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Issues Plaguing the Indian Banking Sector

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Abstract:- The banking sector of India has had a long history of reformation and restructuring that all began back in the 1800s and today it stands as the backbone structure that supports India's growing economy by mobilizing funds for various sectors of the economy, providing financing options to those in need and greatly contributes to the functioning of this diverse nation. Since its early inception, numerous problems have seeped into the banking sector and there are some research studies have been conducted to determine the adversities, challenges, and the functioning of this sector. This research paper makes an attempt to evaluate the nature of some of the problems, their underlying causes, and the policy recommendations that may provide resolution to these problems.

Keywords:- *Indian, Banking, Problems, NPA, Bank, Debt.*

I. INTRODUCTION

Post-Independence, the Indian Banking system has undergone as much change as it has grown to be what it is today. Post-nationalisation, India witnessed bank mergers and nationalisation bringing about rapid growth as well as a functional and structural change under the purview of the Reserve Bank of India, governmental regulations and the Narasimham Committee. The Indian banking sector has since rapidly grown in terms of branches, bank credit, deposits and customer base due to a positive economic growth environment and the focus shifting to adopt a development oriented banking approach for the economic welfare of India. Indeed the banking sector has been fundamental to the development of the Indian economy as a supporting institution to mobilize and disperse funding throughout the various aspects of a growing economy under the regulation of RBI[1]; however the journey has been less than smooth. There have been numerous problems along the way, some of which still persist today despite numerous measures, policies, and initiatives by the government to control and alleviate them (Dutt and Mahajan, 2013, p.880).

II. REVIEW OF LITERATURE

The financial performance of banks is not only crucial to the banks themselves but the economy in general. They are used in "assessment of the ability of a firm to pay its debts, the evaluation of business and managerial success and even the statutory regulation of a firm's performance" Moreover, their significance is more pronounced when industry-wide targets or analyses are made (Barnes, 1987). It is important to note that ratio selection is a contentious matter because information overlaps individual ratios (Benishay, 1971). The performance of businesses is dependent on various determinants, both internal and external. Matthaios D. Delis et al (2005) shows that internal determinants include the bank's balance sheet and/or profit and loss accounts, while external determinants include non-bank related factors such as the economic and legal environment that affects the operation and performance of financial institutions.

Matthaios D. Delis et al (2005) identifies return on assets and return on equity as the ratios suitable for use in the assessment of profitability of banks, together with other ratios such as those that check the source of income of banks, including but not limited to the differences in interest payments and interest receipts (net interest on income), as well as the earnings after taxes of banks. Of late, banks have also been facing e-fraud which came about as a result of digitized banking; the cause of this being the collaboration of security agents and bank officials with fraudsters (Usman, 2013)

Deloitte (2015) found that, on average, 50 incidents of fraud were experienced by the respondents; with a loss of ₹10 Lac per incident on average. The survey further goes on to show that there is usually improper assessment of documents or rather, 'fraudulent documentation' within retail banking, while corporate banking is faced with diversion of funds. This poses several problems for the retail and corporate banking sectors as is pointed out by Deloitte; banks need to invest more in preventative mechanisms in retail banking because their limited resources are impairing the due diligence process of document verification – increasing the risk of fraud significantly.

[1] Abbreviation: Reserve Bank of India

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For corporate banking, the banks need to ensure that the borrower uses the funds for the purpose stated in the loan sanction – implying the need for post-sanction monitoring of funds in order to prevent the things that are concomitant with improper use of such funds. The consequences, as is reflected in the annual reports of the Reserve Bank of India, are that Non Performing Assets from the retail banking sector stood at 2% while those from the corporate banking sector stood at 36%.[2]

As thus, the issues in the banking system come from a wide range of players hence their appearance of being insurmountable. In an interview with the chairman of State Bank of India, 21 August 2018, it was revealed that "banks, industry, government and courts all played their part in the pile up of stressed loans" (Rebello, 2018).

III. OBJECTIVES OF THE STUDY

- To identify the current problems plaguing the banking sector in India.
- To suggest policy implementation.

