Journal of Advances and Scholarly Researches in Allied Education
Vol. 20, Issue No. 4, October-2023, ISSN 2230-7540

Determinants of Nationalized Commercial Banks' Performance

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Abstract - One of the most important variables influencing resource providers' decision-making is financial success. Every institution should therefore pay closer attention to the elements affecting its financial performance in order to assure their continued existence in the ever-increasingly competitive business climate. This essay is particularly concerned with finding the variables that affect the functioning commercial banks' financial performance. Additionally, an effort has been made to see if there are differences between local private and nationalized commercial banks in the degree to which various factors have an impact on financial performance. Banks have made concerted attempts to overcome the historical disparities in the regional distribution of financial services as a result of nationalization. There has been a significant decrease in the national average of people served by a single bank branch, and the gap between the national average and the average in several areas has shrunk.

Keywords - Commercial Banks, determinants, nationalized, Performance.

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INTRODUCTION

The current Indian financial system is the result of efforts made to fulfill the aforementioned goals and needs. As a whole, the banking system has a well-defined structure, with the Reserve Bank of India (RBI) serving as its central apex. Banking in India is made more complicated by the fact that its elements come from diverse places and are of varying sizes. Having the Reserve Bank of India established marked a turning point for the progress of the banking industry in India. The Reserve Bank of India is the lender of last resort and the banker's bank in India. (1) It was established in response to a long-held popular desire for a central bank that would oversee financial and credit management. Further, it serves as the government's fiscal agent by managing money and regulating credit in the public interest. After the Reserve Bank of India was created in 1930, the Imperial Bank of India (which had been around since 1921) was nationalized in 1955, giving rise to the State Bank of India. Other joint stock banks have been established from 1860 onwards; foreign exchange banks were first introduced to India in the second half of the nineteenth century. These banks join the State Bank of India and twenty major nationalized scheduled commercial banks to form India's extensive banking system. Banks in the cooperative sector, which include nights and chit funds, which date back to the final quarter of the 19th century, as well as cooperative credit organizations and loan offices, which emerged in 1904. In addition to them, some indigenous bankers and bankers have been in the business for generations, as well as post offices, savings banks, (2) and stock exchanges structured along contemporary lines. The tireless efforts of distinguished bankers have shaped the current massive structure of Indian banking to accommodate the evolving demands of societies for resource mobilization and the dissemination of credit.

History of Banking

We struck a deal with fate a long time ago, and the moment has come to make good on that deal not completely, of course, but in a major way. When the rest of the world is fast asleep, India will be reawakening to life and independence. We should see today's success as only a stepping stone to the far bigger victories and accomplishments that lie ahead. How willing and able are we to seize this moment, face the future head-on, and make history? As Nehru said these words of prophecy just before midnight on August 14, 1947, a new era started in the development of banking in India. In spite of the fact that banking in India was as ancient as her civilization, it was the British who brought modern banking to the nation. If the nation didn't have banks, citizens would have to use barter economy, in which one good or service is exchanged for another. Clay, goals, rice, iron, copper, hoes, stone, bank loans, livestock, etc. are just some of the objects that have been used as money throughout history. In 1809, the Bank of Bengal opened for business, and in 1840 and 1843, the Bank of Bombay and the Bank of Madras were founded to serve the respective presidencies. Reserve Bank of India, which had begun operations in 1935 as a shareholders' bank, was nationalized in 1948, and the Banking Regulation Act was passed the following year, in 1949, just after India gained independence. (3)

The presidency banks merged in 1955 to establish the Imperial Bank of India, which was thereafter nationalized and renamed State Bank of India. Indian policymakers have always been committed to a socialist pattern of society as a means of narrowing societal gaps in terms of both income and social status. It was seen that the Ban king system's activities did not help achieve this aim. Large industrialists dominated the banking system and appropriated the lion's share of bank funding, a: at the expense of marginalized groups' demands for attention. In 1967, the government amended the Banking Regulation Act to increase legislative supervision and establish the National Credit Council to determine priority in lending. (4)

