Banks play a positive role in the economic development of a country as repositories of the community’s savings and as purveyors of credit. Indian banking has aided the economic development during last more than 50 years in an effective way. The banking sector has shown remarkable responsiveness to the needs of a planned economy. It has brought about a considerable progress in its efforts at deposit mobilisation and has taken a number of measures in the recent past for accelerating the growth rate of deposits.

Under the lead banks scheme, the lead bank in each district was charged with the responsibility of ensuring the geographical spread of bank branches all over the country. The underlying rationale was to see no part of the country remained under banked and everybody had access to banking facilities. The commercial viability of the branch was never an issue it was the social rather than banks own benefit that was the criterion. The commercial banks have opened a number of branches in urban, semi-urban and rural areas. They have introduced a number of attractive schemes and free services to the customers to attract more deposits.

The country however faced macro economic crisis in 1991. The foreign exchange reserve had plummeted to US $1.2 billion, barely sufficient to pay for two weeks of imports. The fiscal deficit of the country in 1990-91 accounted 8.5 pc of GDP. The industrial production was falling and inflation was rising and touched all time high to an uncomfortable level of 17 pc by mid 1991. The current account deficit also accounted 3.5 pc of GDP in 1990-91. The country was on the verge of defaulting on its external debts.

The Government of India pursued economic reform process to overcome the macro economic imbalance. A number of reforms programmes as a part of the economic reform have been introduced in the financial sector. Despite, widening of banking activities, there was general consensus that it had not actually become sound and vibrant, as it needed to be. There was serious concern about the poor performance of
PSBs most of which become unprofitable, under capitalised and burdened with unsustainable level of NPAs on their books.

In view of the above volatility, Govt. of India appointed committee on financial system under the chairmanship of M. Narasimham, popularly known as Narasimham Committee I & II to address the problems and suggest remedial measures. Following the recommendations of the committee, important initiative with regard to the reforms in banking system has been under taken. These are:

- New accounting & prudential norms relating to income recognition.
- Provisioning and capital adequacy norms.
- Reduction in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- Liberalisation of interest rates.
- Easy entry norms of foreign banks.
- Tighter asset classification.
- Introduction of formal asset liability management.
- Recognition of market risks.

It is evident from the above discussion that the banks come under severe pressure to improve their bottom line and faced global competition through judicious blending with their efficiency and profitability consideration. A study in respect of impact of financial sector reform on the working of Public Sector Bank (PSBs) is, therefore likely to be relevant and interesting particularly in a backward area.

The proposed study has been undertaken in the Southern part of Assam, the Barak Valley comprising three districts (viz, Cachar, Karimganj and Hailakandi). There are 94 branches of 12 PSBs scattered every nook and corner of the valley catering the banking requirements in three districts. The infrastructure hazards, industrial backwardness and agrarian biased population added further dimension of economic backwardness of this valley. The districts of the valley are industrially backward and have been declared by the Govt. of India as ‘A’ category district.
The major objective of the study is to evaluate the performance of public sector banks in the context of reform packages pursued in the financial sector reform regime. However, operational objectives of the proposed study are:

1. To study the inter bank performance in respect of growth of deposits, advances, loan recovery, C/D ratios, profitability and productivity.
2. To study whether deregulation policies have ushered any radical change in the management of resources of banks.
3. To study the factors affecting the volume of non-performing assets.
4. To study the nature of services rendered by banks in the competitive environment.
5. To examine the steps taken by the banks in respect of asset liabilities management to overcome risks.

To meet these objectives, the following null hypotheses are framed:

1. There have been no significant changes in the banking operation following deregulation.
2. The mass social orientation of banks over the years led to insignificant increase in the volume of NPAs.
3. The earning capacity of banks has not been significantly affected by income recognition norms.
4. To remain competitive in the changing environment and aligning with international standard, the banks have no alternatives but to follow tighter asset classification, income recognition and provisioning norms as well as Asset Liability management system.

The study was based on both primary and secondary sources of data. The secondary sources of data includes RBI bulletin, IBA Bulletins, statements compiled by regional offices of banks operating in the study area, Lead Book statements, Credit Plans of NABARD, Directorate of Economics and Statistics, various reports, surveys, published & unpublished dissertations. However, a widely used technique known as survey cum interview method was used to collect primary data particularly for assessing the nature of services rendered by the banks, work system, loan recovery system and other impeding factors associated with the bank performance. The multi stage purposive sampling technique was used to select the sample units to assess the nature of service.
rendered by the banks. The statistical and financial tools used for analysis of data include: correlation analysis, regression analysis, measures of central tendency, Skewness, measures of dispersion and financial ratio analysis. The non-parametric test, factor analysis in particular has been used to assess the efficacy of the procedure adopted by the banks for maintaining amicable relationship with the customer with a view to enhance the market share. To assess the impact of banking reforms the compound growth rate (cgr) average annual growth rate (agr) of several variables was considered pertaining to two distinct periods of 10 years each during pre (1980-81 – 1990-91) and post reform regime (1991-92 – 2000-01) The ‘t’ test and ‘F’ test are employed in appropriate cases to assess the significance of variables However, this final chapter brings major findings/inferences pertaining to the performance of PSBs in the context of ongoing financial liberalisation process. For the sake of convenience, the chapter may be summarised in to three parts.