IV. RESEARCH PROBLEM

The banking sector is an indispensable part of the Indian economy and yet its operational structure had flaws since Reserve Bank of India was first established in 1935. These problems have deeply intertwined themselves with the banking sector and today they pose some major challenges that have caused this industry to stagnate.

V. RESEARCH METHODOLOGY

Secondary data from various sources including RBI website, annual reports, government reports academic journals, archived RBI speeches, and newspaper websites, were obtained to conduct this study. The paper compiled and assessed data pertaining to banking Non-Performing Assets (NPA), asset management, bank profits, fraud statistics, and other useful data between 2005 and 2017. Data was depicted in form of tables and graphs which were created using excel. Moreover, data such as annual profits, gross annual NPAs, fraud reports, Return on Assets (RoA), Return on Equity (RoE), Net Interest Income (NII), and Profit after Taxes (PaT) was used to analyse the current scenario of the problems that plague the banking sector.

VI. ISSUES PLAGUING THE BANKING SECTOR IN INDIA

The Indian banking sector has faced several issues over the years, most of which have managed to linger even today or at least influence operations to some extent, such as the ever increasing bank Non-Performing Assets, various forms of Bank and Internet Frauds, Low profitability, and even the generational and technological gap among bank employees.

A. Non-Performing Assets

One of the most prominent issues in the banking sector that greatly hinders progress and economic growth is lack of asset quality measures to prevent Non-Performing Assets. They are effectively credit facilities extended to any organisation, individual or a group by the bank which has overdue interest or instalment repayment, thus termed "Non-Performing" implying an investment without returns.

The issue of NPA is an unavoidable problem with any banking and financial industry which has been in existence for as long as any form of banking has existed; however this issue was highly aggravated with the extension of Priority Sector Lending by the Government of India, post nationalisation, as a means to bring about socio-economic growth. Dr. K.S. Krishnaswami Committee (1972) explained the concept of Priority Sector Lending as *"The concept of priority sector lending is mainly intended to ensure that assistance from the banking sector flow in an increasing manner to those sectors of the economy which, though accounting for a significant proportion of the national product, have not received adequate support of the institutional finance in the past."* Thus Priority sector lending initiative mandated all nationalised and public banks to reserve 40% of aggregate bank credit for the economically weaker sections of the country such as agriculture, transport, exports, etc. This resulted in some amount of pressure on banks that caused them to lend indiscriminately, thus increasing the NPAs resulting from priority sector loans.

Moreover in a paper based banking system before the time of computerised records, it was difficult for the banks to keep tracks of innumerable small scale credit accounts under priority sector lending, resulting in some losses of bank credit.

[2]RBI Annual Report 2013 -14
http://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/RBIARE210814_FULL.pdf

Many corrective measures were adopted by the government under the suggestions made by the Narsimham Committee (1992) that proposed a separate organisation for debt control and recovery of existing NPA's, ultimately facilitating the establishment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest, (SARFAESI) Act in 2002. Eventually more debt and NPA recovery agencies/schemes were set up such as the One Time Settlement Scheme, Debt Recovery Tribunals after the passing of the Recovery of Debts due to Banks and Financial Institutions Act (RDBBFI) in 1993, and Lok- Adalats.

While the establishment of SARFAESI in 2002 had managed to decrease the NPAs from ₹71,113 crore to ₹51,243 crore in 2005, the NPA (Mostly PSBs[3]) has since increased manifolds to a staggering 6,97,000 crore (including re-structured loans) in 2016 and only growing for which management efforts are been made (Dutt & Mahajan, 2016, p.880)[4]. According to the list of wilful defaulters published by Federation of Bank of India Staff Unions, on July 27th of 2016, the total amount in loan defaults is ₹490318079 Lacs.[5]

The following data represents the Non-Performing Assets accumulated by Public Sector banks comprising of Nationalised banks and State Bank of India & Associates, Private Sector Banks, and Foreign Banks between the time period 2007 and 2017.

