms in India in the early 1990s. This would facilitate a greater clarity of the rationale and basis of reforms. The Indian financial system in the pre-reform period, i.e., upto the end of 1980s, essentially catered to the needs of planned development in a mixed economy framework where the government sector had a domineering role in economic activity. The strategy of planned economic development required huge development expenditures, which was met thorough the dominance of government ownership of banks, automatic monetization of fiscal deficit and subjecting the banking sector to large pre-emptions - both in terms of the statutory holding of Government securities (statutory liquidity ratio, or SLR) and administrative direction of credit to preferred sectors. Furthermore, a complex structure of administered interest rates prevailed, guided more by social priorities, necessitating cross-subsidization to sustain commercial viability of institutions. These not only distorted the interest rate mechanism but also adversely affected financial market development. All the signs of 'financial repression' were found in the system.

There is perhaps an element of commonality in terms of such a 'repressed' regime in the financial sector of many emerging market economies at that time. The decline of the Bretton Woods system in the 1970s provided a trigger for financial liberalization in both advanced and emerging markets. Several countries adopted a 'big bang' approach to liberalization, while others pursued a more cautious or 'gradualist' approach. The East Asian crises in the late 1990s provided graphic testimony as to how faulty sequencing and inadequate attention to institutional strengthening could significantly derail the growth process, even for countries with otherwise sound macroeconomic fundamentals.

India, in this context, has pursued a relatively more 'gradualist' approach to liberalization. The bar was gradually raised. Each year, the

Central Bank slowly, in a manner of speaking, tightened the screws. Nevertheless, the transition to a regime of prudential norms and free interest rates had its own traumatic effect. It must be said to the credit of our financial system that these changes were absorbed and the system has emerged stronger for this reason.

4.2 Reform Measures in India

Financial sector reforms encompassed broadly institutions especially banking, development of financial markets, monetary fiscal and external sector management and legal and institutional infrastructure. Reform measures in India were sequenced to create an enabling environment for banks to overcome the external constraints and operate with greater flexibility. Such measures related to dismantling of administered structure of interest rates, removal of several preemptions in the form of reserve requirements and credit allocation to certain sectors. Interest rate deregulation was in stages and allowed to build up of sufficient resilience in the system. This is an important component of the reform process which has imparted greater efficiency in resource allocation. Parallel strengthening of prudential regulation, improved market behaviour, gradual financial opening and, above all, the underlying improvements in macroeconomic management helped the liberalisation process to run smooth. The interest rates have now been largely deregulated except for certain specific classes, these are: savings deposit accounts, non-resident Indian (NRI) deposits, small loans up to Rs.2 lakh and export credit. Without the dismantling of the administered interest rate structure, the rest of the financial sector reforms could not have meant much.[2]

As regards the policy environment on public ownership, the major share of financial intermediation has been on account of public sector during the pre-reform period. As a part of the reforms programme, initially there was infusion of capital by Government in public sector banks, which was subsequently followed by expanding the capital base with equity participation by private investors up to a limit of 49 per cent. The share of the public sector banks in total banking assets has come down from 90 per cent in 1991 to around 75 per cent in 2006: a decline of about one percentage point every year over a fifteen-year period. Diversification of ownership, while retaining public sector character of these banks has led to greater market accountability and improved efficiency without loss of public confidence and safety. It is significant that the infusion of funds by government since the initiation of reforms into the public sector banks amounted to less than 1 per cent of India's GDP, a figure much lower than that for many other countries.

Another major objective of banking sector reforms has been to enhance efficiency and productivity through increased competition. Establishment of new banks was allowed in the private sector and foreign banks were also permitted more liberal entry. Many private banks are in operation at present, accounting a large percentage of commercial banking assets. Yet another step towards enhancing competition was allowing foreign direct investment in private sector banks up to 74 per cent from all sources.

Impressive institutional reforms have also helped in reshaping the financial marketplace. A high-powered Board for Financial Supervision

(BFS), constituted in 1994, exercise the powers of supervision and inspection in relation to the banking companies, financial institutions and non-banking companies, creating an arms-length relationship between regulation and supervision. On similar lines, a Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) prescribes policies relating to the regulation and supervision of all types of payment and settlement systems, set standards for existing and future systems, authorise the payment and settlement systems and determine criteria for membership to these systems.

The system has also progressed with the transparency and disclosure standards as prescribed under international best practices in a phased manner. Disclosure requirements on capital adequacy, non performing loans (NPLs), profitability ratios and details of provisions and contingencies have been expanded to include several areas such as foreign currency assets and liabilities, movements in NPLs and lending to sensitive sectors. The range of disclosures has gradually been increased. In view of the increased focus on undertaking consolidated supervision of bank groups, preparation of consolidated financial statements (CFS) has been mandated by the Reserve Bank for all groups where the controlling entity is a bank.[3]

The legal environment for conducting banking business has also been strengthened. Debt recovery tribunals were part of the early reforms process for adjudication of delinquent loans. More recently, the Securitisation Act was enacted in 2003 to enhance protection of creditor rights. To combat the abuse of financial system for crime-related activities, the Prevention of Money Laundering Act was enacted in 2003 to provide the enabling legal framework. The Negotiable Instruments (Amendments and Miscellaneous Provisions) Act 2002 expands the erstwhile definition of 'cheque' by introducing the concept of 'electronic money' and 'cheque truncation'. The Credit Information Companies (Regulation) Bill 2004 has been enacted by the Parliament which is expected to enhance the quality of credit decisions and facilitate faster credit delivery.

Improvements in the regulatory and supervisory framework encompassed a greater degree of compliance with Basel Core Principles. Some recent initiatives in this regard include consolidated accounting for banks along with a system of Risk-Based Supervision (RBS) for intensified monitoring of vulnerabilities.