1 Background
2 Findings
3 Suggestions

The background: The study commenced with the background of the necessity of financial sector reforms followed by various reform measures undertaken after adopting the recommendation of Narasimham Committee 1991 The analysis relating to the issue on various facets of reform packages on banking sector revealed that the first phase of reform packages have not made a lasting impression on the performance and soundness of banks The govt of India pumped about Rs 25000 crores to the weak banks to repair their bottom line and to attain international standard in their activities Moreover, there had been significant deregulation of interest rate, reduction of SLR and CRR Besides it has been emphasised on improving the quality of services through technological upgradation However, despite the entry of both private and foreign sector banks, oligopolistic dominance of PSBs still continued The performance of PSBs, of late, is under severe criticism The PSBs failed to attain the level of profitability and productivity at par with international standard The NPAs continued to the drug down the bank profitability and bank’s portfolio has been shifted from credit to risk-less govt securities. During 1952-98, investment in Government securities-deposits (I-D) ratio
averaged 27.7 pc after peaking at 35.0 pc during 1952-60, the ratio declined steadily to 27.5 pc in 1960-70 and remained around 24.0 pc during 1970’s and 1980’s. However, it increased to 29.6 pc during 1990-98.

It is in this context Narashimham committee-II recommended a package of measures in October 1998 which includes increase in minimum capital adequacy ratio, recognition of market risks, income recognition and provisioning norms, introduction of ALM system for further enhancing transparency and disclosure practices etc. However, the banking sector is yet to show remarkable progress in attaining competitiveness. The profitability and efficiency are still to be achieved at par with international standard.

The analysis of the growth of development of PSBs exhibited that the number of banks remained same after 1991 while there was a quantum jump in the number of bank branches over the years. It increased from 7015 on June 1969 to 40933 on March 1991 and further to 46318 in March 2001. The number of population per branch on the other hand was 64,000 in June 1969 that declined dramatically to 14000 in March 1991. However it has increased to 15000 population per branch in March 1997 and there after same remained unmoved till 2001. The amount of deposits of PSBs rose to Rs 210811 crores in 1991 from Rs 40222 crores in 1969 and further increased significantly by about four times to Rs 830314 crores in March 2001. The amount of deposit per office also increased significantly during the post reform period. It rose from Rs. 5.05 crores in 1991 to Rs. 19.83 crores in March 2001. This has indicated the efficiency of banking sector in mobilizing deposits from the economy as a whole. As regard to the advances per office, the PSBs had failed to catch up the overall growth rate of deposits of the banking system. The C/D ratio significant indicator of banking activity indicating bank’s deployments of credit in commercial sector has dwindled from 57.06 pc on March 1991 to 51.56 pc on March 1998, further to 45.91 pc on March 2001. PSBs, however, have made significant achievement in respect of attaining the objective of bank nationalisation specially diversification of pattern of lending in favour of priority sector, weaker sections and backward areas during post nationalisation era. Its share to priority sector lending has significantly increased from a mere 14.6 pc on June 969 to 32.1 pc on March 1991 and further to 43.6 pc on March 2001. The investment deposit ratio, one of the most important banking indicator.
was 29.3 pc in 1969. It increased significantly to 37.3 pc in 1991 and remained unchanged in 1997 before a decrease to 36.1 pc in 1998. Thus, PSBs made significant contribution in the monetary system of the country during the post reform years.

The profitability, an essential requirement of survival and healthy operation of banks, has come under severe pressure due to increased costs and consequent decrease of earnings over the years. The operating profits increased from Rs. 8887 crores in 1996-97 to Rs. 16264 crores in 1997-98 though ratio of total moved down marginally from 1.6 pc in 1996-97 to 1.58 in the next year. Nationalised banks, which accounted 52.3 pc of total assets of scheduled commercial banks, showed a substantial improvement in the profitability, both operating and net profit as a ratio to total asset increases to 1.33 pc in 1997-98 (1.26 pc in 1996-97) and 0.62 pc (0.41 pc in 1996-97) respectively. In a comparative term, the PSBs are lagging behind the foreign banks in respect of profitability performance during the pre and post reform era. The average annual growth (agr) of profits of PSBs in the pre reform era was 33.6 pc while private and foreign banks attained agr of 39.1 pc and 52.3 pc respectively during pre-reform years. During the post reform years, agr of profits of PSBs was 18.6 pc while 33.8 pc for private and 10.4 pc for foreign banks. The analysis of component wise profits of PSBs compound growth rate (cgr) indicated that in the pre reform era cgr of income (27.3) was higher than the expenditure (26.2) while in the post reform, the growth of expenditure (14.6) exceeded the growth rate of income (13.7). As a result, the cgr of profits of PSBs during the post reform period was comparatively lower (6.5) than that of pre reform era (28.8).

It has been observed that the PSBs witnessed a low percentage of profits to total assets during the post reform years due to lower interest spread (interest income – interest paid), greater priority sector lending as well as lesser involvement in the private sector lending. On the other-hand, the higher percentage of manpower expenses (pc of manpower expenses to volume of business), resulted in higher burden (manpower expenses + other establishment expenses – non-interest income) ratio. As a result PSBs experienced low profitability than private and foreign banks. It recorded a yearly profit of Rs. 0.6 per hundred-rupee volume of business while foreign banks and private banks recorded 3.1 and 1.0 per hundred-rupee volume of business during post liberalisation period. In absolute term PSBs though have achieved good quantum of profit in the post...
reform years but the undeniable fact remains that foreign banks have still achieved a better profitability than the Indian segment of the banking industry.

