

Dynamics of Privatization of the Indian Banking System & The Common Man's Inclination to IT



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Abstract

With the constant demand for the privatization of Indian banking, several private banks are now in existence all over India, and are serving the public successfully. At first, the common man did not seem to have faith in them, and was afraid of opening account with them and of making transaction through them. He would prefer the transaction through the nationalized banks to the private them with a strong feeling that it is only through the nationalized banks that his monetary transactions are safe. But now the things are changed and changing fast with the common man's growing faith and inclination in them. All over India, there are both the nationalized and private banks, but as compared to the nationalized banks, the private banks are more successful in attracting the customers towards them.

Since the entry of the private banks in the Indian banking system, several banks have come and seen both good and bad times. Some of them disappeared after working for a few months or years for certain policy reasons, still many of them like HDFC, ICSSI are there to serve the common man. The same is true of the private insurance companies that force the customers to withdraw from the other approved and long established insurance companies and to invest their money in them for the sake of better dividend and profit.

Designed and prepared on the secondary data collected from the specifically selected Indian and foreign studies on the theme, the paper is a theoretical study which aims at presenting a review of the dynamics of the privatization of the Indian banking and the common man's inclination to it encompassing all the major aspects associated with the theme.

Keywords: Dynamics, Privatization, Banking, System, Sector, Productivity, Existence, Associated, Nationalized, Public and Private Sector, RBI, Scheduled, Non-Scheduled, RRB.

Introduction

Banking in India came into existence for the first time in the last decade of the 18th century, and some of the noted first banks were the Bank of Hindustan and the General Bank of India. The State Bank of India (SBI) which originated and started working as the Bank of Calcutta in mid-June 1806, is the oldest bank which is still in existence. It was one of the three banks founded by a presidency government, the other two were the Bank of Bombay and the Bank of Madras. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. The Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.

Under the State Bank of India (Subsidiary Banks) Act, 1959, the State Banks of India was given control of eight state-associated banks in 1960 which are now called its associate banks. In 1969 the Indian government nationalised 14 major private banks which later turned out to be the majority of lenders in the Indian economy.

The Indian banking sector is very wide and is broadly classified into scheduled and non-scheduled banks. The banks that are included in 2nd Schedule of the Reserve Bank of India Act, 1934, are termed as the scheduled banks which are further classified into: nationalised banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks.

Remarking An Analisation

Irfana (2013) is absolutely right when she comments that Indian banking is the lifeline of a nation and its people. Banking has helped in developing vital sectors of the economy and to usher in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. Today, Indian banks can confidently compete with modern banks of the world.

Privatization is presented as a panacea to the many ills plaguing Government-owned banks with the belief that the public sector equates to sloth, inefficiency and corruption, while private ownership automatically brings with it efficiency, financial prudence and governance, isn't really true. There is only partial truth in it as the privatization of banks has its own problems.

While assessing the issue of privatization of the Indian banking, and while speaking whole heartedly in favour of it, it should not be forgotten that it is India's private corporate sector that has thrown the banking system into its present NPA (non-performing asset) quagmire in the first place. RBI data of end-March showed that public sector lenders accounted for over 90 per cent of the Rs 5.5 lakh crore gross NPAs with banks, but nearly 100 per cent of those loan defaults were by private borrowers.

Limiting their ability to make further loans, the Loan-loss provisioning for NPAs has seriously eroded the capital base of several banks. The general consensus is that the state of Indian banking is among the biggest challenges facing the country in accelerating investments and growth.

Therefore, it is not fair to deduce that privatization of the Indian banking is compulsory. It should be encouraged, but only with certain limitations so that the effective and economy-growth oriented working can be ensured.

Objectives of the Study

1. To correlate the economy and banking
2. To examine the significance and relevance of privatization of banking in India
3. To analyze and compare the efficiency of the nationalized banks and the private banks
4. To provide valuable suggestions about the problems
5. To discuss the future of privatization of banking in India
6. To evaluate the dynamics of the privatization of banking in India
7. To interpret the cause and effect relationship of the studied issue

Review of Literature

1. S. S. Sagar Priyatham & K. Prathima (2002) in their paper India: Do We Need To Privatise Our Banking Sector? state that banking Industry in India has always revolved around the traditional function of deposits and credit. Their role has been defined to assist the overall economic growth with majority of shares being controlled by the Government of India in most of the banks. But with the process of Liberalization, the banking industry has also undergone tremendous change in the last 5 years. The rules of the game have been changing with RBI introducing new norms to

make banks more accountable and to adopt the practices followed worldwide. Banking and insurance are the two key factors of the financial sector. The Government has welcomed the establishment of private banks and is encouraging privatization of public sector banks and extension of private banks.