The structural break in the wake of financial sector reforms and opening up of the economy necessitated changes in the monetary policy framework. The relationship between the central bank and the Government witnessed a salutary development in September 1994 in terms of supplemental agreements limiting initially the net issuance of ad hoc treasury Bills. This initiative culminated in the abolition of the ad hoc Treasury Bills effective, April 1997 and replaced by limited ways and means of advances. The phasing out of automatic monetization of budget deficit has, thus, strengthened monetary authority by imparting flexibility and operational autonomy. With the passage of the Fiscal Responsibility and Budget Management Act in 2003, from April 1, 2006 the Reserve Bank has withdrawn from participating in the primary issues of Central Government securities.

Reforms in the Government securities market were aimed at imparting liquidity and depth by broadening the investor base and ensuring market-related interest rate mechanism. The important initiatives introduced including a market-related government borrowing and consequently, a phased elimination of automatic monetisation of Central Government budget deficits. This, in turn, provided a fillip to switch from direct to indirect tools of monetary regulation, activating open market operations and enabled the development of an active secondary market. The gamut of changes in market development included introduction of newer instruments, establishment of new institutions and technological developments, along with concomitant improvements in transparency and the legal framework.[4]

4.2.1 Processes of Reform

What are the unique features of our reform process?

First, financial sector reform was undertaken early in the reform cycle in India. Second, the banking sector reforms were not driven by any immediate crisis as has often been the case in several emerging economies. Third, the design and detail of the reform were evolved by domestic expertise, while taking on board the international experience in this regard. Fourth, enough space was created for the growth and healthy competition among public and private sectors as well as foreign and domestic sectors.

How useful has been the financial liberalization process in India towards improving the functioning of institutions and markets?

Prudential regulation and supervision has improved; the combination of regulation, supervision and safety nets has limited the impact of unforeseen shocks on the financial system. In addition, the role of market forces in enabling price discovery has enhanced. The dismantling of the erstwhile administered interest rate structure has permitted financial intermediaries to pursue lending and deposit taking based on commercial considerations and their asset-liability profiles. The financial liberalisation process has also enabled to reduce the overhang of non-performing loans: this entailed both a 'stock' (restoration of net worth) solution as well as a 'flow' (improving future profitability) solution.

Financial entities have become increasingly conscious about risk management practices and have instituted risk management models based on their product profiles, business philosophy and customer orientation. Additionally, access to credit has improved, through newly established domestic banks, foreign banks and bank-like intermediaries. Government debt markets have developed, enabling greater operational independence in monetary policy making. The growth of government debt markets has also provided a benchmark for private debt markets to develop.

There have also been significant improvements in the information infrastructure. The accounting and auditing of intermediaries has improved. Information on small borrowers has improved and information sharing through operationalisation of credit information bureaus has helped to reduce information asymmetry. The technological infrastructure has developed in tandem with modern-day requirements in information technology and communications networking.

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M. Narasimham, a committee was set up by his name which worked for the liberalisation of banking practices.[5]

The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money.

The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.

The improvements in the performance of the financial system over the decade-and-a-half of reforms are also reflected in the improvement in a number of indicators. Capital adequacy of the banking sector recorded a marked improvement and stood at 12.3 per cent at end-March 2011. This is a far cry from the situation that prevailed in early 1990s.[6]

On the asset quality front, notwithstanding the gradual tightening of prudential norms, non-performing loans (NPL) to total loans of commercial banks which was at a high at 15.7 per cent at end-March 1997 declined to 3.3 per cent at end-March 2006. Net NPLs also witnessed a significant decline and stood at 1.2 per cent of net advances at end-March 2011, driven by the improvements in loan loss provisioning, which comprises over half of the total provisions and contingencies. The proportion of net NPA to net worth, sometimes called the solvency ratio of public sector banks has dropped from 57.9 per cent in 1998-99 to 11.7 per cent in 2011-12.[7]

Operating expenses of banks in India are also much more aligned to those prevailing internationally, hovering around 2.1 per cent during 2007-08 and 2009-10. These numbers are comparable to those obtaining for leading developed countries which were range-bound between 1.4-3.3 per cent in 2010.[8]

Bank profitability levels in India have also trended upwards and gross profits stood at 2.0 per cent during 2007-08 (2.2 per cent during 2007-08) and net profits trending at around 1 per cent of assets. Available information suggests that for developed countries, at end-2007, gross profit ratios were of the order of 2.1 per cent for the US and 0.6 per cent for France.

The extent of penetration of banking system in our country as measured by the proportion of bank assets to GDP has increased from

50 per cent in the second half of nineties to over 80 per cent a decade later.

4.2.2 Way Ahead

While we have made a significant progress, let me highlight a few issues that I believe would need significant attention in the near term.

Consolidation (mergers and acquisition) is the first issue. Large banking entities are expected to drive the growth and volume of business in the global segment. In the Indian banking sector also, consolidation is likely to gain prominence in the near future. Despite the liberalization process, state-owned banks dominate the industry, accounting for three-quarter of bank assets. The consolidation process in recent years has primarily been confined to a few mergers in the private sector segment, although some recent consolidation in the state-owned segment is evident as well. These mergers have been based on the need to attain a meaningful balance sheet size and market share in the face of increased competition, driven largely by synergies and locational and business-specific complementarities. Efforts have been initiated to iron out the legal impediments inherent in the consolidation process. As the bottom lines of domestic banks come under increasing pressure and the options for organic growth exhaust themselves, banks in India will need to explore ways for inorganic expansion. This, in turn, is likely to unleash the forces of consolidation in Indian banking. However, there are two caveats. First, any process of consolidation must come out of a felt need for merger rather than as an imposition from outside. The synergic benefits must be felt by the entities themselves. The process of consolidation that is driven by fiat is much less likely to be successful, particularly if the decision by fiat is accompanied by restrictions on the normal avenues for reducing costs in the merged entity. Thus, any meaningful consolidation among the public sector banks must be driven by commercial motivation by individual banks, with the government and the regulator playing at best a facilitating role. Second, the process of consolidation does not mean that small or medium sized banks will have no future. Many of the Indian banks are of appropriate size in relation to the Indian situation. Actual experience shows that small and medium sized banks even in advanced countries have been able to survive and remain profitable. These banks have survived along with very large financial conglomerates. Small banks may be the more natural lenders to small businesses.