The labour productivity measured in terms of per employee deposits, advances or total business is found to be lowest in the public sector banks than that of foreign and private sector banks. The deposit per office of PSBs increased from Rs 2.2 lakhs in 1985-86 to Rs 104.1 lakhs in 2000-01, which was lower than that of foreign and private banks. The same for foreign banks increased steadily from Rs 32.8 lakhs in 1985-86 to Rs 416.7 lakhs in 2000-01. The advances and the total business per employee of PSBs also accounted a lower growth. This lower level of labour productivity may be due to the national level trade union that opposes the move of modernisation, automation and computerisation etc. The average productivity of branches of PSBs on the other hand in terms of deposits, advances and total business was better than private banks but much higher than the foreign banks in the pre-reform years. But it has significantly dwindled during post-reform periods. The PSBs accounted business per branch Rs 1874.9 lakhs in 1999-2000 in the context of private banks Rs 3905 and Rs 53782.1 lakhs for foreign banks. The cost responsiveness of PSBs while measured in terms of percentage variation in costs to percentage variation in earnings depicted that there is a clear symptom of cost effectiveness until 1998. The PSBs lost the cost effectiveness during 1998-2001. The cost responsiveness for the year 1995-96 was 0.14 increased to 0.71 in 1997-98 and further to 1.06 in 2000-01.

The Findings:

Against the aforesaid background of growth and development of PSBs at the national level, the main findings of the study are summarised under the following paragraphs:

1. The inter-district branch expansion revealed that during pre-reform era Karimganj district registered rapid growth of bank branches (cv = 25.7) than to Cachar district (cv = 14.8). However, during post-reform era, the cv analysis revealed that Hailakandi district (cv = 7.5) recorded rapid growth of branch expansion than the Karimganj (cv = 0.5) and Cachar district (cv = 0.9). The reason may be attributed to district Hailakandi has enjoyed independent district status in 1989 only.
2. The Gini Coefficient of Concentration (GCC) has been used to exhibit the disparities of branch expansion in the study area. It has been observed that the existing bank branches are inadequate to serve the population. The major areas are still remaining unattained and the rural masses are yet to access the banking services. It has further confirmed by the fact that during 1985 population served per branch at all India level average was 15,000 against 32,000 in the area under study which has further increased to 37,000 in 2000-01

3. The analysis of pace of deposits mobilisation measured in terms of cgr revealed that the reform measures have played a little in mobilizing deposits in the study area as growth of deposits in post reform era (cgr = 31.8) is far less than that of pre-reform era (cgr = 40.1).

4. The deposits per office in December 2000 was Rs. 817.2 lakhs for Karimganj district, Rs. 1024.1 lakhs for Cachar and Rs. 1354.2 lakhs for Hailakandi, which is yet to catch up the national trend of Rs. 1693 lakhs. This indicates a poor level of interaction of bank personnel and rural population.

5. The banking reform had not brought any positive change in the channelisation of credit in the area under study. The cgr of advances of PSBs slipped from 41.2 in the pre-reform (1985-91) to 14.6 in the post reform era (1991-2000). This may be due to the reduction of priority sector lending norms from 40 pc to 10 pc on the basis of the recommendations of Narasimham committee on financial system.

6. The econometric analysis relating to the correlation co-efficient between study area and national level in respect of incremental deposit shows that ‘r’ is statistically significant at 5 pc level of significance. It interestingly indicates the banks in the study area are mobilizing deposit at par with the national level. Further, inter district positive ‘r’ of incremental deposits exhibited that savings habit of the population is on the rising trend.

7. The regression analysis in respect of assessing the determinants of deposit mobilisation in the area under study indicates about 98 pc ($R^2 = 0.9780$) variations in the deposit mobilization of PSBs is explained by independent variables like GDP at current prices, index of consumer prices, interest rate of deposit and branch expansion. However, the $\beta$ (Beta) value of each of the independent variables is
statistically not significant except GDP at current prices indicating there by that along-with aforesaid variables there are some exogenous factors have direct impact on deposits mobilisation in the area under study.

8. The districts under study are yet to catch up the national tempo of credit channelisation. The correlation coefficients \((r)\) of advances per office at the districts and national level are found to be negative. This has confirmed the fact that banks are deploying credit in some other avenues without deploying them for the economic growth of the area from which they have mobilized funds.

9. The analysis of bank’s performance in terms of growth of deposits per office and advances per office suggests the existence of high positive \('r'\) value for all districts (0.89 for Karimganj and 0.97 for Cachar) under study during the pre-reform period. In the post reform period, however, the \('r'\) value appeared to be statistically insignificant for Karimganj district and significant only in 5pc level of significance for Cachar and Hailakandi district. This indicates the existence of inter district credit gap.

10. The credit deposit ratio, an important indicator of economic activity, of PSBs in the area under study have failed to catch up the national level ratio both in the pre and post reform years. In 1985, the ratio for PSBs stood at 51.2 pc against 41.9 pc for private banks, which slipped, to 23.1 pc and 26.3 pc respectively in December 2000. The SBI branches, however, witnessed significant downward trend in respect of \(C/D\) ratio since 1987. It touched the bottom level at 15.2 pc as on December 2000. The poor show of \(C/D\) ratio exhibited the poor credit absorption capacity of the entire area along with lack of entrepreneurial zeal to under take viable projects. The reason may be attributed to the poor recovery, willful defaulters, lack of supervision of end use of bank credit, lack of implementation of bankable schemes and so on.

11. The share of priority sector advances to total advances have been declined in the districts under study both in pre and post reform era. It has been observed that the average annual growth \((agr)\) of priority sector advances was 13.3 for Karimganj, 10.0 for Cachar and 2.8 for Hailakandi in the pre reform period (1984-1990). The same came down to 4.2 pc for Karimganj, 3.1 pc for Cachar and brought up to 7.2 pc for Hailakandi district in the post reform years.
12. The income of all PSBs in the area under study has been increased in absolute term during 1993-2000. There is a 6.26 times increase in income of Union Bank of India followed by Indian banks (6.21), State Bank of India (6.06), Vijaya bank (5.91), United Bank of India (6.97), Allahabad bank (3.92) and Punjab National Bank (3.89) during the post reform period particularly from 1993 to 2000.