In **Table 1[6],** it can be observed that the Gross NPA of SBI and Associate banks increased from ₹126769 million in 2007 to ₹154780 million in 2008. It continued to climb consistently through 2008 to 2014 following which the NPA trend of SBI and Associate banks experienced a dip in 2015 at ₹735085 million from ₹798165 million in 2014. It then further increased in 2016 reaching ₹1778106 million in 2017. A similar trend can also be observed in other nationalised banks where the yearly NPA decreased to ₹249743 million in 2008 from ₹262914 million in 2007. It then continued to increase steeply in the following years reaching a total of ₹5069213 million in 2017. Non-performing assets of foreign banks also show some amount of fluctuations where it has decreased to ₹50687 million in 2011 as compared to 2010 when it was ₹71336 million. It then continued to rise and experienced another reduction in 2015 where it decreased to ₹107610 million from ₹115650 million. It then decreased again in 2017 where their accumulated gross NPA was ₹136291 million compared to the ₹158052 million in 2016. Nationalised banks in contrast however have shown an uninterrupted increase in its NPA that grew manifolds to ₹5069213 million in 2017 from an initial ₹262914 million in 2007. The NPAs of SBI and its Associate banks, Private Sector Banks and Foreign banks also rose significantly since 2007.

Figure 1, shows a graphical representation of NPA accumulated by all banks and it shows a steep increase in all banks, especially the Nationalised banks.

B. Illegal Activities: Frauds, Scams and Thefts.

Another major problem in India's banking sector today is the amount of Frauds, scams and thefts that are at a rise causing massive losses to the banks in numerous fronts. To begin with, the advent of internet and the adoption of computerized automated systems have subjected the system to a new kind of vulnerability. With the percentage population of global internet users as of 2018 at more than 53%, the number of cyber criminals has increased steeply (Simran et al. 2018). Thefts of bank details and credit/debit card information as well as many recent pay wallet organisations that maintain weak 'know your customer' policies have unwittingly contributed to the number of cyber thefts and the global banking information trade. Moreover, the influence of political parties, through nepotism, corruption, and favouritism, plays a serious role in fostering wilful defaulters and fraudster.

➢ *Cyber Frauds & Scams*

Earlier frauds were limited to currency and cheques forgery; however, recent frauds have manifested themselves in web technology to conduct fraudulent activities and thefts. Internet technology has become an integral part of the Indian banking sector providing numerous banking facilities to the population of this country. The banking sector is especially vulnerable since it attracts a large number of these cyber criminals as the banking system is inextricably interwoven with various computer networks that provide web based banking facilities such as National Electronic Fund Transfer (NEFT), Real-Time Gross Settlement (RTGS), Electronic Clearing Service (ECS), Online Debit/Credit card payments (e-transactions), Internet Banking, Mobile Banking, Automated Teller Machines (ATM machines), Instant Money Transfer Protocol (IMTP) etc. (Simran, Manvikar, Vaishnavi and Jatin, 2018).

[3] PSB: Public Sector Banks

[4] Indian Economy by Dutt & Sundaram, Published: S. Chand, 70th Edition. Pg-880

[5] Source: Federation of Bank of India Staff Unions

[6] Appendix: Tables, Figures, and Diagrams

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Year	State Bank of India	Private Sector Banks	Nationalised Banks	Foreign Banks
2007	126769	92553	262914	22629
2008	154780	129974	249743	28594
2009	184139	169266	265431	64445
2010	235325	176400	363948	71336
2011	303928	182406	442711	50687
2012	482144	187678	696245	62966
2013	627785	210705	1022272	79771
2014	798165	245424	1484572	115650
2015	735085	341062	2049595	107610
2016	1219686	561857	4179878	158052
2017	1778106	932092	5069213	136291

Table 1:- (Gross NPA of Scheduled Commercial Banks from 2007 to 2017)[7]