The second issue is related to capital adequacy. Basel I standards[9] have been successfully implemented in India and the authorities are presently moving towards adoption of Basel II tailored to country's specific considerations. Adoption of Basel II norms will enhance the required capital. Besides, banks' assets will grow or will have to grow in tandem with the growth of the real sectors of the economy. The public sector banks' ability to meet the growing needs will be inhibited, unless the government is willing to bring in more capital. At present, the share of the government in the public sector banks cannot go below 51 per cent. While there is some scope for expanding capital through various modalities, tier-I capital, that is equity, is still critical. If growth is modest, retained earnings may form an adequate source of supply. However, when growth is rapid which is likely to be the case, there is need for injection of equity, enlarging the shareholding (Government has already infused funds in various Banks recently). In this situation, the government will have to make up its mind either to bring in additional capital or move towards reducing its share from 51 per cent through appropriate statutory changes. A third alternative could, however, be to include in the definition of government such entities as the Life Insurance Corporation that are quasi-government in nature and are likely to remain to be fully owned or an integral part of the government system in the future. However, even to do this an amendment is needed in the statute.

The third aspect concerns risk management. The most important facet of risk in India or for that matter in most developing countries markets remains the credit risk. Management of credit risks is an area which has received considerable attention in recent years. The new Basle accord rests on the assumption that an internal assessment of risks by a financial institution will be a better measure than an externally imposed formula. The economic structure is undergoing a change. The service sector has emerged as major sector. Assessing credit risk in lending to service sectors needs a methodology different from assessing risks while lending to manufacturing. There are other areas of lending such as housing and consumer credit which will need new approaches. Equally important will be the area of management of exchange risk. Besides enabling customers to adopt appropriate exchange cover, banks themselves will have to ensure that their exposure is within acceptable limits and is properly hedged. The entire area of risk management encompassing all aspects of risk including credit risk, market risk and operational risk will have to receive prime attention.[10]

The fourth and final concern I want to refer to, is improvement in customer service. Banks exist to provide service to customers. With the introduction of technology, there has been a significant change in the way banks operate. This is a far cry from the situation that existed even 15 years ago. The induction of technology has enabled several transactions to be processed in a shorter period of time. Transmission of funds to customers takes less time now. ATMs provide easy access to cash. Nevertheless, it is not very clear whether the customers as depositors and users of other banking services are fully satisfied with the services provided when they come to a bank. This is an area, which must receive continuous attention. The interface with the customers needs to improve.

Provision of credit is a basic function of banks. The effective discharge of this function is part of the intermediation process. The sectoral deployment of credit must keep pace with the changes in the structure of the economy. The banking industry in India must equip itself to be able to assess and meet the credit needs of the emerging segments of the economy. In this context, two aspects require special attention.

First, as the Indian economy gets increasingly integrated with the rest of the world, the demands of the corporate sector for banking services will change not only in size but also in composition and quality. The growing foreign trade in goods and services will have to be financed. Apart from production credit, financing capital requirements from the cheapest sources will become necessary. Provision of credit in foreign currency will require in turn a management of foreign exchange risk. Thus, the provision of a whole gamut of services related to integration with the rest of the world will be a challenge. Foreign banks operating in India will be the competitors to Indian banks in this regard. The foreign banks have access to much larger resources and have presence in many parts of the world. Therefore, Indian banks will have to evolve appropriate strategies in enabling Indian firms to accessing funds at competitive rates. Another aspect of global financial strategy relates to the presence of Indian banks in foreign countries. Indian banks will have to be selective in this regard. Here again the focus may be on how to help Indian firms acquire funds at internationally competitive rates and how to promote trade and investment between India and other countries. We must recognize that in foreign lands, Indian banks will be relatively smaller players. The motivation to build up an international presence must be guided by the route Indian entities take in the global business.[11]

Second, despite the faster rate of growth of manufacturing and service sectors, bulk of the population still depends on agriculture and allied activities for its livelihood. In this background, one cannot over-emphasize the need for expanding credit to agricultural and allied activities. While banks have achieved a higher growth in provision of credit to agriculture and allied activities last year, this momentum has to be carried further. In this context, it has to be noted that credit for agriculture is not a single market. Provision of credit for high-tech agriculture is no different from providing credit to industry. Provision of credit to farmers with a surplus is also of similar nature. Commercial banks in particular must have no hesitation in providing credit to these segments where the normal calculation of risk and return applies. It is only with respect to provision of credit to small and marginal farmers, special attention is required. They constitute a bulk of the farmers and accounting for a significant proportion of the total output.