Role of Banks in the Economy

Because there was no contemporary concept of "money," individuals had to barter for products and services in the form of other things and services. This was a barter system, which was in many respects cumbersome and inconvenient. While this was the case, individuals could and did lend or borrow in the form of particular items, which they then received back or reimbursed in a manner that was mutually acceptable to both sides. Modern banking is a far cry from the old-fashioned lending of money. It's a lot more difficult and convoluted than that. Today's banking institutions represent the "heart" of every country's financial system, regardless of how developed or developing, wealthy or impoverished, technologically advanced or backward the country may be. Banks play a more innovative and strategic role in emerging economies than they do in more developed ones. In order to make this point, we must first assume that banks are working in a free-enterprise economy rather than a totalitarian system in which the state controls all production factors and has exclusive authority. (5) The challenge of economic development is simplified in a centrally planned economy since the path of development is predetermined and the economy is expected to follow it. Even in highly developed economies, a strategy's conception and execution might be flawed for a variety of reasons. Despite all the planning and allocation of responsibilities and tasks between the public and private sectors, the economic system relies mostly on private initiative and business in a free market economy.

The traditional duty of a bank is to serve as a depository for the savings of the community. It serves as a link between the investor and the saver. It uses the investor's extra funds, which it obtains by paying him a monetary return, to borrow from the investor. The bank sets the interest rate it charges on loans at a level that allows it to make a profit after paying all of the costs associated with borrowing money, including administrative and other costs. As a result, it is maintained, a more effective use of finances by the community may be achieved through this pricing scheme. While banks do more than simply store money, they also serve an important allocation service for the society by directing funds into more efficient channels.

BRANCHES OF COMMERCIAL BANK

Since the 1969 nationalization of the nation's largest commercial banks, the industry's branch network has expanded at an unparalleled rate. Numerous banking-related endeavors have sprung up in response to the extraordinary growth in bank branches. Over the last three years, banks have made strides toward more even geographical distribution of financial services. It's also possible to find a bank branch in a semi-urban or rural location, even the most out-of-the-way places. (6) Significant progress has been made in decreasing the national average of people served by a single bank branch, and closing the gap between the national average and the average in some areas. Due to the Lead Bank Scheme's "area approach" to banking growth in the nation, the tempo for cc-oriented branch expansion has been determined.

The task of rapidly bringing banking services to economically depressed regions has taken on increased significance in the wake of the nationalization. In October 1969, the National Credit Council research group on "structured framework of or the realization of social goals," chaired by Prof. D. Gadgil, found that banking credit was distributed unequally among states and industries. It also showed that the banks' credit wasn't evenly distributed and that, especially for smaller borrowers, there were credit gaps. It was suggested that a "area strategy to develop plans and programmes" be used. In this context, it was felt that a bank's increased involvement with a specific region would not only increase its attempts to mobilize deposits, but would also broaden the bank's ability to provide financial services to priority sectors like agriculture and small business.

Developmental Tasks of Commercial Banks

As a result of this country's development plan, commercial banks are playing a very different role than they did in the past. It has been allocated to commercial banks in this country to play an essential role in promoting economic growth. Rather than following in the footsteps of progress, their role is to decide the speed of it. As a catalyst for economic and social change, they must work with other development agencies. They should lead the way rather than wait for the rewards of their labors to fall from the sky. The development plan in our nation has placed a high priority on achieving both economic growth and social fairness at the same time. As a result, the bank's operations will be tailored to meet both of these goals. Banks should be evaluated not on their ability to create operational surplus but on their ability to carry out the development mission entrusted to them in this context. (7)

What can and can Indian commercial banks do right now to contribute to the economic and social change of the country? First and foremost, banks should be physically present in the communities they want to serve, even if they are only doing routine operations. This necessitates a significant effort to build additional bank branches in rural and unbanked growing areas. When a bank is physically present in a region, it has the obligation to make every effort to increase the pool of savings going through it. There has to be a robust deposit mobilization scheme in place. When a community has a good handle on its savings, the next step is to put those monies to use in a way that will benefit everyone. Herein lies a slew of learning objectives. A bank is an unfamiliar concept to the great majority of people in our nation, who have never had the chance to profit from its resources. Because of their lack of education and training, most small business owners lack the tools they need to make their ideas a viable business. (8) As a result, he is unable to secure financial assistance from commercial institutions. There must be some effort made to fill in the gaps. Only by drastically altering the mindset of the conventional banker can any of this be feasible. A bank must do a thorough assessment of the region's natural and human resources in order to help it grow. In the light of this survey it must work out, in cooperation with other agencies more directly involved in planning and developmental tasks, broad plans and programmes of development.