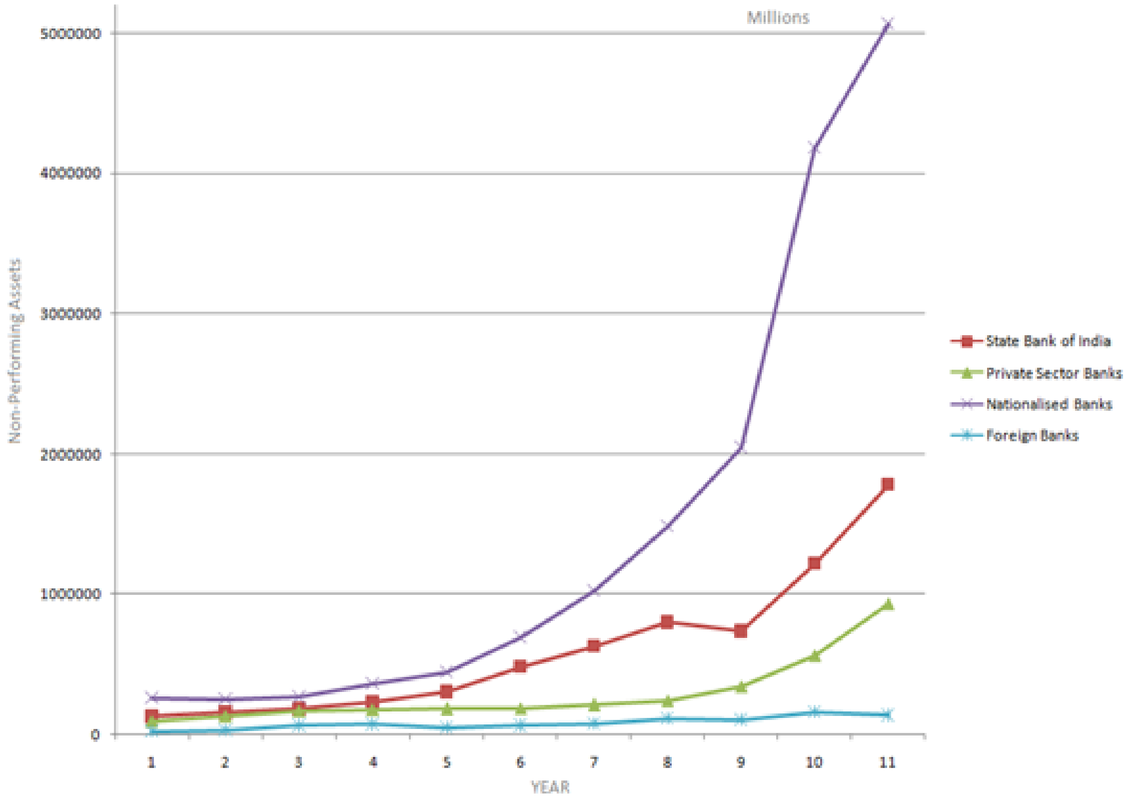

Fig 1:- (Graph of Gross NPA in SCBs from 2007 to 2017)

[7] Source: Reserve Bank of India

Reports suggest that cybercrimes have cost more than ₹300 crore in losses to the banking sector between 2014 and 2017 which is only projected to increase (Kumar, 2017). Such losses severely stunt the growth of the banks; adversely affecting the services that they can provide. Data theft is another pressing issue that the banking sector faces which can put its systems, records, customer database, capital, and investments at risk. Moreover as better safeguards and web-based technologies are developed to address these issues, more advanced techniques are developed by the attackers to exploit them. Moreover, outsourcing of banking technology has inadvertently caused lack of security regulations due to lower oversight that would otherwise remain stringent.

It has been found that Cyber Frauds and thefts have increased drastically in the last decade and in 2014, around 65% of total reported fraud cases were conducted by exploiting the bank's increasing reliance on technology for various services such as NEFT, ATM, Internet Banking, Credit/Debit Cards, Mobile Banking and etc. There are various methods by which attackers commit such crimes, most common of which are *hacking, phishing, malware attacks, session hijacking, Pharming, Debit/Credit Card skimming* and etc. (Dr. Sukhamaya and Dr. Lalata, 2016). According to Times of India, Banks lost an average of ₹88,553 every hour to cybercrime since July 2014 with an average of ₹21.24 Lac losses per day. A large part of these losses are attributed to Debit/Credit Card skimming which is carried out through installation of cameras and machines in ATM locations to skim over user card details. Moreover most of the ATM machines in the country run on an outdated and vulnerable stock Windows XP operating system that has been well documented to have innumerable security vulnerabilities (Kumar, 2017). Recently, Cosmos Bank lost over ₹94 crore to cyber fraud that was committed using a malware attack on the bank's servers over the course of two days on 11th and 13th of August, 2018. It was suspected that the malware attack was engineered from Canada and multiple ATM withdrawals were made throughout 28 countries that included Canada, China and India. Such cases, although involving smaller losses in contrast to NPAs, are gradually increasing and the internet's ease of anonymity makes it an imminent threat to the banking industry (Cosmos Bank Fraud, 2018). Out of the 3474 cyber crimes reported in 2017, 2095 were in the banking sector alone (Cyber crime, 2018).