The National Sample Survey Organization has recently released a Report entitled, "Indebtedness of Farmer Households".[12] This Report contains a wealth of data relating to the extent and nature of indebtedness. As per NSSO data 51.4 per cent of the total farm households did not have access to credit. Another fact that emerges is that there is a substantial difference between marginal and sub-marginal farmers on the one hand and the rest of the farmer households on the other regarding the purpose for which loans are obtained and the sources of credit. For all farmer households taken together, at the all-India level, institutional sources were responsible for providing 57.5 per cent of the total credit. But as far as farmer households owning one hectare and less, this proportion is only 39.6 per cent. For all farmer households, the proportion of loan going for production purposes is 65.1 per cent as against 40.2 per cent for marginal and sub-marginal farmer households. Thus, for sub-marginal and marginal farmers, the proportion of production loan is lower than for all farmers. Similarly, the proportion of institutional credit is lower for sub-marginal and marginal farmers than for all farmers. This, in fact, is true of every state of the country. Thus, a critical issue is how to meet the credit requirements of marginal and sub-marginal farmers. What changes do we need to introduce so that credit can flow to this class of farmer households? Can the banking system through its present mode of distribution of credit meet this challenge? Should we think in terms of banks supporting other institutions who are in a better position to lend to marginal and sub-marginal farmers? Banks need to think hard on how to effectively use the 'facilitator and correspondent' models. These models have great potential to reach out to small borrowers and depositors. In any case, a re-look at the organizational structure of our rural branches is called for. Banks need to think deeply on how to meet this challenge of meeting the credit needs of marginal farmers. Financial inclusion is no longer an option; it is a compulsion.[13]

The task to be fulfilled by the Indian banks is truly formidable. At one end we expect banks to be able to lend billions of rupees to large borrowers. At the same time we want them to be able to deliver extremely small loans to meet the requirements of the small borrowers. We must reflect on the kind of organizational structure and human talent that we need in order to achieve these twin goals which are at the two extreme ends of the spectrum of lending.

In the years to come, the Indian financial system will grow not only in size but also in complexity as the forces of competition gain further momentum and as financial markets get more and more integrated. As globalisation accelerates, the Indian financial system will also get integrated with the rest of the world. As the task of the banking system expands, there is need to focus on the organizational effectiveness of banks. To achieve improvements in productivity and profitability, corporate planning combined with organizational restructuring become necessary. Issues relating to consolidation, competition and risk management will remain critical. Equally, governance and financial inclusion will emerge as key issues for India at this stage of socio-economic development.[14]

4.3 Issues in Recent Reforms

Reforms are a continuous process, though it is possible to identify distinct phases in the reform process. It is clearly recognised that the first phase of financial sector reforms commenced in 1991-92. As former Governor of the Reserve Bank of India, Dr. Rangarajan has explained, the first phase has yielded impressive achievements. In fact, the success of this phase of reforms has given us great confidence to enter into the second phase. It is reasonable to establish the monetary and credit policy announcement of April 1997, described by some as a 'big bang', as the commencement of the second phase.

First, this policy changed the relationship between the RBI and banks from micro-regulation to macro-management.

Second, it changed the relationship between banks and borrowers by giving greater choice to borrowers among banks and among the modes of financing their requirements.

Third, to the extent the process of integration has started, it changed the relationship between different market participants.

Finally, the relationship between the RBI and market participants changed through the expansion and reinforcement of the consultative processes.

The people of India have experienced major changes in almost every sector of India. Some of the sectors, Information Technology, Tele-communication, Service Sectors, Infrastructure development have achieved landmark development.

Cellular phones, computers, Air travel, branded cloths are now not for higher-class people only. The middle and the lower middle class people are also enjoying all these things.

4.4 Government Ownership of Banks

The primary objective of bank nationalisation in 1969 was to provide assistance at concessional rates of interest to relatively backward areas. Pursuant to the nationalisation, the banking sector became dominated by a large number of rules and regulations. Nationalisation increased the scale of banking operations substantially (as depicted in Table 4.1, which illustrates the major achievements in banking since nationalisation) but, at the cost of profitability and efficiency of the banking system; in many instances, this led to a piling of Non Performing Assets (NPAs) with the banks, causing major concern.

Table 4.1

Major Achievements in Banking since Nationalisation

Business Indicators	June 1969	March 1991	March 2000
Total number of offices	8,262	60,220	67,339
Population per offices (000's)	65	14	15
Total deposits (Rs. billion)	137.8	1101.02	8452
Deposits per office (Rs. Lakhs)	56	334	1255
Total credit (Rs. Billion)	106.8	667	4822
Credit per office (Rs. Lakhs)	44	212	716

Source: Statistical Tables Relating to Banks in India: 1999-2000.

With regard to ownership issues, government ownership of banks augurs well for systemic stability and plays an important role in financial inclusion. There is no conflict of interest in the Government's role as owner of banks and its relationship with the regulator.

4.5 Capital Adequacy and Re-capitalization of Banks

The first Capital Accord of 1988, evolved by the Basel Committee on Banking Supervision, which sets global standards for regulation and supervision, has played a significant role in strengthening the soundness and stability of the financial system. The Accord provided a framework for fair and reasonable degree of consistency in the application of capital standards in different countries, on a shared definition of capital. However, the methods used to determine the capital charges for credit risk in the Accord are not sufficiently sophisticate. Over a period of time, financial innovation and growing complexity of financial transactions have called for a review of the existing capital adequacy framework.[15]

Recognising the need for a more broad-based and flexible framework, the Basel Committee released in June 1999 a consultative paper on 'A New Capital Adequacy Framework' for comments by market players. The new Framework, designed to promote more effectively the stability and soundness of the financial system, calls for better alignment of regulatory capital with underlying risks, by replacing the current broadbrush approach with preferential risk weighting treatment. The framework provides for explicit capital charge for other risks viz., operational risk and interest rate risk in the banking book for banks where interest rate risks are significantly above average (outliers). A three pillar approach- minimum capital requirement, which seeks to develop and expand on the standardised rules set forth in the 1988 Accord, supervisory review of a bank's capital adequacy and internal assessment process, and effective use of market discipline as a lever to strengthen disclosure and encourage safe and sound banking practices has been designed to strengthen the international financial architecture.