13. United Commercial Bank witnessed an increase of expenditure of 15.5 times followed by Indian bank (9.56), Union bank of India (6.56), Vijaya bank (5.36), State bank of India (4.06) United Bank of India (3.49) during the period 1993-2000. The average growth of expenditure, PSBs amounts to 3.93 times in comparison to its growth of income (5.44) during the period under consideration.

14. The profitability of UCo and Indian bank has suffered during the post reform years due to higher volume of expenditure. As on 31.3.2000, UCo bank, Indian bank and Vijaya bank had incurred a loss of Rs. 252.0 lakhs, Rs. 2.0 Lakhs and Rs. 78.5 lakhs respectively. During 1993-2000 except these three banks, other PSBs in the district under study have turned out to be profitable.

15. The analysis of growth rate of profits of PSBs revealed that United Bank of India is topped of the list. The average annual growth of profits of United bank of India was 25.7 followed by Allahabad bank (23.1) United bank (23.0), Vijaya bank (21.0), State Bank of India (18.8) and Punjab National bank (17.1). Two of the banks viz, United Commercial Bank and Indian bank experienced a negative growth rate of 31.1 and 26.9 respectively. The growth rate of profits of PSBs as a whole is 21.9 pc in the districts under study which is higher than the growth in national level of 18.6 pc during the post reform period (1993-2000). Thus, the financial sector reforms initiated in 1991 offered a level playing field to PSBs to excel them to do better than they have ever done before.

16. The compound growth rate (cgr) of interest paid was comparatively higher (39.1) than interest-earned (36.3) while establishment expenses (cgr = 13.6) increased at lower rate and other operating expenses turned to be (cgr = -2.2) negative of all banks during 1993-2000. As a result, the profitability of PSBs increased from Rs. 106.6 lakhs in March 1993 to Rs. 1445.6 lakhs in March 2000 recording 13.6 fold increase. The reason of high rate of growth of profits (cgr = 177.3) of PSBs may be
attributed to the reduction in establishment and operating expenses in the area during the post reform years.

17. The profitability performance of PSBs in the study areas has been measured with the help of various commonly used ratios. It is found that average spread ratio (Interest earned ratio – Interest paid ratio), which is considered as true measures of profitability of banks performance stood at 1.1 pc during 1993-2000 which is lower than that of the national level (2.3 pc). The lower spread ratio indicates the bank’s incapability in mobilising low cost fund or not advancing loans to the commercial sectors at higher rates. The higher non-interest income ratio (1.5 pc) in comparison to the establishment expenses ratio (1.3 pc) makes the burden ratio (establishment expenses ratio minus non-interest income ratio) negative (−0.2 pc). The variations in spread ratio and negative burden ratio throughout the period affected the bank’s profitability.

18. The profitability ratio (profit as pc of volume of business i.e. advances plus deposit) in the districts exhibited that except 1997, the banks in the study area failed to catch up the national level performance. PSBs in the districts recorded on an average yearly profit of Rs. 1.0 per hundred-rupee volume of business in 1995 came down to Re. 0.2 in 2000. The same was Rs. 1.3 per hundred-rupee volume of business in 1995 –96 reduced to Re. 0.6 per hundred-rupee volume of business during 2000-01 at the national level.

19. The regression model was used to analyse the factors influencing the profitability of PSBs in the districts. The determinants like priority sector lending, C/D ratios, establishment expenses, spread, burden and deposits are considered as independent variables and profit earned as dependent variable pertaining to a period of 8 years i.e. 1993-2000. The analysis manifests that the variation in the dependent variable viz., profits of PSBs is explained about 96 pc by independent variables ($R^2 = 0.957$). However, ‘F’ ratio is not statistically significant. This implies that independent variables viz, establishment expenses, spread, burden and deposits may not be considered as perfect determinants of dependent variables in the area under study. However, β value of each independent variable indicates some different results. The establishment expenses and burden have turned to be statistically significant. This
indicates mounting expenses over the years have eroded bank’s profitability in the study area.

20. Wide variations in spread ratio and burden ratios affected the profitability of banks in the study area. The main causes of this state of affairs are –

(i) Higher contribution to priority sector.
(ii) Comparatively high share of current deposit.
(iii) Rare involvement in private sector lending and other profitable activities.

21. The labour productivity measured in terms of the volume of business per employee increased from Rs.34.7 lakhs in 1991 to Rs 81.9 lakhs in 2000 which was much lower than the national level of Rs. 36.1 Lakhs and Rs. 151.8 lakhs respectively during the period.

22. An analysis of the average productivity of branches in terms of deposit advances and volume of business indicated that efforts have been made to increase the productivity of PSBs in the district in the reform era. The per branch deposits and advances increased to Rs. 1010.8 lakhs and Rs. 191.7 lakhs in 2000 from Rs.135.7 lakhs and Rs. 46.2 lakhs in 1985 respectively. The businesses per branch have also been increased showing a positive signal of fulfilling the objective of banking reform i.e., to make the banking system efficient. The business per branch in the districts increased from Rs. 181.9 lakhs in 1985 to Rs. 1202.6 lakhs in 2000. However, the fact remains that the branch productivity of PSBs is lower than the national level. The average productivity branches was Rs. 344.7 lakhs in 1985 – 86, increased to Rs. 1874.9 lakhs in 2000-01.