Determinants of the Nationalized Commercial Banks

Bank failures were common in the years leading up to independence, and have continued to be so in the years after, albeit to a lesser level. The banking industry was owned by private investors at the time. As a result, if a bank collapsed, consumers lost their hard-earned money. As a result, bank nationalization has been a long-term demand. In 1969, 14 major commercial banks operating in the private sector were nationalized, and in 1980, another six commercial banks were also nationalized, in accordance with the Banking Companies Act, 1970 (Acquisition & Transfer of Undertaking) with the goal "to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national priorities." Small and cottage enterprises, as well as agriculture and related sectors, were among the primary beneficiaries of bank nationalization.

There is a reason for this: Bank nationalization made it feasible for commercial banks, as well as the government, to take a risk in this direction and allocate a modest amount of bank money to this sector. (9) After the nationalization of commercial banks, all of them have taken social responsibilities as a component of their operations. Banks are moving away from the traditional ways of doing business and adopting new ones based on viability, need-based funding, and marketing. Instead of just following the incline, banks are expected to participate in the nation-building efforts and assist bring about social and economic improvements. As a result, banks are classified as social organizations, and as such, they are required to reach out to the general public and aid the economically disadvantaged in realizing their goals. If we reexamine the post-nationalization functioning of banks, we see them as catalysts for the country's growth, mobilizing resources from all around the country and directing them toward constructive uses. As a result, the notion of lending to high-priority sectors emerged. The typical short-term lending paradigm of banks has been transformed. Financial services previously available only in metropolitan areas are now available in semi-rural and rural areas as well.

Credit Development

The Lead Bank Scheme's district plans aim to direct local credit institutions toward lending strategies that will have the most positive influence on the area's growth and, in turn, help a larger number of the population's economically disadvantaged members. The credit plan's primary objective is to outline the range of economic activities that may be supported by loans from financial institutions over a certain period of time, with special attention paid to expanding access to development for economically disadvantaged groups. The credit plan is an exercise in defining the lines on which credit may be issued within a certain region during a specific time period, based on the projected demand for credit, from either preexisting or development-induced economic activity. In order to help banks establish reasonable targets, they must have an accurate picture of how much credit will be needed. Estimation of credit is done in terms of the standard schemes contained in the credit plans, which are established after a thorough examination of the cost-benefit of the activities and their credit requirements. By providing a structure for the provision of credit throughout the district in accordance with sound banking principles, the District Credit Plan is intended to contribute to the comprehensive and coordinated growth of the District's economy and the mitigation of regional disparities. Schemes created under integrated Rural Development t Programme, where it was operational, and other beneficiary-oriented or area development programmes were evaluated in the process of formulating the district credit plans, and bankable schemes connected with those programmes were included. Compare Banda district to other districts in Uttar Pradesh in terms of the credit extended by scheduled commercial banks.

Banking Technology

During the last decade, new technologies have been introduced to the Indian banking industry, most notably computerization and networking. This has created fresh opportunities for expanding business operations and raising profits. In 1992, liberalization of commerce/trade barriers and partial convertibility of the rupee marked the beginning of the economic reform movement in India. (10)

The development of reasonably priced strategies for addressing security flaws is crucial. Noore's Law predicts an exponential rise in computing power, which will quickly render today's technology and software obsolete. The introduction of hardware, operating system, and application software requires considerable attention and forethought. BANK NET will serve as a domestic data communication network, allowing for the instantaneous receiving and dispatch of information for internal usage and interbank communications. Through the National Information Centre's computer communication network, NICNET, RBI currency chest activities are relayed.

