BANKING SECTOR: CHALLENGES FOR PUBLIC SECTOR BANKS OF INDIA

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ABSTRACT
In Indian financial system Indian Banking sector is an integral part, which has undergone dramatic change ever since Liberalization, Privatization, and Globalization (LPG) has taken place. India is the largest country having many and varied financial institutions both public and private banks, who are controlled and governed by Reserve Bank of India, and Ministry of Finance. If we see the rich history of Indian banking sector, then it is not wrong to say that it was well-developed even prior to the independence of the country in 1947. The first bank in India, called The General Bank of India was established in the year 1786. The Bank of Bengal / Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843) was established by the then The East India Company. The next bank was Bank of Hindustan which was established in 1870. At that time these three banks (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank which started in 1865 was the first to be completely run by Indians. After independence, Government of India took an important step, by introducing reforms in the structure of Indian banks. In 1955, the Imperial Bank of India was nationalized and was given the name “State Bank of India”, to act as the principal agent of Reserve Bank of India and was given the right / control to handle banking transactions all over the country. The Reserve Bank of India Act, 1934 provides the statutory basis of the functioning of the banks.

The main objective of reforms in India was to enhance the efficiency and performance of banks so that their economic standing also improves. In the early years of 1990’s when the Government of India, opened the market through LPG, many private and foreign banks rushed to set up their business in India, as there was a gap (gap of service given by public banks and services expected). In order to pull up the socks and prepare our banking sector for this change, the Indian government started diluting its equity in Public Sector Banks (PSB) from early 1990s in a phased manner. In recent years the economist and banking sector specialist witnessed that though the public bank’s infrastructure and size of business is too large and have enough experience, but they are facing the problems and difficulties from the functioning of private banks. Hence, public banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep their economy rolling for their survival. The main point or focus is of survival for the public bank is to innovate and to take advantage of the new business opportunities and at the same time ensure continuous assessment of risks.

Keywords: Liberalization; Privatization; Globalization; Risk Management; Open Appraisal System
INTRODUCTION

Indian banks, to be specific the public sector banks are facing a number of challenges ever since the banking industry was opened up for private players. Actually, the public sector banks are governed by the norms and instructions of the Central / State Government, the political parties work for the masses, and want to gain more votes, so they don’t give importance nor give the heed to the profitability of banks, etc. Thus the banks are forced to introduce social banking practices, which have resulted in increased non performing assets, decreased profitability and hampered the operational efficiency. The competition with private banks forced public sector banks to take up serious measures for improving profitability and efficiency of operations. It is rightly said that before opening up the market, the Indian public had only one choice for the banks i.e. public banks, but after opening up the market to the foreign and private banks, several private banks with better and fast services with pleasing marketing skills made the competition stiffer. Human resource management is the area where many initiatives were implemented for streamlining banking operations. In this research paper Human Resource Management challenges faced by public sector banks are analyzed and suggestions made are summarized. There are two factors, in which one can easily correlate the functioning of the banks. First factor is balance sheet, profitability and non-performing assets of banks. Another factor is the management of human resource, the way and method in which the management utilizes it.

In November 1991, The Narasimham Committee placed the report in front of the central government containing the reforms of the financial sector, which was later issued. These reforms aimed at improving the efficiency of the banking system, introducing transparency in operations, and ensuring that the sector is operating on a sound financial grip. The Committee came into conclusion that government sector banks are ailing with acute problems such as - poor loan recovery, weak capital position, high cost and low profitability, etc. and such problems were not aroused by / due to ownership i.e. they are government or public banks, but due to the various policies that are being practiced by the banks (Bery, 1994). The performance of the private and foreign banks has been stronger than that of the public sector banks. The reason is that private banks are not having the burden of a large network of branches, especially in low range of business areas, they have been able to introduce technology to upgrade operational efficiency, and their business strategy has concentrated more on high yielding and profitable areas. The non - performing assets of public sector banks is also high in comparison with their counterparts.