23. A clear symptom of cost effectiveness has been observed which is revealed by the parameter of cost responsiveness (percentage variation in cost to pc variation in earnings) the PSBs of the districts. The cost responsiveness of PSBs was 0.93 in March 1995 declined to 0.79 in March 2000. This indicates PSBs have been showing a stellar performance in regard to the productivity and thereby increasing the efficiency in controlling the cost factors during the post reform years.

24. The recovery position of banks in the pre reform era was very much poor in almost all the sectors viz., agriculture, SSI and trade & services than that of post reform period. The recovery performances of banks particularly in agricultural sector are
discouraging in the valley under study during post reform era. The lower recovery indicates the erosion of bank profitability and blocking up of credit which could have been used for developmental projects in the area under study.

25. A significant feature of bank lending is that agriculture and allied sectors have enjoyed relatively major portion of bank credit. The agriculturists and poor people of the area could not repay the loans because they spend their loans on personal consumption rather than productive purposes.

26. The main reason for poor loan recovery is constant failure of monsoon, natural calamities like floods in particular, willful default, deficiencies in lending policies etc. Various other factors such as supervision of end use of fund owing to lack of vehicle and paucity of staffs, defective processing of loan applications, communication gap between banker and customer etc. also attributed to the poor recovery.

27. The total volume of NPAs of PSBs operating in the districts under Barak valley in absolute term has swelled to Rs. 1016.2 lakhs in March 2000 from Rs. 538.2 lakhs in March 1995 recording a 1.89 times increase. While the percentage of NPAs to total advances was 4.3 pc in March 1995, increased to 5.6 pc in March 2000 much lower than the national level (14.0 pc in March 2000). This significant reduction of NPAs may be due to the definitional changes introduced by the RBI in 1995-96, shyness on the part of the bankers while granting fresh loan, more investments in the government securities, introduction of one time settlement scheme, and so on.

28. The matrix of correlation co-efficient of components of NPAs and advances discerns that with the increase in advances, total NPAs has increased at the same proportions. The positive correlation between advances and NPAs (0.82) is statistically significant. The ‘r’ value of advances with doubtful assets (0.86) is also significant while with sub-standard assets (0.80) and loss assets (0.78) are not statistically significant. This indicates that with the increase of advances, doubtful assets has also increased but the increasing rate of sub-standard assets and loss assets has not followed the rate of increase of advances in the area under study.

29. The bank wise analysis of NPAs reveals that NPAs of all PSBs except Vijaya Bank have been increased. During March 1995 – March 2000, State Bank of India holds
maximum proportion of NPAs to total advances followed by United Bank of India (UBI), Punjab National Bank (PNB), Allahabad Bank (AB), Punjab & Sind Bank (P & S), Vijaya Bank (VB) respectively where as the Central Bank of India (CBI), United Commercial Bank (UCO), Indian Bank hold a very small proportion of NPAs to advances. However, the average annual growth rate \((\text{agr})\) of NPAs in PNB is highest followed by SBI (11.5), UBI (9.8), Indian Bank (7.9), CBI (6.5), BoB (6.1), P & S Bank (5.8), Vijaya Bank (5.1), Union Bank (4.3), Allahabad Bank (2.3) and Canara Bank (1.5). During the period, UCo bank has witnessed a negative growth rate \((\text{agr} = -8.7)\). In regard to the variation in the volume of NPAs, Allahabad Bank is well placed \((\text{cv} = 11.1)\) where as others have attained higher volume of NPAs, due to fresh accretion of NPAs over the years.

30. There are number of factors responsible in increasing in size of NPAs of PSBs. A few prominent reasons for assets becoming NPAs in the study area are mentioned as under:

- Poor credit appraisal system.
- Lack of vision/foresightedness while sanctioning/reviewing or enhancing credit limits.
- Lack of proper monitoring.
- Reckless advances to achieve the budgetary targets.
- Lack of sincere corporate culture.
- Inadequate legal provisions on foreclosure and bankruptcy.
- Change in economic policies/environment at the macro level.
- Non transparent accounting policy and poor auditing practices.
- Lack of coordination between Banks and their customers.
- Directed/schematic lending to certain sectors.
- Failure on the part of the promoters to bring in their portion of equity from their own sources or public issue due to market turning lukewarm.
- Abolition of license raj and hooting up of competition in the liberalised Indian economy.
31. The factor analysis discerned that the sample respondents considered for the study turned to be dissatisfied lot regarding services rendered by the banks operating in the districts. The variables which cause maximum dissatisfaction include –

- Décor of banks with sitting facility.
- Service charges with atmosphere in the banks.
- Banks’ innovativeness in introducing new services with the efficiency of staff.
- Bank’s Parking place with atmosphere in banks.
- Bank’s publication regarding services with reputation of banks.
- Knowledge of bank employees regarding bank services with sitting facilities.
- Location of the banks with availability of staff in the respective counter.

On the basis of importance, all twenty-five variables are clustered in the following seven factors.

(i) Routine operation factor.
(ii) Price factor.
(iii) Environmental factor.
(iv) Management factor.
(v) Technology factor.
(vi) Interactive factor.
(vii) Service factor.

It indicated that banks are yet to provide services to Routine operation including; time taken for opening an account, speed of withdrawing and speed of depositing money, at the fullest satisfaction of the customer.