The adoption of the new Framework in the present form will have important implications for emerging market economies as it calls for structural changes in the current regulatory /supervisory standards.

Specifically, the proposals for assigning capital on a consolidated basis, use of external credit assessments as a means for assigning risk weights, sophisticated techniques for estimating economic capital, etc., may need suitable modifications to adequately reflect the institutional realities and macro-economic factors specific to emerging market economies.[16]

4.5.1 Capital Adequacy Standard in India

In India, at present, there is a 'three track' approach for Basel compliance - the commercial banks are Basel I compliant with respect to credit and market risks; the urban cooperative banks maintain capital for credit risk as per Basel I and market risk through surrogate charges; and the rural banks have capital adequacy norms that are not at par with the Basel norms.[17] The three track approach is justified by the necessity to maintain varying degree of stringency across different types of banks in India reflecting different levels of operational complexity and risk appetite. The three track approach is also justified in order to ensure greater financial inclusion and for an efficient credit delivery mechanism.[18]

India adopted Basel I norms for scheduled commercial banks in April 1992, and its implementation was spread over the next three years. It was stipulated that foreign banks operating in India should achieve a CRAR of 8 per cent by March 1993 while Indian banks with branches abroad should achieve the 8 per cent norm by March 1995. All other banks were to achieve a capital adequacy norm of 4 per cent by March

1993 and the 8 per cent norm by March 1996.[19]

In its mid-term review of Monetary and Credit Policy in October 1998, the Reserve Bank of India (RBI) raised the minimum regulatory CRAR requirement to 9 per cent, and banks were advised to achieve this 9 per cent CRAR level by March 31, 2000. Thus, the capital adequacy norm for India's commercial banks is higher than the internationally accepted level of 8 per cent. The RBI responded to the market risk amendment of Basel I in 1996 by initially prescribing various surrogate capital charges such as investment fluctuation reserve of 5 per cent of the bank's portfolio and a 2.5 per cent risk weight on the entire portfolio for these risks between 2000 and 2002. These were later replaced with VaR-based capital charges, as required by the market risk amendments, which became effective from March 2005. India has gone a step ahead of Basel I in that the banks in India are required to maintain capital charges for market risk on their 'available for sale' portfolios as well as on their 'held for trading portfolios' from March 2006 while Basel-I requires market risk charges for trading portfolios only.

The RBI has announced the implementation of Basel II norms in India for internationally active banks from March 2008 and for the domestic commercial banks from March 2009. Before we go into details of several issues facing the banking industry in India in the wake of Basel II, we briefly describe the current state of affairs with respect to capital adequacy of India's banking industry.

Capital adequacy ratios ("CAR") are a measure of the amount of a which can absorb losses without a bank being required to cease trading, and tier two capital (T_2 above), which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

Risk Weighting : Since different types of assets have different risk profiles, CAR primarily adjusts for assets that are less risky by allowing banks to "discount" lower-risk assets. The specifics of CAR calculation vary from country to country, but general approaches tend to be similar for countries that apply the Basel Accords. In the most basic application, government debt is allowed a 0% "risk weighting" - that is, they are subtracted from total assets for purposes of calculating the CAR.

Risk Weighted Assets - Fund Based : Risk weighted assets mean fund based assets such as cash, loans, investments and other assets. Degrees of credit risk expressed as percentage weights have been assigned by Reserve Bank of India to each such assets.

Non-funded (Off-Balance sheet) Items : The credit risk exposure attached to off-balance sheet items has to be first calculated by multiplying the face amount of each of the off-balance sheet items by the credit conversion factor. This will then have to be again multiplied by the relevant weightage.

Local regulations establish that cash and government bonds have a 0% risk weighting, and residential mortgage loans have a 50% risk weighting. All other types of assets (loans to customers) have a 100% risk weighting.

Use : Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risks such as credit risk, operational risk, management risk etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, which protects the bank's depositors or other lenders. Banking regulators in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system.

CAR is similar to leverage; in the most basic formulation, it is comparable to the onverse of debt-to-equity leverage formulations (although CAR uses equity over assets instead of debt-to-equity; since assets are by definition equal to debt plus equity, a transformation is required). Unlike traditional leverage, however, CAR recognizes that assets can have different levels of risk.

4.5.2 Types of Capital

The Basel rules recognize that different types of equity are more important than others. To recognize this, different adjustments are made:

1. Tier I Capital: Actual contributed equity plus retained earnings.

2. Tier II Capital: Preferred shares plus 50% of subordinated debt.

Different minimum CAR ratios are applied: minimum Tier I equity to risk-weighted assets may be 4%, while minimum CAR including Tier II capital may be 8%.

There is usually a maximum of Tier II capital that may be "counted" towards CAR, depending on the jurisdiction.

4.5.3 Recapitalization of Banks

Recapitalization can be undertaken for a number of reasons, such as defending against a hostile takeover, minimizing taxes or to implement an exit strategy for venture capitalists. Companies often want to diversify their debt-to-equity ratio to improve liquidity. A good example is when a company issues stock in order to buy back debt securities, thus increasing its proportion of equity capital as compared to its debt capital.

Generally speaking, when a company's debt decreases in proportion to its equity, it has lower leverage and thus, ceteris paribus, its earnings per share should decrease following the change, however its shares would be incrementally less risky, since the company's shareholders have fewer debt obligations which must be paid by the company before shareholders can see profits. Restructuring a company's debt and equity mixture, most often with the aim of making a company's capital structure more stable. Essentially, the process involves the exchange of one form of financing for another, such as removing preferred shares from the company's capital structure and replacing them with bonds.