Lot of attention has been given to the performance evaluation of banks (Seifrd and Zhu, 1999). A number of studies were conducted to compare different types of banks operating in India based on different performance / efficiency criteria / factors from time to time. After the nationalization of banks were done, the position of public sector banks started worsening, which raised the concern. This resulted in that Reserve Bank of India formed number of committees, notably Tondon Committee in 1975, Luther Committee in 1977, Chakravarty Committee in 1986 and Narasimham Committee in 1991 which inter-alia examined various factors and gave number of suggestions to improve the efficiency of the banks in India. According to CRISIL study (2002) it was concluded that lower operating expenses improved the profitability of banks, contrary to the popular perception that only trading profits helped the banking sector shore up their bottom lines.

Human Resource Management is crucial to any business which is dealing with goods or service, and a bank is a service industry too, hence it has to give importance to its employees also and the system followed. There are two different kind of problems faced by the banks i.e. employees retention and management of risk. It is the question of, how you are managing the people and how you are managing the risks which determines your success in the banking business. Tackling risk efficiently may not be possible without skilled manpower. Though the interest rate on (deposits + loans) is important but, there may be other reasons / factors as to why people select and stay with a particular bank. Banks must try to distinguish themselves by creating their own niches, especially creating transparent working / situations with a high level of competitiveness. Those who do not meet the customer expectations or does not fulfill the demands will find survival difficult. Banks must communicative
and emphasize the services i.e. Unique Selling Preposition (USP) in order to attract and retain certain customers. Services should be consistent, novel; internationally acclaimed, socially responsible, etc. be emphasized and to be worked upon.

Since 1994, the performance of the private banks is growing up steadily; it is proved that in the period of (1995 – 2000) it saw the highest turnover for the private sector banks i.e. 25.8%. The growth of employment opportunities in the private banks was also higher, despite turnover rate was also high which shows clearly aggressiveness, the main focus of banks was technological up-gradation to reach a wider customer base and to offer a variety of financial services. The second distinguishing feature of employment practices in the private banks is the structural composition of the banking sector employees. There are three categories in banks – officers, clerical, and subordinate staff. The growth rate in the commercial banks from 1990-91 to 1994-95 was 1.21% in overall employment. It declined to – 0.27% during 1995 to 2000 as the banks started downsizing. The employment rate also declined amongst the clerical and subordinate staff too. For the officer’s cadre the growth in employment was 1.81% in the first half of the decade and this declined to 0.89% in the latter half of the decade. For the clerical staff, the growth in employment was 0.80% in the first half of the decade and this slipped to – 0.89% in the second half of the decade. The growth in employment of subordinate staff also declined significantly from 1.41% in the first half of the decade to – 0.34% in the latter part of the 1990’s.

The recruitment in public sector banks was standardized with the introduction of the Banking Service Recruitment Boards in 1978-79 by the government having directives to restrict intake and to improve the productivity. The Narasimham Committee urged the banks by allowing them to make their own recruitments, as special skills were required and to allow clerical recruitment to continue to take place through the boards. At present the subordinate staff is selected through the local employment exchange. For officers and clerical staff the number of vacancies are determined depending on business growth of a particular bank i.e. branch expansion, existing pattern of staffing and wastages. The promotion of workers in nationalized banks from subordinate staff to clerk and from clerk to officer is the discretion of a particular bank.

In July 1973 the Government of India appointed Pillai Committee to standardize the pay scales, allowances, and perks of officers, which submitted its report in May 1974. With certain modifications, the suggestions were adopted resulting that Officers Service Regulation came into force. The Pillai Committee noted that to remove frustration and bring see through norms in the promotions for the meritorious employees, the scale system should be introduced i.e. Top Management (2 scales), Senior Management (2 scales), Middle Management (2 scales) and Junior Management (1 scale). The Pillai Committee recommended promotions to at senior and middle level should be on merit basis, having weight-age given on service record, professional qualifications, etc. The merit rule thus replaced the seniority rule for promotions in middle and senior positions.