32. The eigen value of routine operation factor ranks the highest (eigen value = 1.890188) indicating the satisfactions level of the customers, in regard to the procedural process relating to the time taken for opening an account, speed of withdrawing and depositing money, is not appreciable. The price factor which second in the list (eigen value = 1.784558) generates slight satisfaction because the customers feel that they are not getting enough services or the price they are paying to avail bank services like service charges, interest on loans/savings and layout of
the banks. They are quite willing to pay more only if the quality of services is enhanced. More over the PSBs in the area understudy are not making an extra effort to improve the banks condition with regard to the environmental factors (eigen value = 1.688277) viz, bank’s parking place, sitting facility, decor of banks which are well within the control of the banks. The other factors which yield poor satisfaction are management factor and technology factor, (eigen value = 1.568620 and 1.526090 respectively). Though much can not be done in respect of the management factor viz. quality and quantity of services rendered, knowledge of bank employees regarding bank services, location of banks etc, PSBs, however, in the area under study are yet to step in technology up-gradation in their branches like computerisation, introduction of innovative new services etc to survive in the present day world of competition.

33. The PSBs have a lot to do in regard to the decors of banks, innovativeness in introducing new services and mechanisation. The banks, however, are showing a dismal service performance in this respect. Very few PSBs have fully computerised their operations and are stuck on to manual computations and calculations, which increases the workload and reduces the efficiency of the staff. As a result, interactive factor i.e. communication gap between banker and customer, bank’s publication regarding services, banks atmosphere etc stands sixth position on the hierarchy of satisfaction list (eigen value = 1.49830). The services factor pertains to availability of staff in the respective counter, banks advertisement relating to services, genuineness of overdraft facility etc indicating lowest level of satisfaction appears last (eigen value = 1.401386) on the satisfaction list.

34. The factors wise average score revealed that the bank customers in the area under study are dissatisfied lot. Out of a total of 25 variables customers are moderately satisfied in case of only 6 variables, while 12 variables come under slight and 5 are in the least satisfied category. This signifies that the customers of PSBs in the districts under study are dissatisfied with the working of their banks with regard to these factors. Many of the PSBs have old, dark worn out interior which makes working an unpleasant task for the staff. The customers have to wait for a long time to get their work done. The computerisation and mechanisation need to be
emphasised on the banks operation in the districts under study. The efficiency, diligence and conscientiousness of the staff in carrying out the work assigned to them is the pre-requisite for better customer services rendered.

Further, major findings of the study are related to the testing of following operational hypotheses adopted in this treatise.

**Hypothesis Verification:**

(1) The hypothesis that "there is no difference in the growth of incremental deposit as well as incremental credit during the post reform periods" is found to be correct. The analysis of Pearson's correlation coefficient (r) between incremental deposit and incremental credit reveals that the ‘r’ value (0.615) is positive and statistically not significant at 1 pc and 5 pc level of significance. This implies that banks in the study area are not deploying credit at the same rate what they have mobilized deposits from the area under study. This has also further been confirmed by the fact that C/D ratio in the valley is at the low ebb.

(2) The hypothesis that "There exists inter district credit gap and variations in deposit mobilization during post reform era" is found to be correct. This hypothesis is examined in terms of growth of deposits per office and advances per office separately in each district. The analysis explores the existence of positive ‘r’ values for all districts in the area under study. The ‘r’ value appeared to be statistically insignificant for Karimganj district (r = 0.54) and statistically significant only at 5 Pc. level of significant for Cachar (r = 0.74) and Hailakandi district (r = 0.71). The insignificant correlation co-efficient implies that there is a scope of expediting the pace of banking operation in the districts under study. This further confirms that the existence of inter district credit gap as well as variation in the deposit mobilization in the post reform years.

(3) The hypothesis that "there exists a direct associationship between per employee bank business and per employ expenditure incurred" is found to be true. The correlation co-efficient between per employee expenditure and per employee business in the post reform years (1993-2000) has been found to be positive (r = 0.872). The positive ‘r’ value is statistically significant at 5 pc level of significant. It
indicates with the increase in volume of business the expenditure or cost is increasing in the post reform years. This is the contrary to the priori assumption that per employee expenses will decline with corresponding increase of volume of business. The reason may be attributed to the mismatch of various components of expenditure viz. Interest expenditure, manpower expenditure etc. with volume of business.

(4) The hypothesis that, **"The policy of mass banking led to higher volume of non performing assets"** stands to be correct. The ‘r’ value between advances per branch representing the extent of banking operation and NPAs per branch has been used to test this hypothesis. The correlation coefficient (0.857) is highly positive and significant at 5pc level of significance at 4 df. This indicated a positive relationship between advances per office and NPAs per offices. It can be thus argued that high volume of advances led to increase in the volume of NPAs.

(5) The hypothesis that, **"Incremental volume of business is directly associated with incremental profitability of public sector banks"** is found to be correct. The ‘r’ value between incremental volume of business and profits is 0.914 during 1693-2000. It is highly and statistically significant both at 5 pc and 1 pc level of significance. It suggests that volume of business has a direct bearing on the volume of profits of PSBs.

(6) The hypothesis that, **"Incremental flow of total income has a direct impact on the profitability of PSBs"** is found to be valid in the area under study. The highly positive ‘r’ value (0.890) found to be significant at both 5 pc and 1 pc level of significance, It indicates that total earnings has or direct import on bank profit and increase in total income certainly resulted in a rise in profits.

(7) The hypothesis that **"Incremental expenditure has no impact on banks profitability"**. This hypothesis found to be false. The negative ‘r’ (-0.173) is not significant at respective level of significance. It indicates that expenses have mounted over the years and not resulted in increasing profits. It indicates that the banks have not yielded higher profit due to an increase in the volume of expenditures over the years. Thus null hypothesis is rejected, we therefore conclude that the mounting pressure of expenditure has dragged down the banks profitability.
in the study area. This may be due to involvement of excess staff in the branches and volumes of business have not increasing over the years.