2. Milind Sathye (January 2005) in his paper entitled Privatization, Performance, and Efficiency: A Study of Indian Banks surveys that financial performance of partially privatized banks (measured by return on assets) and their efficiency (measured by three different ratios) were significantly higher than that of the fully public banks; in the matter of quality of advances (measured by the ratio of non-performing assets to net advances), significant difference was not found in these two groups. Of course, there is no quick fix for this problem; on comparing the strategies of privatization in India with the other countries, India was found to adopt the strategy of initial public offerings like Poland. This strategy failed in Poland but seems to have succeeded in India.
3. Omprakash K. Gupta, Yogesh Doshit, and Aneesh Chinubhai (2008) in their study entitled **Dynamics of Productive Efficiency of Indian Banks** discuss that the productive efficiency of the Indian banks has increased in the last five years, in the sense that the average efficiency scores have risen (0.901 to 0.925). However, the rise is not consistent and shows large deviation form year to year. Besides, asset weighted efficiency scores have not changed. Thus, the increase in efficiency has come from smaller private banks. As the individual banks scores show, UTI Bank, HDFC Bank and IndusInd Bank have been among the most efficient banks. Equally there are several inefficient private banks, which reduce the average score of private banks compared to the State Bank group.
4. Pankaj Sinha, Sakshi Sharma and Sayan Ghosh (2015) in their study An empirical analysis of competition in the Indian Banking Sector in dynamic panel framework observe that the Indian Banking sector reforms were introduced as a broad counterpart of the economic reforms of 1991, which was aimed primarily at globalisation and liberalisation of the Indian Economy. Competition has been regarded as a positive phenomenon for banks; it is perceived that competition makes banks more efficient, stimulates financial innovation and open up new markets. Given the dynamic changes within the Indian banking system in the last two decades, it might be of interest to see whether the developments in the market structure correspond with less competitive behaviour or more on the part of market participants. For empirical assessment of the nature of competitive conditions amongst scheduled Indian commercial banks over a period of 15 years, we use the 'Panzar-Rosser educed form revenue model' to

Remarking An Analisation

- compute the so-called H statistic by estimating the factor price elasticities.
5. CP Chandrasekhar (2017) in Public Bank Privatisation in a Post-truth World observes that there are banks in the private sector like HDFC Bank, Kotak ... which are so well capitalised that they actually have balance sheet capacity ... to take over the healthy parts of the activities that the public sector banks are engaging in (emphasis added). Clearly, public sector banks have a branch network and franchise that would be very valuable even to private sector banks.
 6. Rashesh Shah, President of Federation of Indian Chambers of Commerce and Industry (February 19, 2018), in an interview asserts that a dynamic banking sector is the need of the hour. India needs sustainable high growth for its socio-economic development which will not be possible in the absence of support from a robust healthy financial sector. He pointed out that PSBs, which constitute almost 70 per cent of the Indian banking system, are saddled with burgeoning stressed assets.
 7. Saul Estrin Adeline Pelletier (2018) in their paper Privatization in Developing Countries.. observe that the tone of the privatization debate has evolved in recent years in international financial institutions as privatization activity has shifted towards developing economies, and as a consequence of the difficulties of implementation and some privatization failures in the 1980s and 1990s. As a result, more emphasis in policy-making is now being placed on creating the preconditions for successful privatization.
 8. Dhananjay Bapat (2018) in his paper Profitability drivers for Indian banks: a dynamic panel data analysis asserts that bank specific factors, banking industry factors and macroeconomic factors affect bank profitability in India. Indian Public sector and Indian private sector banks contribute to more than 90% of total business of scheduled commercial banks in India.
 9. Manju Rajan Babu & Ashok Kumar M. (2018) in their paper entitled "Evaluating the nationalization & privatization effect: a case of Indian banking industry" observe that improving the performance and efficiency of public sector banks is a main goal of economic reforms in several countries, including India. It has been believed that performance and efficiency of banks can be improved by private ownership. The privatized banks perform better than public sector banks in terms of certain efficiency parameters and financial performance. Indian government is already considering a step to take its stake down to 33%.
 10. Milivoje Davidovic, Ozren Uzelac & Vera Zelenovic (2019) in their paper Efficiency dynamics of the Croatian banking industry: DEA investigation discuss that over the last three decades, the global financial markets have undergone dramatic institutional transformations. They have been affected by liberalisation and financial globalisation on one hand, and a changing