It was in mid 90's when the private sector banks entered into the market, the period between 2002 - 2007 was golden period as these banks grew by leaps and bounds. They have increased their incomes, profit margins, asset sizes and outperformed their public sector counterparts. The private sector banks include Axis, HDFC, and ICICI, etc. whereas the public sector banks consists of 19 nationalized banks, IDBI bank and State Bank group. In conclusion, we may say that the human resource of the banks have enabled or created the vast gap of performance among two sectors. In order to achieve better results and remain competitive in a highly volatile and regulatory environment, this capital of human resource with better policies should be formed and practiced.

OBJECTIVES

1. To examine the reforms done, and problems faced by the Indian banking sector after LPG.
2. To study the human resource policies practiced by public and private sector banks.
3. To review the financial performance of public, and private banks in India, and to enquire about the areas where public banks lack behind their counterparts.
4. To know the threats faced by both public and private sector banks in terms of business and for their employees.

**Banks Network**

In order to penetrate in the market and amass more and more share of market, banks have created network of branches and ATMs as their strategy so that they can continue to enlarge their geographical area with potential for growth. Indirectly the banks will serve the public and thus it will suffice growth of their businesses too.

![Graph showing growth of banks](image)

**Source: RBI**

If we see the above graph, it clearly shows that % increase of growth of private sector banks against their counterpart’s i.e. public banks (State Bank of India and Nationalized Banks) in the year 2008 it touched 40% and their counterparts i.e. public sector banks are on average 10% since 4 years (2007–2011). The private sector banks are spreading its wings at a much faster rate than public sector banks. The customer base of these banks has grown manifold since they are able to provide innovative services to the customers at a much faster pace. This is leading them to capture more market share and eating up some of the share of their public sector counterparts.

**Banks Growth**

Each and every bank (private or public) aims to grow and it may be judged by various parameters i.e. asset base, customer base, net profits and less NPAs and many others.

<table>
<thead>
<tr>
<th></th>
<th>% Growth in Balance Sheet Size</th>
<th>% Growth in Total Income</th>
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<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>10.86%</td>
<td>23.51%</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>17.93%</td>
<td>19.21%</td>
</tr>
</tbody>
</table>

**Source: RBI**

The public sector bank’s balance sheet and income grew at a normal rate during 2010 – 2011, but comparing with private sector banks, the rates or percentage has shown phenomenal increase during 2010-11 that shows their ability to do profitable business.

**Productivity**

Productivity is one of the measures of judging the efficiency of banks. This growth or rate is important to the banks because it means that the banks can meet its obligations to employees, shareholders, and governments (taxes and regulation), and still remain competitive in the market place. As in other
businesses or organizations, in the banking industry too, the productivity is measured by profit per employee, business per employee.

Source: RBI

The ratios given / shown sometimes may mislead, since private banks smartly improve their ratios by trimming their employees during recessionary environment. This is because during the period of 2009 – 2010, when the balance sheets and profits of private sector banks declined, still they managed to keep up the productivity rates higher. This was only possible when there is large lay-off of employees which is actually what had happened with these banks during the period 2008-10. It was only during 2010 and after when the business of banks started picking up again, and then they started to hire employees. Overall public sector banks scores higher when it comes to employee retention which is also evident from the graph.

It is correct that during latter half of 1990’s the profitability of the public sector banks improved in relation with the performance of the private and foreign banks. However, the share of the total deposits raised by public banks declined and private banks attracted deposits at more favorable net interest rates. Private banks have adopted better risk-management practices and this resulted in increased prudence on their part which led to greater expenditures on provisioning which has reduced their profitability. Moreover, private banks give importance to technological up-gradation as to provide better customer support and manage assets better. The turnover per employee in the private banks also improved over the decade and relative to the turnover per employee of public sector banks by the end of the decade it was twice the figure for the beginning of the decade. Private banks improved their efficiency relatively faster during the course of the decade, and public banks lagged behind.