(8) The hypothesis that, "Bank exposures to the priority sector lending led to high level of NPAs" is found to be partially true. This hypothesis is examined by correlation coefficient (r) between NPA per branch and priority sector advances per branch during the post reform years. The ‘r’ value found to be positive (0.742). This implies that with the increase of priority sector lending, there has been corresponding increase in the volume of NPAs. However, such ‘r’ is not statistically significant. Thus it can be argued that priority sector lending is not sole factor in enhancing the volume of NPAs in the area under study. Thus, the hypothesis is partially true.

(9) The hypothesis that “banks are rendering services to the fullest satisfaction of the customer in the area under study” is found to be incorrect. Twenty-five variables were considered to measure the satisfaction level. The results of factor analysis showed that the respondents were categorised in either slight or least satisfied group only. The banks, on the other hand, failed to serve the customers even with the routine operation facilities (eigen value = 1.89). Further more, service qualities have deteriorated in the rural branches as out of 25 variables, the respondents expressed their dissatisfaction in 12 variables.

Suggestions
Consequent upon the foregoing findings and diagnoses of the impeding factor of banking operation the following suggestions are put forwarded to alleviate the constraints leading to better functioning of banks in the Barak valley.

1. Efforts should be made to establish more bank branches in the un-banked areas to cater banking services to the rural populace and to inculcate banking habit in them. There is also need to rationalise the branch network by consolidating the number of branches within a local area in to a single profit centre without affecting customer service to reduce the administrative expenditure.
2. There is need of greater specialisation by banks in different niches of the market such as retail, agriculture, export and the small scale and corporate sector. Banks in the districts need a shift away from universal banking to specialised banking companies and private banking.

3. The Public sector banks in the districts mainly rely on loans and advances as source of income. They need greater attention to the non-interest income particularly on the income from consultancy etc. Cost consciousness among the banks need to be developed in resource mobilisation which should be guided by availability of opportunity for fund deployment in a profitable manner.

4. The mounting overdue thwarted the banks’ lending in the area under study. No effort is made to improve the recovery performance. The local leaders do not encourage the loanee to pay it back rather they give assurance for exemption of loan repayment. Consequently, loan is not recovered in future, it becomes difficult to pay it back due to heavy amount. Therefore, an immediate action plan in the line of provisions made in the securitisation Act. 2002 is necessary to expedite the recovery position.

6. The effective steps for reducing NPAs in general and doubtful assets in particular should be taken in the area under study. A market based institutional architecture and supervisory strategy to reign unbridled virus of NPAs is urgently needed.

7. Lokadalot has a unique advantage for recovery of loans and loan compromise. This should be strengthened to expedite the recovery of bad loans in the study area. This, apart, efforts should be made to give wide publicity of the schemes, besides educating the banks and borrowers about lokadalots.

8. The recovery camps should be organised during the harvest season for agricultural advances. To ensure maximum advantages, recovery camps need to be properly planned. It is also necessary to take help from the outsiders particularly revenue officers, local Panchayat officials, regional managers of banks etc.

9. As the internal governing factors of banks are responsible for large volume of NPAs the onus, therefore, rests with the banks themselves. The organisational restructuring, improvement in managerial efficiency, up-gradation of Skill for
proper assessment of credit worthiness and a change in the banks attitude towards legal action need to be called for.

10. Immediate, introduction of technology relating to the settlement of transactions, maintaining of accounts is imperative. There are a large number of fully computerised branches across the county. Efforts should be made to computerise all branches in the area under study.

11. Payment system plays a critical role in the banking activities. The effective, efficient and speedy payment and settlement system should be sharpen with introducing instruments like, tele banking, retail electronic fund transfer (EFT) and electronic clearing services. The Real Time Gross settlement (RTGS) may be set up to ensure integrated payment system.

12. The asset portfolio must be monitored continuously to ensure the quality of the assets. Sophisticated models of portfolio management must be adopted to reduce concentrated lending as well as over exposure to specific sector in the area under study.

13. Prevention is better than cure. It was observed that there is unprecedented rise in fresh NPAs in some banks. The surest way of containing NPA is to prevent their occurrences. The tenets of this prevention policy lies on
   (i) Proper risk management system.
   (ii) Strong and effective credit monitoring
   (iii) An open and co-operative working relationship between banks and borrowers.

14. Management responsibility and accountability should be stepped up with respect to management of bad loans. Thus, either a particular executive or a team of executives should be individually or collectively held responsible for sanctioning, disbursing and collecting the loan amount relating to a particular project.

15. Macro level policy regulation should be modified. The prudential norms on income recognition, asset classification and provisioning must be at par with international standard. The system needs to be move transparent.

16. The specific strategy of writing off loans in the PSBs operating in the area can be adopted, particularly where the amount of outstanding loans are small, the security
available to the banker is negligible and the expenses to be incurred might be more than the amount likely to be recovered. It can be used in case of smaller priority sector advances where guarantees cover is available from Deposit Insurance and Credit guarantee Corporation (DICGC). This can reduce the volume of NPA to an appreciable level without much loss to the banks.

17 Certain State Governments have passed necessary enactment enabling them to recover the dues of the banks under the revenue recover proceedings. This may be applicable to the borrowers of small loans granted by the banks under the priority sector-lending scheme.