➢ *Bank and Loan Frauds*

Another serious issue in the banking sector are frauds pertaining to breach of contracts, wilful defaulters and loan absconding that has caused billion in losses to the Indian banks. While some of the more highlighted cases include Vijay Mallaya, Jatin Mehta, Neeraj Singhal, and most recently Nirav Modi, there are over 12000 wilful defaulters as of June 2018 with Lacs of crores in outstanding dues[8]. These frauds occur on account of poor accountability and risk assessment practices; coupled with favouritism and cronyism. Conniving employees and management officials also partake in the frauds; taking for instance Nirav Modi and his uncle Mehul Choksi where PNB officials Gokulnath Shetty and Manoj Kharat are suspected to have aided them abscond with ₹11,800 crore from Punjab National Bank in January 2018. It was estimated that between 2013 and 2016, the losses incurred to the PSBs in India was more than ₹22,700 crore. According to a speech delivered by RBI Deputy Governor K.C. Chakravarty in 2013, losses faced by banks due to frauds had increased by more than 4 times from in initial ₹2,646 crore in 2009 to ₹8,646 crore in 2012.

Dr. Sukhamaya Swain and Dr. Lalata K Pani in their paper "*Frauds in Indian Banking: Aspects, Reasons, Trend-Analysis and suggestive Measures"* had highlighted certain data pertaining to number of frauds and amount defrauded that was reported by commercial

[8] Source: https://suit.cibil.com/

Year	Fraud Cases Reported	Fraud Amount
2004 to 2005	10072	938.29
2005 to 2006	13923	1453.53
2006 to 2007	23622	1225.86
2007 to 2008	21249	1076.54
2008 to 2009	23941	1911.68
2009 to 2010	24791	2037.81
2010 to 2011	19827	3832.08
2011 to 2012	14735	4491.54
2012 to 2013	13293	8646
TOTAL	169190	29910.12

Table 2:- (Number of Fraud Cases in Commercial Banks from 2004 and 2013)[9]

Banks from 2004 to 2013. This data is explained with the help of **Table II**,[10] where total number of fraud cases and fraud amount is shown. It can be observed in the table that number of fraud cases increased consistently and reached its peak at 24791 cases in 2009-2010, and then declined until it reached 13293 cases in 2012-2013. This declining trend when put in contrast with the amount of fraud for the same time period, it indicates a surprising trend. The amount in frauds had consistently increased from 2004 at ₹932.29 crore in losses to a loss of ₹8646 crore in 2012-13. This indicated that while number of frauds decreased over time, the quality of the frauds increased with bigger and bigger frauds being committed over time. This is also represented in **Figure 2** where the two curves denoting frauds and fraud amount seem to move towards a convergence point. Clearly a more stringent approach in sanctioning loans and accountability reforms are required to avoid such large scale losses for banks.

