Financial Sector Reforms and its Effects on Commercial Bank

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Abstract

The financial sector is the mainstay of any economy and it contributes immensely in the mobilization and distribution of resources. Financial sector reforms have long been viewed as a significant part of the program for policy reform in developing nations. The primary elements of the financial sector in any economy are Banks, Financial institutions, Instruments and markets which mobilize the resources from the surplus sector and channelize the same to the different needy sectors in the economy. Secondary data collection sources -RBI & other websites, Books, Magazines, Bank reports, Working papers etc.The objective of the study is to assess the impact of financial reforms on commercial bank.

Index terms: Financial sector reforms, Commercial Bank, Economic Development.

INTRODUCTION

Finance and banking is the lifeblood of trade, commerce and industry being the current backbone of modern business acting as a banking sector.

Financial sector reform refers to the reforms in banking system and the capital market. A well-organized banking system and a well-functioning capital market are important to mobilize savings of the households and network them to productive uses. The high rate of saving and productive investment is essential for economic growth.

Financial sector is the part of the economy which consists of companies and organizations that have the obligation to deliver financial services to the customers of the commercial and retail sector. It can include investment funds, money market, commercial banks, non-banking financial companies, coverage and retirement pension companies and real estate etc.

Financial reforms in India aim to assign the resources skilfully, increasing the return on investment and rushed the growth of the real sectors in the economy. In India, The main idea of banking and financial reforms was to uphold an expanded, effective and reasonable financial system to improve the allocate efficacy of funds through operational elasticity, enhanced financial feasibility and institutional solidification.

ROLE OF THE FINANCIAL SECTOR REFORMS

In India, the financial sector reform is a vital part of the overall program of economic reforms, aimed at humanizing productivity and efficacy. In classical economics, scrutiny of the nature of equilibrium between scheduled savings and investment is made, linking it to the procedure of financial intermediation, which enables the savings transfer from surplus units to deficit units. Money was the only financial asset that was brought within the scope of the analytical framework.

The interest in financial structure, system and intermediation is essentially a post-second world war phenomenon. The central economic function of the financial sector is "Financial intermediation" i.e. the mobilisation of the financial resources and the allocation of these financial resources. The financial sector thus becomes the' vehicles' for mobilising and transferring the economy's surpluses to the ultimate user.

The financial intermediaries essentially provide three 'Transformation' services.

1. **Liability-asset and size transformation** mobilisation of funds and their allocation, provision of large loans based of numerous small deposits.
2. **Maturity transformation** utilization of funds and provided that borrowers long term loans which are better coordinated to the cash flows generated by their investments.
3. **Risk transformation** transforming and distributing risk through diversification, so that associated with investors is reduced for savers. Apart from the above transformation services, the financial sector plays a crucial role in effecting 'Transfer of funds'.

ASSESSMENT OF FINANCIAL SECTOR REFORMS:-

- After the financial sector reforms, the resilience and stability of the Indian economy have increased.
- The economy growth rate has increased from around 3.5 % to more than 6% per annum.

- The banking sector and Insurance sector have grown considerably. The entry of both private sector and foreign banks brought much-needed rivalry in the banking sector which has enhanced its efficiency and ability.
- The Insurance sector has also transformed over a period. All these have benefited the customer with diversified options.
- The stock exchanges of the country have seen growth and stability, and it has adopted international best practices.
- However, all the issues of the Indian economy have not been resolved.
- The social sector indicators such as health facilities provision, quality education, Women empowerment etc. have not been at par with the economic development.
- Additionally, the new issues like the recent rise in non-performing assets of banks, slow investments growth in the economy, the issues of jobless growth , high poverty rate, a much slower growth rate in the agriculture sector etc., need to be resolved with more concrete efforts.

BANKING SECTOR

Before the establishment of banks, the financial activities were handled by money lenders and individuals. At that time the interest rates were very high. Again there were no security of public savings and no uniformity regarding loans. So as to overcome such problems the organized banking sector was established, which was fully regulated by the government.

The organized banking sector works within the financial system to provide loans, accept deposits and provide other services to their customers.