18. Supervision and follow-up are two sides of the same coin. Regular monitoring makes the borrower not to divest the funds for purposes other than the purpose for which the loan is sanctioned. One should not sanction and release funds suddenly or immediately, instead disbursement is to be done in stages. A personal enquiry may be conducted over the borrowers whose accounts became NPA so that their difficulties towards servicing the loan can be known.

19. Repayment ethics should be inculcated in the minds of the borrowers by optional utilization of various media i.e. Television, Video film, All India Radio and the Press. The incentives could be offered to the regular payers by financing again or providing bonus and dis-incentives for the willful defaulters in the form of public crime action or adverse publicity in the newspapers and through public address system in the villages.

20. The effectiveness of any scheme to a greater extent is positively correlated to the number of visits made by the bank officials to the beneficiaries. Due to lack of pre-sanction appraisal by the banks, the really poor and needy borrowers are very often neglected and benefits are passed on to several spurious applicants and rich section of the society. Thus, as a part of better management of NPAs and to ensure the quality of assets, pre and post visits of sanctioning and disbursing loan are necessary in the districts under study.

21. Periodic visits by the controlling authorities to the bank branches and dealing offices along with their relevant suggestion might help in NPA reduction, quality of credit
decision, exercises of discretionary powers etc. The report of the visits has to be followed up and action points complied with.

22. For improving the profitability position, banks should undertake an aggressive marketing of retail banking particularly consumer loan, car loans, housing loans etc. It will ensure the return and prompt recovery of loans. The product range of banks has to be widened by introducing new loan-schemes to meet the changing needs of customers. Banks can market the products through e-commerce also.

23. Interest cost can be checked by improving the quality of deposit related services. It has been observed that customers do not mind to get a lower interest rate on deposit if the overall quality of services and the attitude of the staffs are improved to their satisfaction. Further, there is much scope to convince the retail traders and other institutional customers to open their current account in the banks to avail of various services.

24. Immediate measures should be taken to increase the level of spread as well as to curtail the burden ratio in order to improve the profitability of PSBs as well as to attain competitiveness in the changing banking scenario

(i) Spread can be increased by:
   - reducing the average cost of resources by consciously avoiding high cost inter bank deposits and high cost market borrowings.
   - where ever such high cost resources are mobilized, they should be matched with suitable avenues of resources deployment after taking into account the inherent risks and returns.
   - better customer service should be provided.

(ii) Burden can be reduced:
   - pricing all products / services / non-fund based facilities based on the cost benefit analysis.
   - by observing strict cost control.

25. The banks in the study area should concentrate on fee based income which would be derived from specialised services like merchant banking, corporate advisory services, project appraisal, handling of remittance and collection business of clients, foreign exchange business and so on.
26. To solve the problem of mismatch of various components of expenditure, the mismatch between manpower needed and manpower allocated should be corrected through reallocation. Since it would not be possible to reduce various costs viz., manpower and establishment cost through technological substitution, the attempt should be made, therefore, on the optimum use of other types of inputs and reallocation of existing manpower to increase overall effectiveness.

27. The steps need to be taken to increase the job satisfaction and morale of the employees. Efforts should be made to inculcate positive attitude and a feeling of conformity among them. The staff should also follow a humanistic approach to monitor, supervise and evaluate their work for enhancing productivity.

28. One of the reasons of low employee productivity is the national level trade unions that oppose to move of modernisations, automation and getting regular pay hike without corresponding increase in productivity. Thus, more autonomy should be granted to banks in the districts to hire and fire the employees on the basis of recommendations of the committee on financial sector reforms.

29. Banks have been dealing with customers with diverse needs in a generic manner. With the entry of private sector banks and non-banking finance companies who focus on specific niches, banks have woken up to the importance of market segmentation. Under this formula, banks in the study area would be required to stratify different customer groups and devise products and delivery system to suit their specific requirement with proper use of information technology.

30. A customer is more concerned about the services he is able to get from the front line staff with whom he has direct interaction. The entire organisational line up therefore would have to be leveraged to play a supportive role in this endeavour.

31. There is an urgent need to educate the customers on the various aspects of banking that would make aware the customers about wide range of services made available with the banks. This on the other hand would create a synergy among the customers' satisfaction, operational productivity and employee performances.

32. Banks in the districts can be made customer friendly. Top most priority should be given to listening to the customers. Regular customers meet, customer surveys etc. assist the banks in knowing the wants and grievances of customers. The complaints
must be looked into immediately and the mistake should be rectified through better customer relationship management.

33. To improve the service quality, the PSBs in the districts should concentrate on the accountability of the staffs. Punitive action should be taken against staff members involved in misbehaviour with the customers. The training programme intended for the staff should emphasise the staffs’ behavioural aspects only.

34. The marketing should receive a major thrust in the districts and new customer oriented products should be developed. Strategic business of specific branches and profit centres should be identified and manned by skilled and experienced personnel.

**Conclusion**: In our country where more than 70 pc people live in rural areas, 34 pc people are still illiterate and the economy is agro-based, our banking model should be driven by the motto of uplifting the economy and help in social development along with the present day dictum of abiding by the international norms.

With a view to enhance the quality of bank management of encouraging and pursing market discipline through transparency, consistency and accountability, the corporate governance should be implemented in the banks. They should be given greater autonomy, authority for laying down internal guidance and procedures for transparency, disclosure and risk management. The banking industry would bring forward the required cultural transformation by continuously enriching the knowledge of its workers.

Lastly, the re-engineering and restructuring process of Indian banking industry which are already been initiated should focus more on; maintaining capital adequacy norms, keep uniformity in accounting practices, implementing prudential norms, carry out candid auditing and increasing transparency in balance sheet/profit and loss statement.

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