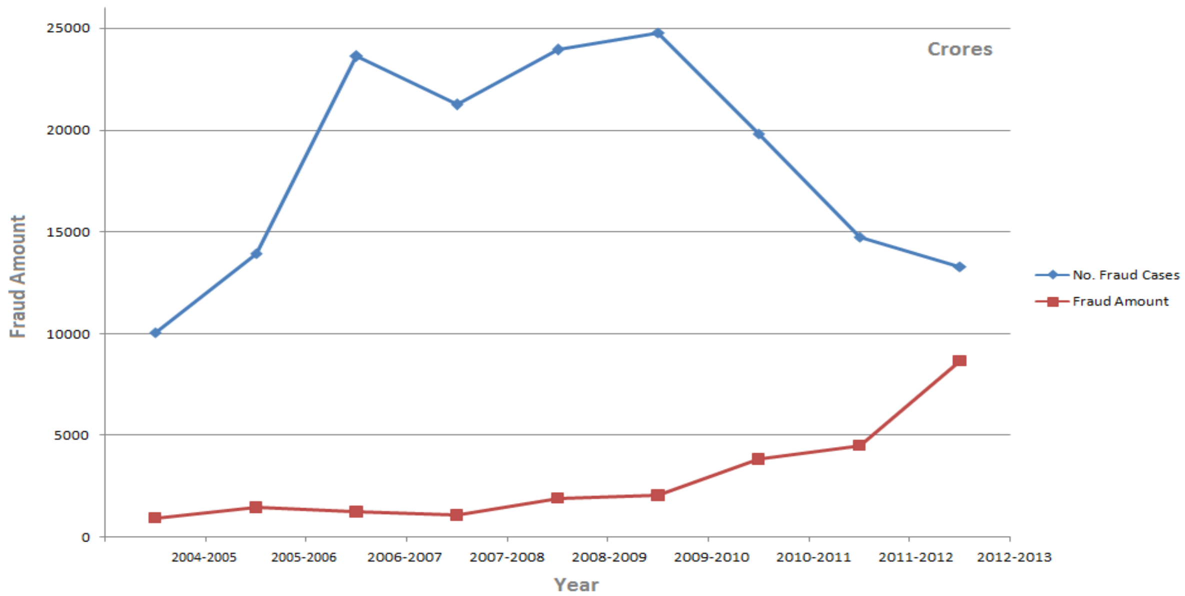

Fig 2:- (Graph of Fraud in Commercial Banks between 2004 and 2013)

[9] Source: https://www.ijbmi.org/papers/Vol(5)7/version-2/A05720109.pdf
[10] Appendix: Tables, Figures, and Diagrams

➢ *Low Profitability of Banks*

At the onset of 2011, the performance of Indian banks became of great concern to those overlooking the health of the financial system. Along with the December 2015 Financial Stability Report, they released a Report on the trends and progress of banking in India for the years 2014-2015. In this report, the Return on Assets (RoA) and Return on Equity (RoE) of the public sector banks, common indicators of financial well-being are shown to be diminishing from 2011-2014. Moreover, it is highlighted that "the deterioration in the asset quality of banks in general, and PSBs in particular, continued during the year with rise in volume and proportion of stressed assets." In 2016, the RBI reported that "A bank-wise distribution of RoAs (annual) shows that 21 Scheduled Commercial Banks (SCB) with a share of 37 per cent to the total assets of SCBs recorded negative RoAs during the financial year 2015-16. Further, seven banks with a share of 5 per cent in the total assets recorded RoAs in the range of 0 to 0.25 per cent". Using a probability density function, it was further observed that more banks had lower RoAs in 2015-2016 than in 2014-2015 (RBI, FSR 2016)[11]. It should be noted, however, that a negative RoA is not always a bad indicator, but rather the continuity of such instances that raises red flags with regard to the asset management of an entity.

Table 3 summarizes the performance of Indian banks qua profitability for the years 2011 – 2015. The Net Interest Income during 2014-2015 declined to 69.5% as compared to 71.1% in 2012-2013.This continued to decline into the 2015-2016 financial year as is shown by the RBI. The significance of the Net Interest Income (NII) is that it helps in evaluating the loan-portfolio of banks. It is the difference between the interest received from loans and the interest paid on liabilities. It is the biggest source of revenue for banks and for this reason; it is the greatest source of risk to the safety and soundness of a bank.

The quality of loan-portfolio is simply the manner in which a bank balances its loans to deposit ratio; whether it earns more interest than it pays out, or vice versa. It is the management's responsibility to formulate loan policies that guide the lending practices. Deteriorating economic conditions can affect loan portfolios (like missing payments, due to job losses). This decline may somehow be linked to the decline in credit and deposit growth in 2014-15; since the ability of a bank to lend funds is related to its ability to mobilize funds through increased deposits.