The public sector banks may receive an upgradation by international rating agencies following the government's decision to recapitalize them. This upgradation will help these banks in raising funds in the international market.

World renowned rating agency Moody's has termed this decision by the government as credit positive. This implies that the chances of these banks getting their rates improved have increased.

In the budget announced for the year 2010-11, Finance Minister of India Mr. Pranab Mukherjee had said that Rs. 16,500 crores will be infused this year for recapitalization aid to public sector banks so as to ensure that they are able to maintain 8% Tier I capital.

"We believe that the announcement is credit positive for PSBs. The budget announcement and the willingness of the Indian government to support its PSBs reaffirms our long-held belief that India is committed to its government's majority-owned banks and will continue to infuse fresh capital into them to facilitate their growth and to maintain government control," said Nondas Nicolaides, vice-president and senior analyst of Moody's Investors Service.[22]

As per norms, the Government holding in PSBs cannot fall below 51%. The Indian authorities harbor no plans to change this statute. The funds for recapitalization have mainly arisen from the loan worth $2 Billion with the World Bank last year. Most of the rated PSBs have diluted their government holding by bringing IPOs and raising capital through them since the past few years.

SBI Chairman has commented that the bank expects receipt of Rs 10,000-20,000 crore in the form of rights from the government. Other banks have asked for capital in the range of Rs 500-1,500 crore. Union Bank of India has sought for Rs 1,800 crore. Bank of Maharashtra and Syndicate Bank have placed their requirement of Rs 1,500 crore each over the next three years. Dena Bank has asked for Rs 1,200 crore.

Through this capital infusion the PSBs are expected to become strong enough to handle any stringent regulatory requirement.

The analysis presented here suggests that for banks with viable lending relationships, it may be a good policy to recapitalize banks until they are well capitalized. Recapitalizing them only to the point where they are willing to write off loans (stop the evergreen policy) or to the undercapitalized point where they avoid failure only by liquidating the collateral of viable borrowers are both bad policies. These policies make sense only if some cash is provided to borrowers by the government or if the banks are forced to extend the viable loans in return for receiving the capital. But such multiple-level bailouts by the government would require more information and long-run commitment than a government possesses.

4.6. Asset Liability Management System

Over the last few years, the Indian financial markets have witnessed wide ranging changes at fast pace. Intense competition for business involving both the assets and liabilities, together with increasing volatility in the domestic interest rates as well as foreign exchange rates, has brought pressure on the management of banks to maintain a good balance among spreads, profitability and long-term viability. These pressures call for structured and comprehensive measures and not just ad hoc action. The Management of banks have to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. Banks are exposed to several major risks in the course of their business - credit risk, interest rate risk, foreign exchange risk, equity /commodity price risk, liquidity risk and operational risks.[23]

Asset Liability Management (ALM) is a comprehensive and dynamic framework for measuring, monitoring and managing the market risk of a bank. It is the management of structure of balance sheet (liabilities and assets) in such a way that the net earning from interest is maximised within the overall risk-preference (present and future) of the institutions. The ALM functions extend to liquidly risk management, management of market risk, trading risk management, funding and capital planning and profit planning and growth projection.

The concept of ALM is of recent origin in India. It has been introduced in Indian Banking industry w.e.f. 1st April, 1999. ALM is concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity, interest rate, foreign exchange and equity and commodity price risks of a bank that needs to be closely integrated with the banks' business strategy.

Therefore, ALM is considered as an important tool for monitoring, measuring and managing the market risk of a bank. With the deregulation of interest regime in India, the Banking industry has been exposed to the market risks. To manage such risks, ALM is used so that the management is able to assess the risks and cover some of these by taking appropriate decisions.

The assets and liabilities of the bank's balance sheet are nothing but future cash inflows or outflows. With a view to measure the liquidity and interest rate risk, banks use of maturity ladder and then calculate cumulative surplus or deficit of funds in different time slots on the basis of statutory reserve cycle, which are termed as time buckets.

As a measure of liquidity management, banks are required to monitor their cumulative mismatches across all time buckets in their Statement of Structural Liquidity by establishing internal prudential limits with the approval of the Board / Management Committee.

The ALM process rests on three pillars:

i. ALM Information Systems

Management Information Systems

Information availability, accuracy, adequacy and expediency

ii. ALM Organisation

Structure and responsibilities

Level of top management involvement

iii. ALM Process

Risk parameters

Risk identification

Risk measurement

Risk management

Risk policies and tolerance levels.

Information is the key to the ALM process. Considering the large network of branches and the lack of an adequate system to collect information required for ALM which analyses information on the basis of residual maturity and behavioural pattern it will take time for banks in the present state to get the requisite information. The problem of ALM needs to be addressed by following an ABC approach i.e. analysing the behaviour of asset and liability products in the top branches accounting for significant business and then making rational assumptions about the way in which assets and liabilities would behave in other branches. In respect of foreign exchange, investment portfolio and money market operations, in view of the centralised nature of the functions, it would be much easier to collect reliable information. The data and assumptions can then be refined over time as the bank management gain experience of conducting business within an ALM framework. The spread of computerisation will also help banks in accessing data.[24]

Rate Sensitive Assets and Liabilities

An asset or liability is termed as rate sensitive when

(a) Within the time interval under consideration, there is a cash flow,

(b) The interest rate resets/reprices contractually during the interval,

(c) RBI changes interest rates where rates are administered and,

(d) It is contractually pre-payable or withdrawal before the stated maturities.