macroprudential regulation and supervisory role, on the other hand. In addition, the bank-based financial sectors of the former socialist countries, previously driven by central planning, lived through the disruptive financial meltdowns which required both restructuring and transition. The Croatian banking market was not isolated from these "tectonic" structural changes. After successful privatisation, the Croatian banking market became more competitive and internationalised.

The above specified studies include both the foreign and the Indian studies. They provide a sufficient feedback on the problem, and encompass all the major aspects associated with the dynamics of the privatization of banking. A thorough study and analysis of all these studies enables the scholar to realize that the privatization of banking is the utmost demand of the hour in the public interest. Therefore, it should be encouraged in India in a way that its effective working is ensured.

Hypothesis

1. The banking sector of India is very wide and encompasses within it both the nationalized and private banks
2. The banking sector serves the people and is helpful in strengthening the economy
3. The nationalized and private banks work side by side serving the nation as a whole
4. Privatization of banking is relevant in the developing nations like India
5. Privatization of banking imparts the Indian banking system a distinct identity and status
6. The dynamics of privatization of banking lies in its multispherical working and liberal approach
7. The common man in India reveals his faith in private banks and in their liberal working
8. The common man has a tremendous inclination to the private banks
9. Some of the private banks are very popular with the people
10. The future of the privatization of banking in India is bright

Methodology

The paper as a whole is a theoretical study based and designed on the secondary data found available in the various Indian and foreign research studies available on the various internet sites. In order to keep up the scientific spirit of the work, the scholar strictly and rigidly observed the steps of research prescribed and suggested by the eminent scientists. Beginning with the selection of the topic the study ended with the various findings and conclusion. In-between the steps that were adopted in pursuance of the theoretical implications of research include the search for the sources of the secondary data to be treated as the very basis of the study, finding certain specific studies associated with the purpose, classification of the studies on the basis of the nation, objectives, hypothesis, research methodology, tools and techniques and findings, the thorough study of the related literature on the theme, application of the previous knowledge and personal opinion to the contents, and drawing conclusion and making

findings. The conclusions and findings were made keeping in view the contents and findings of the selected studies in addition to the personal observations of the scholar as well as the casual purposeful discussions on the theme made by her with the common people in the surroundings and with the competent persons who were found good at supplying the information required by her for the purpose of shaping up her study.

Findings & Conclusion

1. The Indian banking system is very wide and it encompasses within it all the types of banks in existence.
2. The history of banking in India reveals its several phases.
3. State Bank of India (SBI) is still the most popular oldest bank in India which is still in existence and serving the people.
4. The Reserve Bank of India, established in 1935, has special powers to make innovations in the field of the Indian banking.
5. Nationalized banks, Private Banks, Scheduled Banks, Non-scheduled Banks, Regional Rural Banks, Foreign Banks etc. are some of the classes of the banks.
6. The dynamics of the Indian banking lies in the fact that it assists the overall economic growth.
7. The Govt. of India is in the favour of privatization of public sector banks and in making extension of private banks.
8. The financial performance of privatized banks and their efficiency are significantly higher than that of the public banks.
9. The productive efficiency of the Indian banks is constantly on move with the privatization of banks.
10. UTI Bank, HDFC Bank and IndusInd Bank are some of the most efficient banks.
11. Privatization of banks in India leads India to the process of globalization and liberalization of the Indian economy.
12. Dynamic banking sector is the need of the day for the sake of strengthening the Indian economy.
13. Privatization of banking is a key feature of the developing nations and economies like India.
14. Dynamics of the privatization of the Indian banking is bringing about tremendous changes in the behavior of the customers in India.
15. The more the time is advancing, the more faith and inclination the common man has in the privatization of banking in India.

16. Only partial privatization of the Indian banking should be made in order to avoid a chaotic situation in the Indian banking in future.
17. In order to enjoy full success, the privatization of banking needs to be reformed and remodeled.
18. Both the public sector banks and the private banks should be allowed to work and exist under a proper monitoring and governance.

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