Change is the only constant feature in this competitive world and banking is not an exception. Adjust, adapt and change should be the key mantra for the survival in the market. The major challenge faced by banks today is the ever rising customer expectation and maintaining the market share with growth rate. Till now, public sector banks that were a dominating force in the Indian banking industry have lacked a proactive HR environment. Banks are beginning to recognize human resource as an area of core competence, and seek to pursue and retain the best talent in the industry. It has been realized that skill development is important for staff, so that the resource may stay and attrition rate is decreased. In order to keep the employees motivated and develop them, the banks are tying up with professional agencies for in-house training.
As per the report of Federation of Indian Chambers of Commerce & Industry (FICCI), Indian Banking System: The Current State & Road Ahead, Annual Survey 2010, clearly states that the major challenge faced by banks (private and public) today is not only the ever rising customer expectation, but poaching of the skilled / experienced employees and high attrition rates are some of the common problems faced by both types of banks. Thus, on the whole, we see that public sector banks, private sector banks face difficulty in hiring the right person and to retain them for a longer period.

As per the bulletin published by the Reserve Bank of India during 2012, the table suggests that public sector banks are no longer the major employment providers as they used to be; now the private sector banks have more scope for employment. The employee strength of PSBs has gone down or remained static between 1998-99 and 2010-11 but that of private sector banks have gone up. As per the reports the per-employee expenses of PSBs is higher than that of private sector banks, which is around 130% higher during 2010 - 11. The main difference between public and private sector banks is their work culture and the spirit (what purpose they are doing the business). It has been observed that the work culture of public sector banks is based on socio-economic responsibility, in which profitability is secondary. On the other hand, private sector banks work towards profitability and work culture is purely of corporate style. Management of human resource in any organization is the utmost priority.

### Table: Staff Expenses (Payments to and Provisions for Employees) of Public Sector Banks versus Private Sector Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
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<tbody>
<tr>
<td></td>
<td>Staff</td>
<td>Cost per employee (Rupees)</td>
</tr>
<tr>
<td>1998-99</td>
<td>8,83,648</td>
<td>1,67,940</td>
</tr>
<tr>
<td>2002-03</td>
<td>7,57,251</td>
<td>2,70,426</td>
</tr>
<tr>
<td>2003-04</td>
<td>7,52,627</td>
<td>2,97,903</td>
</tr>
<tr>
<td>2006-07</td>
<td>7,28,878</td>
<td>3,81,440</td>
</tr>
<tr>
<td>2007-08</td>
<td>7,15,408</td>
<td>4,00,611</td>
</tr>
<tr>
<td>2008-09</td>
<td>7,31,524</td>
<td>4,72,493</td>
</tr>
<tr>
<td>2009-10</td>
<td>7,39,646</td>
<td>5,55,874</td>
</tr>
<tr>
<td>2010-11</td>
<td>7,57,535</td>
<td>7,15,914</td>
</tr>
</tbody>
</table>

Source: RBI Bulletin 2012
and should be handled with care, as it is scarce both in quality and quantity. And, it is a basic principle that any resource that is short needs to be properly utilized for the benefit of society in large and, therefore there is need to pay attention to the process followed. This is more relevant for public sector banks today on the following grounds / areas.

- **Planning**
- **Acquiring the right people**
- **Retaining / developing the people**
- **Managing people separation / exit**

Each and every bank whether it is private or public is using human resource to gain competitive advantage, in which career planning and appraisal system is playing a pivotal role, which is beneficial for both i.e. employees and employers in the long run. In private banking system, employee can progress on the basis of his / her performance but in public sector system he / she gets promotion as per policy. It is suggested that the bank should introduce “open appraisal system” wherein the marks awarded to the reviewer must be disclosed. In many organizations open appraisal systems are working. Mostly promotions are given in accordance with the performance of the job. It is suggested that employee potential should be evaluated based on objective assessment and not on the time / years of service or any kind of reservations. Transparency in evaluation and promotion policy is suggested, as poor policies will hamper the growth and good one will motivate and retain the manpower.