Assets and liabilities which receive /pay interest that vary with a benchmark rate are re-priced at pre-determined intervals and are rate sensitive at the time of re-pricing.

Asset-Liability Committee (ALCO) is the top most committee to oversee the implementation of ALM system and it is to be headed by CMD or ED. ALCO considers product pricing for both deposits and advances, the desired maturity profile of the incremental assets and liabilities in addition to monitoring the risk levels of the bank. It will have to articulate current interest rates view of the bank and base its decisions for future business strategy on this view.

Benefits of ALM : It is a tool that enables bank managements to take business decisions in a more informed framework with an eye on the risks that bank is exposed to. It is an integrated approach to financial management, requiring simultaneous decisions about the types of amounts of financial assets and liabilities - both mix and volume - with the complexities of the financial markets in which the institution operates.

4.7 Risk Management Guidelines

As per RBI guidelines[25], commercial banks are to distribute the outflows/inflows in different residual maturity period known as time buckets. The Assets and Liabilities were earlier divided into 8 maturity buckets (1-14 days; 15-28 days; 29-90 days; 91-180 days; 181-365 days, 1-3 years and 3-5 years and above 5 years), based on the remaining period to their maturity (also called residual maturity). All the liability figures are outflows while the asset figures are inflows. In September, 2007, having regard to the international practices, the level of sophistication of banks in India, the need for a sharper assessment of the efficacy of liquidity management and with a view to providing a stimulus for development of the term-money market, RBI revised these guidelines and it was provided that

(a) the banks may adopt a more granular approach to measurement of liquidity risk by splitting the first time bucket (1-14 days at present) in the Statement of Structural Liquidity into three time buckets viz., next day, 2-7 days and 8-14 days. Thus, now we have 10 time buckets.

After such an exercise, each bucket of assets is matched with the corresponding bucket of the liability. When in a particular maturity bucket, the amount of maturing liabilities or assets does not match, such position is called a mismatch position, which creates liquidity surplus or liquidity crunch position and depending upon the interest rate movement, such situation may turnout to be risky for the bank. Banks are required to monitor such mismatches and take appropriate steps so that bank is not exposed to risks due to the interest rate movements during that period.

(b) The net cumulative negative mismatches during the Next day, 2-7 days, 8-14 days and 15-28 days buckets should not exceed 5%, 10%, 15% and 20% of the cumulative cash outflows in the respective time buckets in order to recognize the cumulative impact on liquidity.

The Board's of the Banks have been entrusted with the overall responsibility for the management of risks and is required to decide the risk management policy and set limits for liquidity, interest rate, foreign exchange and equity price risks.

This note lays down broad guidelines in respect of interest rate and liquidity risks management systems in banks which form part of the Asset-Liability Management (ALM) function. The initial focus of the ALM function would be to enforce the risk management discipline viz. managing business after assessing the risks involved. The objective of good risk management programmes should be that these programmes will evolve into a strategic tool for bank management.

4.7.1 Gap Analysis

The various items of rate sensitive assets and liabilities and off-balance sheet items are classified into time buckets such as 1-28 days, 29 days and upto 3 months etc. and items non-sensitive to interest based on the probable date for change in interest.

The gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) in various time buckets. The positive gap indicates that it has more RSAS than RSLS whereas the negative gap indicates that it has more RSLS. The gap reports indicate whether the institution is in a position to benefit from rising interest rates by having a Positive Gap (RSA > RSL) or whether it is a position to benefit from declining interest rate by a negative Gap (RSL > RSA).[26]

REPORTS

The following reports are used for ALM:

- Structural Liquidity Profile (SLP);
- Interest Rate Sensitivity
- Maturity and Position (MAP)
- Statement of Interest Rate Sensitivity (SIR)

INTEREST RISK

The phased deregulation of interest rates and the operational flexibility given to banks in pricing most of the assets and liabilities imply the need for the banking system to hedge the Interest-Rate Risk. Interest Rate Risk is the risk where changes in market interest rates might adversely affect the Bank's Net Interest Income. The gap report should be generated by grouping interest rate sensitive liabilities, assets and off balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. Interest rates on term deposits are fixed during their currency while the advance interest rates are floating rates. The gaps on the assets and liabilities are to be identified on different time buckets from 1-28 days, 29 days upto 3 months and so on. The interest changes should be studied vis-a-vis the impact on profitability on different time buckets to assess the interest rate risk.

4.8 Technological Developments in Banking

During Reform Phase, Recommendations of the Narasimham Committee (1991) paved the way for the reforms in the banking. Important initiatives with regard to the reforms of the banking system were taken in this phase. Important among these have been introduction of new accounting and prudential norms relating to income recognition, provisioning and capital adequacy, deregulation of interest rates and easing of norms for entry in the field of banking.

Entry of new banks resulted in a paradigm shift in the ways of banking in India. The growing competition, growing expectations led to increased awareness amongst banks on the role and importance of technology in banking. The arrival of foreign and private banks with their superior state-of-the-art technology-based services pushed Indian Banks also to follow suit by going in for the latest technologies so as to meet the threat of competition and retain their customer base.

Indian banking industry, today is in the midst of an IT revolution. A combination of regulatory and competitive reasons have led to increasing importance of total banking automation in the Indian Banking Industry.

Information Technology has basically been used under two different avenues in Banking. One is Communication and Connectivity and other is Business Process Re-engineering. Information Technology enables sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets.[27]

In view of this, technology has changed the contours of three major functions performed by banks, i.e., access to liquidity, transformation of assets and monitoring of risks. Further, Information technology and the communication networking systems have a crucial bearing on the efficiency of money, capital and foreign exchange markets.