Need & Importance of Bank:

- To provide the security to the savings of customers.
- To control the supply of money and credit
- To encourage public confidence in the working of the financial system, increase savings speedily and efficiently.
- To avoid focus of financial powers in the hands of a few individuals and Institutions.
- To set equal norms and conditions (i.e. rate of interest, period of lending etc.,) to all types of customers.

REFORMS IN BANKING SECTOR:-

- Changes in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- Changes in administered interest rates.
- Capital Adequacy Ratio (CAR).
- Allowing private sector banks to establish in India. For example:-HDFC Bank, ICICI Bank, IDBI Bank etc.,
- Allowing foreign banks to open branches in India. For example: - Bank of America, Citi bank, RBS, American Express etc.
- Reforms related to Non-Performing Assets (NPA).
- Promotion of Micro-finance for Financial Inclusion.
- Exclusion of Direct credit controls.

FINDINGS& SUGGESTIONS

The result of the factor analysis reveals the clustering of the impact of financial reforms on the banking industry was grouped into two groups namely, banking industry and banking transactions. Among the two factors, Factor I (banking industry) consists of seven items of this introduction of narrow banking concept to rehabilitate weak banks (I4) is the most important factor. Factor –II (Banking transactions) consists of three items of these factors prudential norms for income recognition classification of assets, provisioning of bad debts, making to market of investments is the most important factor. These factors are the key findings reflect that financial reforms have a larger impact on the banking industry.

No doubt Indian banking sector has become technology savvy after the banking sector reforms. It is pertinent to note that still to a large majority of the population technology banking is a dream on account of poor technological infrastructure in India. Though technologies taking an upper hand in the cities and metropolitan in rural place understandable technology and usable technology to the common man are the need of the hour.

SUGGESTIONS TO COMMERCIAL BANKS

- In the competitive banking environment, customer reach is vital. Therefore, the banks should design the programs of action to educate potential customers about the products and services offered by the banks. This helps in strengthening the customer base leading to increase in profitability. The mass media ought to be resorted to for reaching the customers.
- Retail banking is a wonderful opportunity for banking to make economies front. There are both social contributions and also economic contributions to the bank. Thus, it is suggested that the banks should go for retail banking solutions.
- Banking sector reforms have given autonomy to the banks to add several economic value-added services for making customer differentiation and service differentiation. It is suggested that banks should invent fee-based value-added services to customers by making minute differences however with the large thrust bluster on the banking it would be difficult without much of a sound value system in the banking.
- The banks have to take the leverage of reforms and shift their attitude towards economic viability to various services that may positively influence to increase the other income that contributes to the profitability of the banking industry.
- The cost control mechanism need to install for controlling the total expenses and operating expenses. Then only the banks can improve their profitability
- Commercial bank provides necessarily intensify their promotional efforts to create awareness about their new products and services among customers.
- Bank should gear their human resource with the marketing orientation for increasing customer base and deposit base.
- The banks also need to develop existing staff in newer competencies through systematic and rigorous training.
- Suitable changes in the promotion policies should take care of aspirations of such extraordinary and talented manpower.
- The banks should have a strategic tie-up with the viable rural regional banks for reaching the far-reaching areas instead of opening branches themselves in the area which cannot provide them with the break-even business.
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- More lending should be made in favor of priority sectors.
- Malpractices, fraud, corruption and red-tapism must be done away with.
- More attention should be paid to the development of exports.
- The high level of overdue of banks has become a matter of concern. So, banks should make all possible efforts to reduce their overdue. Thus, so that the association of the banking industry is more fruitful and rewarding, many innovations have to be planned and introduced systemically and a greater degree of managerial competence will have to be developed in commercial banks.

CONCLUSION

The overall impact of the financial sector reforms in commercial banks has been positive. However consistent reforms are needed to maintain economic growth and make it inclusive of all the sections of society.

Commercial banks play a dynamic role in the economic development of a nation. They are the most significant source of official credit in the money market as they provide advances and short term loans to its customers. They make a variety of functions and are the key source of credit which is the key input for trade and business activity. Credit created by commercial banks is a major component of the money supply in a modern economy. Modern economies depend for production; exchange and distribution in banking sector. Indian banks have grabbed the opportunities from there form to post a commendable performance during the economic reform period in commercial banks.

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