Problems of Financial Institutions

Double financing is one of the issues facing the financial organization. Some loan applicants go to many organizations including the District Industries Centre, the Khadi & Village Industries Commission, and the Scheduled Caste Development Corporation in search of funding, and the agencies may all suggest loans to the banks (sometimes in favour of different banks). In turn, these banks approve loans without verifying the applicants' claims of many business deals. Some sponsored candidates are discovered to be underage or above the age of majority, raising concerns about the appropriateness of entrusting programmes to these individuals. In certain situations, such as a blended family, it might be difficult to verify how money is being spent. Post-sanctions surveillance cannot be separated by bank personnel. The leading banks in the Banda District have found that some borrowers do not effectively put the money they are given into their businesses. The dealer often receives the equipment at a reduced cost after it has been delivered to the customer. The requirements for marketing infrastructure, capital, expertise, and equipment in rural and cottage industries are quite different from those in agriculture. Banks still lack staff with expertise in rural, cottage, and small business finance. Commercial banks are hesitant to support rural and cottage enterprises due to the poor profitability and high cost of borrowing in rural banking. Identifying growth hubs and allocating funds to certain regions is crucial to the scheme's success. This may also need the "Scattered" craftspeople of the hamlet to band together and create cooperatives. The ultimate goal of preparation and execution is monitoring the subsequent development. Post-sanctioned monitoring in rural-based sectors is hindered by a lack of sufficient and skilled employees in banks.

Measuring Profitability Performance of Branch

Profits at a branch level are evaluated using the Transfer Price Mechanism in the United States and in the vast majority of other nations across the globe. It has been noted that the current implementation of the Transfer Price Mechanism is inadequate for providing a clear picture of profit or loss at the level of individual branches. Subsidy at a higher level is included into the Transfer pricing mechanism system's calculation of the branch's profit.

There are now three types of TPH systems in use: the Unitary TPH system, the Dual TPH system, and the Multiple TPH system. It is difficult to establish a meaningful inter-bank comparison of the loss-making branches due to the lack of a unified approach across the banks in the absence of guidance from the Reserve Bank of India or the Indian Banks Association.

Credit and Profit Planning

The Lead Bank Scheme's district plans aim to direct local credit institutions toward more productive uses of their resources, with the goal of maximizing the positive influence on local development while also helping a growing number of people from economically disadvantaged backgrounds. Thus, the credit plan aims primarily to indicate the scope for the development of various types of economic activities that can be financed by credit institutions, within a given time schedule, with an emphasis on increasing opportunities for the weaker sections to take part in the process of development. The credit plan is an exercise in showing the lines on which credit may be issued in a certain location during a specific time period, based on the anticipated demand for credit, from either preexisting or development-induced economic activity. Accurately predicting future demand for credit is crucial first steps in developing a credit plant that will help financial institutions establish reasonable objectives. (11) Estimation of credit is done in terms of the standard schemes contained in the credit plans, which are established after a thorough examination of the cost-benefit of the activities and their credit requirements. The framework for credit extension in the district under feasible banking schemes, the results of which are hoped to be the comprehensive and unified growth of the district economy and the mitigation of regional disparities is the district credit plan. Schemes developed under the Integrated Rural Development Programme (where applicable) and other beneficiary-oriented or area development initiatives were reviewed, and bankable schemes that were in line with these programmes were included into the district credit plan.

Performance of Banking Industries

Innovative banking models like payments and small finance banks have recently been introduced to the Indian banking sector. India has recently concentrated on expanding the reach of its banking sector through a number of initiatives like the Pradhan Mantri Jan Dhan Yojana and Post Payment Banks. These types of programmes, along with significant banking sector reforms like digital payments, neo-banking, the growth of Indian NBFCs, and fintech, have greatly increased financial inclusion in India and fueled the country's credit cycle. India's Immediate Payment Service (IMPS), the only system at level five in the Faster Payments Innovation Index (FPII), has seen the most advancement in the world's 25 digital payment systems. In recent years, India's Unified Payments Interface (UPI) has worked to expand its global reach while revolutionising real-time payments.

In addition to cooperative credit institutions, the Indian banking system includes 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks, and 96,000 rural cooperative banks. There were 213,145 ATMs in India as of September 2021, with 47.5% of those located in rural and semi-urban areas. Bank assets increased in all sectors in 2020–2022. In 2022, the total assets of the banking industry (including both public and private sector banks) rose to US$ 2.67 trillion.