Though the public sector banks have entered in the competitive decade (after opening of the market) with their private sector peers but they have still having / carrying certain lacunas in human resource department, policies or in the system. The HR challenge of public sector banks has reached a tipping point. The public sectors banks have a rich heritage of several decades, but still the banks are suffering, and is predicted that they will witness exceptional loss of skills and knowledge in the form of retiring / poaching of senior and middle management executives. To counter this problem, the significant challenge for the public sector banks is reskilling the present employees, attracting and retaining fresh talent, curtailing the growing employee costs, etc.

This raises the challenge for the public sector banks today: the banks have to induct talent in the form of fresh employees, and utilize the human capital properly for creating competitive edge and gain the market share. Even excluding their outsourced staff, private sector banks are among the top employers today with comparable employee strength to the public sector banks. The above chart which is taken from IBA; BCG Analysis, shows that PSU’s revenue per employee is lower i.e. only Rs. 20 Lakhs, than the private bank’s revenue i.e. Rs. 24 – 44 Lakhs. There is one key difference however: the aging profile of public sector manpower cannot match that of the private sector in product segments that require aggressive selling or significant technology dexterity.
Since, the introduction of private banks or ever since the customers have observed / felt the vast differences in services which are far better, etc. the perceptions of general public is against / negative for public sector banks, as they are outdated. But it is not true, the reality is far from it. If we study the records, most public sector banks have doubled their revenue per employee in the last three years, so that their productivity of the public sector banks can be compared with private sector counterparts. Basically, to increase the productivity level private sector banks outsource a significant part of their manpower, hence the result is better results. If outsourced manpower is factored in, the productivity gap would be less as shown it is shown / presented to the world. Aiming for 100% similarity among both type of banks is not feasible as both have different objectives, one is working for social cause and another is working for mere profit.

There are many factors, on which we can say that the public sector banks are facing problems, such as lower profitability and productivity ratios than private sector banks, they have lost significant market share, and their asset quality is also weaker, in some cases worsening to grave proportions. More alarmingly, several projections for the future made by research analysts who study Indian banks, suggest that the pain could worsen in the next few years, necessitating a large recapitalisation of the public sector banks. These levels of recapitalisation will prove challenging to any government which strives to achieve fiscal consolidation, and it is therefore in the government's own interest to revamp the approach in which these public sector banks are being governed and managed.

For the individual’s career growth and the development, it needs a consciously planned effort on the part of the individual and the same cannot be left to chance. According to (I.K. Kilam, 2012) study conducted, the bank employees i.e. 14.12% of them have stated that they faced career hurdles / barriers / obstacles, while 64.12% employees stated that they came across such hurdles. Nearly 81% respondents perceived that private sector banks had better career planning & HRD system as compared to that in Indian public sector banks. This has forced Indian public sector banks to review their HR policies, so that they can keep pace with the changing times.

Trend / Market capture of Public & Private sector Banks

If we closely look the history / trend, of public sector banks and compare it now with other private banks, we can easily analyze how the public sector banks have weakened, and can predict as to how they may continue to worsen further, unless there is a major change (introduce corrective actions and policies) in their governance, functioning. The chart shows that from 80% of market, which was with the public sector banks during the year 2000 came crashing down to 73% in the year 2013, and if nothing is done or corrective actions are not taken it will go down to 63%. If we want that public sector banks should regain, than it should be managed efficiently. The board comprising of directors, economist, etc. should focus more on various strategies to bring down the risk mitigation, and non performing assets, etc. and increase the overall profitability by devoting more attention towards
business development. They should brainstorm the sessions and introduce technological innovations may be used to bank upon the customers.

The private sector banks are more nimble for using new technologies to come more closer, faster and smarter towards their customers with better services. A range of internet banking applications has already introduced in mobile phones, smart phones and various innovative applications offering convenience to the customers. This has compelled public sector banks further to change their age old strategies and made them to catch up new technologies.