The Software Packages for Banking Applications in India had their beginnings in the middle of 80s, when the Banks started computerising the branches in a limited manner. The early 90s saw the plummeting hardware prices and advent of cheap and inexpensive but high-powered PCs and servers and banks went in for what was called Total Branch Automation (TBA) Packages. The middle and late 90s witnessed the tornado of financial reforms, deregulation, globalisation etc coupled with rapid revolution in communication technologies and evolution of novel concept of 'convergence' of computer and communication technologies, like Internet, mobile /cell phones etc.

MILESTONES

In India, banks as well as other financial entities entered the world of Information Technology with Indian Financial Net (INFINET). INFINET, a wide area satellite based network (WAN) using VSAT (Very Small Aperture Terminals) technology, was jointly set up by the Reserve Bank and Institute for Development and Research in Banking Technology (IDRBT) in June 1999.

The Indian Financial Network (INFINET) which initially comprised only the public sector banks was opened up for participation by other categories of members.

The first set of applications that could benefit greatly from the use of technological advances in the computer and communications area relate to the Payment systems which form the lifeline of any banking activity. The process of reforms in payment and settlement systems has gained momentum with the implementation of projects such as NDS (Negotiated Dealing System), CFMS (Centralised Funds Management System) for better funds management by banks and SFMS (Structured Financial Messaging Solution) for secure message transfer. This would result in funds transfers and funds-related message transfer to be routed electronically across banks using the medium of the INFINET. Negotiated dealing system (NDS), which has become operational since February 2002 and RTGS (Real Time Gross Settlement system) scheduled towards the end of 2003 are other major developments in the area.

Internet has significantly influenced delivery channels of the banks. Internet has emerged as an important medium for delivery of banking products and services. Detailed guidelines of RBI for Internet Banking has prepared the necessary ground for growth of Internet Banking in India.[28]

The Information Technology Act, 2000 has given legal recognition to creation, trans-mission and retention of an electronic (or magnetic) data to be treated as valid proof in a court of law, except in those areas, which continue to be governed by the provisions of the Negotiable Instruments Act, 1881.

As stated in RBI's Annual Monetary and Credit Policy 2002-2003: "To reap the full benefits of such electronic message transfers, it is necessary that banks bestow sufficient attention on the computerisation and networking of the branches situated at commercially important centres on a time-bound basis. Intra-city and intra-bank networking would facilitate in addressing the "last mile" problem which would in turn result in quick and efficient funds transfers across the country".[29]

4.9 Recommendation of Different Reforms Committees

With the onset of World Bank-IMF dictated reforms, in other words called liberalisation, successive Governments at the centre have consistently been trying to reduce the government participation in the PSBs altogether. On 14th August 1991, the Government of India (GOI) appointed a Committee headed by Mr. M. Narashimham (called

"Narashimham Committee - I") to suggest the modus operandi for reforms of the Banking Sector. On 16th November 1991, the said Committee submitted its Repost suggesting downsizing of PSBs through closure of Branches, merger of PSBs, reduction of priority sector lending from the then prevailing 40% to 10% of total advance portfolio, abolition of Banking Service Recruitment Board, granting of more autonomy to PSBs in respect of both financial and administrative matters, to reduce the supervisory and regulatory control of Reserve Bank of India (RBI), the Central Bank of the country, and, to top it all, dilution of Government holding in PSBs through suitable amendment of relevant legislations.[30]

In its report submitted to the Government of India which was tabled in Parliament on 17th December 1991, the Narasimhan Committee on Financial System suggested several reform measures for India's financial system. The Committee recommended gradual liberalization of the banking sector by adopting measures such as reduction of statutory pre-emptions, deregulation of interest rates and allowing foreign and domestic private banks to enter the system. Along with these, the Committee also recommended adoption of prudential regulation relating to capital adequacy, income recognition, asset classification and provisioning standards.

While the liberalization was aimed at bringing about competition and efficiency into India's banking system, the prudential regulation was aimed at strengthening the supervisory system, which is important in the process of liberalization.

Following the Recommendations of these Committees, successive

Governments have persistently been trying to carry forward the reforms dictated by World Bank-IMF. In the process, law has been amended to pave the way for reduction of Govt. holding of shares in PSBs from 100% to 51% and, in pursuance of such amendment, most of the PSBs (except two major PSBs and two subsidiaries of State Bank of India) have made public issue for reducing Government holding. Instead of filling up vacant posts through employment, the PSBs have reduced its workforce through Voluntary Retirement Scheme on the one hand, and, on the other outsourcing even the regular and core banking jobs to outside agencies. The role of RBI, as the regulatory and supervisory authority over the Banks, have been redefined and undermined considerably. RRBs have been directed to give more emphasis on conventional Banking and, consequently, its priority lending stands reduced to around 40% (from 70%) of total advances today.

Thereafter, a number of committees, such as Narashimham Committee-II, Khan Committee, Verma Committee, S.C. Gupta Committee, Raghuram Rajan Committee, Anwarul Hoda Committee, to name a few, have been appointed to assess the progress in implementation of the Recommendations of the "Narashimham Committee-I" as also to suggest measures for carrying forward the reforms of the Banking Sector further as per dictates of the World Bank-IMF.[31]

Concludingly, it can be said that the number of reforms committees have been set up by successive governments in India and the united conclusion of these committees is that due to government participation in banking and financial sector, non-performing assets have been increasing. In other words, they were having the thought that due to government participation, the whole machinery becomes less responsible and often, the management of banking and financial sector found in no target situation. According to recommendations of various committees, this mentality and state of mind of management affects profitability and punctuality in working. According to them, the solution of this is to reduce up to the minimum, the government participation, aids and financial assistance and to give autonomy to the financial sector as much as possible.

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