- The combined assets of the public and private banking sectors were respectively $1,594.41 billion and $925.05 billion in 2022.
- Bank credit grew at a CAGR of 0.29% from FY16 to FY21. Total credit extended as of FY21 increased to US$ 1,487.60 billion. Deposits increased at a CAGR of 12.38% from FY16 to FY21, reaching US$ 2.06 trillion by FY21. As of May 20, 2022, bank deposits totaled Rs. 165.74 trillion ($2.11 trillion).
- Credit growth is anticipated to reach 10% in 2022–2023, which would be a double digit growth in eight years, according to India Ratings & Research (Ind-Ra). Bank credit totaled Rs. 123.69 lakh crore ($1.553.23 billion) as of July 29, 2022.
- The credit extended to non-food industries as of July 29, 2022, was Rs. 123.36 lakh crore ($1.54 trillion).

To get back to business: commercial bank deposit growth has been slower in FY 2012. On March 29, 2012, total deposits at SCBs amounted to Rs. 11.234 billion, up 13.6% from the previous year and 16.2% from the previous fiscal year. In FY 2011, more money was deposited into banks than in any previous year. India Millennium Deposits brought in 257 billion rupees, which was a huge boost. When comparing the growth of Bank Deposits and Bank Credit to the Commercial Sector, the latter shows a slower rate of expansion. The growth in bank credit was 14.2% (YOY) on March 29, 2012, reaching Rs. 6045 billion, compared to 16.6% (YOY) in FY 2011. The slowdown in manufacturing was a major factor in the stagnation of bank credit growth. On March 29, 2012, non-food credit reached Rs. 4895 billion, an increase of 12.4% over the previous year (YoY) on the other hand, as a result of the rise in both the quantity and the price of food grains acquired, the food credit of Scheduled Commercial Banks rose by 37.1% (YoY) on March 29, 2012, to Rs. 545 billion. Schedule d Commercial Banks' investments in government and authorized securities grew by 19.5% YoY to Rs. 4389 billion on March 29, 2012, up from 17.8% YoY growth on March 30, 2011. Over and above the SLR requirement, banks held SLR securities worth a total of Rs. 1060 billion as of the end of March 2011. This sum is much more than the net yearly borrowings of the central government.

Recent Trends in Banking Industry

The banking sector has seen significant shifts in recent years, reflecting a variety of underlying trends. Technology advancements in communication and information have been the most important since they have facilitated the rapid and widespread broadcast of financial information and reduced the expenses of numerous financial operations. The second major factor influencing shifts is the rising number of local and international entities offering banking and associated financial services. Third, in most countries, financial activities now account for a higher share of total economic activity. Because of this, the effects of a crisis in the financial markets or the financial infrastructure now extend farther and have a greater impact on the economy.

There are far-reaching effects of these changes on the foundations of the banking industry and the financial system as a whole. Banks have shifted their focus away from conventional banking operations while other financial organizations are expanding their offerings of traditionally banking services. With the help of mergers and acquisitions, new transactional conglomerates have emerged, providing services beyond those of conventional commercial banks, such as investment banking and insurance. There is a rising awareness that protecting the financial system's health is crucial to ensuring its continued stability in a world where borders are more porous and distinctions between various types of financial intermediaries are increasingly difficult to draw. (12) India, like many other developing countries, is undergoing a period of upheaval in its financial sector, particularly its banking industry. Since banks are the backbone of emerging nations' capacity to mediate financial transactions, strengthening the banking sector via the promotion of sensible practices is seen as essential to ensuring the continued viability of the economy as a whole. More over half of all financial assets are held by the banking industry.

CONCLUSION

The pace of new capital creation is a direct indicator of economic growth. Banks help the economy grow mostly because they collect and invest their customers' savings in productive ways. Banking institutions, both central and commercial, have become more important in the modern era of economic growth. Their promotion duties have grown in prominence to the point that they now outweigh their original ones. They've risen to prominence as more than just moneychangers; they're also regarded as the industry's undisputed frontrunners. They are accountable for attaining the high rate of capital creation and the emphasized goals of the plan in the developed economy, as well as sustaining a higher level of production and employment. When it comes to boosting the Indian economy, the Reserve Bank of India has been doing a great job. Providing liberal financing to the central and state governments for the execution of Development projects, and establishing specialized financial institutions like the Agricultural Refinance Corporation, the Industrial Development Bank of India, and the Unit Trust of India, are just a few examples of the Reserve Bank of India's many contributions to India's economic growth and development.

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