<table>
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<tr>
<th>Challenges for Public Sector Bank</th>
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<tr>
<td>Human Resources Management</td>
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<tr>
<td>• Training and Competence of Employees</td>
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<tr>
<td>• Change of Mindset</td>
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<tr>
<td>• Shortage of Professionals</td>
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<tr>
<td>Marketing Environment</td>
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<tr>
<td>• Identification of Customers &amp; Placing them in the Right Segments</td>
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<tr>
<td>• Competition</td>
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<td>• Regulation</td>
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<tr>
<td>Product Development</td>
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<td>• Quick Roll-out</td>
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<td>• Innovation and Customization</td>
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<tr>
<td>Information Technology</td>
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<tr>
<td>• User Friendly Technology</td>
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<tr>
<td>• Financial Planning based CRM</td>
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<tr>
<td>• Customer Service Support</td>
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There are four main challenges faced by the public sector banks (shown above), which are termed as ‘game changers’. If these areas are covered by the public banks and all the strategies are based upon them, then these banks will give stiff competition to their competitors, i.e. private banks.

1. **Human Resource Management** – Give best and current training to the employees, so that they are charged to take the market. Private Banks changes the mindset of their employees, by providing the best technology, latest training and development sessions, (staff meetings / brainstorming sessions / study circle / quality circles, etc.). Public banks should try to loose some burden, by opening up for outsourcing. The regular / permanent employees are the burden on the public sector banks in terms of salaries / perks, etc. on the other hand in private sector banks, majority of employees work through agencies i.e. Human Resource Agencies, leaving less financial burden.

2. **Marketing Environment** – Public sector banks are still running their business on their terms and conditions, in another words they are rigid, and they are lacking the pace with the wants of the public. On the other hand private sector banks, know the demand and supply gap of the services, on which they are playing the game. The private sector banks are giving lot of services / facilities, introduced several new schemes, etc. finally taking some market of Indian banking sector with them. This created loss of both profit and image of government controlled public sector banks. Now the public banks are forced / compelled to change their way of style of working, by which they are now giving the services as per the requirement of the general public.

3. **Product Development** – Due to government control, the public banks have red tapism. In other words lot of paper work / permission etc. has to be taken in order to launch a new service / scheme. This cannot roll out the services quickly. Innovation is nil in this type of system, age old methods / system is used. Hence, quick and efficient with effectiveness is lacking in the customization field. The banks, in order to survive and give better result (latest services, having new features and concepts) should change the mind set first, shorten the steps and clear
launch the services which are lucrative / easy (time and cost saving), and which should benefit the masses.

4. Information Technology – Banks in order to be friendlier, should use and install user friendly technology, giving more priority on the support system for the customer services. This will bring back the lost customers and build their confidence. As this is the age of computers / internet, each and every educated prospective client / customer wants the services quick and easy to use.

CONCLUSION
It can be concluded that most of the private sector banks due to their corporate style / strategies / policies have shown better performance than their public sector counterparts during the period 2009-11. The public sector banks, though having rich legacy and enough experience with a large span of services area is lagging behind due to the age old policies, government interference, etc. The main reasons or the factors that should be taken care of for their better performance are noted down; these are some of the reasons as to why the private sector banks are taking a lead:

- Banks should give importance towards net interest income margin and fee income; in this private banks are taking a lead against their counterparts.
- The credit-deposit & investment-deposit ratio of banks should be increased, in order to have better financial position. Private sector banks have higher ratios than their counterparts.
- For the public sector banks the operating cost, expenditure on per head basis, etc. should be reduced and income / profit per head should be increased. Due to inefficient policies in this factor too, public sector banks lagged behind with new private sector banks.
- The Return on Equity (ROE) should be taken care off, so that it will have better asset quality.

Time has come for the government to pay attention to this vital aspect, which has raised the questions on the survival of public sector banks and the way of functioning. The public sector banking system in India is standing at an important cross road. Time has come to take decisive moves and initiatives to be taken in order to regain the faith of general public. The time is ripe for leaving the old baggage and taking bold measures. These actions will chalk out the future path of public sector banks, and will tell whether they lead towards retaining the lost position of preeminence in the banking space or would they still face the pressure from their peers in the private sector.

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