[11] Reserve Bank of India: Financial Stability Report 2016

	Return on Assets	Return on Equity	PAT Growth	Earnings before Provisions & Taxes Growth	Net Interest Income Growth	Other Operating Income Growth
Mar-11	1.1	13.6	23.6	21.7	34.6	0.5
Mar-12	1.1	13.4	14.6	15.3	15.8	7.4
Mar-13	1.0	12.9	12.9	9.9	10.8	14.4
Mar-14	0.8	9.5	-14.1	9.5	11.7	16.6
Mar-15	0.8	9.4	11.4	12.3	9.3	18.0

Table 3:- (Profitability of Scheduled Commercial Banks from 2011 to 2015)[12]

2011 to 2015. The net interest on income of SCBs continued to decline into subsequent financial years as is shown.

In 2016, SCBs reported a negative Profit after Taxes of 43.0% as opposed to that of 11.0% in 2015. However, despite having registered an increase in net income on interest in 2018 (1.4% growth, calculated from **Figure 3** and **4**), the weak profitability of SCBs continues as most of them registered negative RoAs of 13.4% in March 2018 (RBI FSR 2018). In **Figure 5** the reported Profit after Taxes (PAT) plummeted even further to -147.5%. It has further been mentioned that the "Weak profitability of SCBs is a concern as low profits can prevent banks from building cushions against unexpected losses and make them vulnerable to adverse shocks. It can be observed in **Figure 6** that Median return on assets (RoA) of SCBs came down further in March 2018. There are several structural issues resulting in low profitability of SCBs, viz., high loan loss provisions, debt overhang, increasing costs and declining revenues."

	Net Interest Income to TOI	Other Operating Income to TOI	Fee Income to OOI	Profit/Loss on Forex Operations to OOI	Profit/Loss on Securities Trading to OOI	Dividend Income to OOI	Miscellaneous income to OOI
Mar-11	71.1	28.9	57.7	18.3	4.0	3.2	16.7
Mar-12	72.6	27.4	59.5	18.7	3.6	3.1	15.1
Mar-13	72.0	28.0	54.9	15.2	10.8	2.5	16.6
Mar-14	71.1	28.9	51.3	17.4	11.9	2.2	17.2
Mar-15	69.5	30.5	47.6	14.9	19.6	2.3	15.5

Table 4:- (NII of Scheduled Commercial Banks from 2011 to 2015)[13]

Figure 7 Profitability of weak banks (14 banks with RoAs in the bottom quartile) on an average has been worsening since September 2016 and more efforts will be needed to improve their resilience. The higher risk provisioning against NPAs on their balance sheets resulted in their low profitability.

Figures 3, 4, 5, 6 and **7** summarize the profitability of SCBs from 2016 through 2018.

[12] *Source: RBI "Financial Stability Report 2015*
[13] *Source: RBI "Financial Stability Report 2015*

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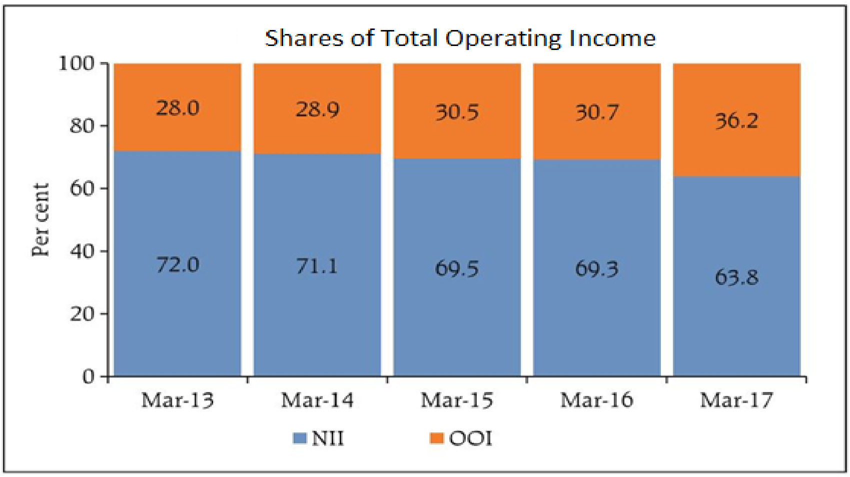

Fig 3:- (NII of Scheduled Commercial Banks from 2013 to 2017)[14]

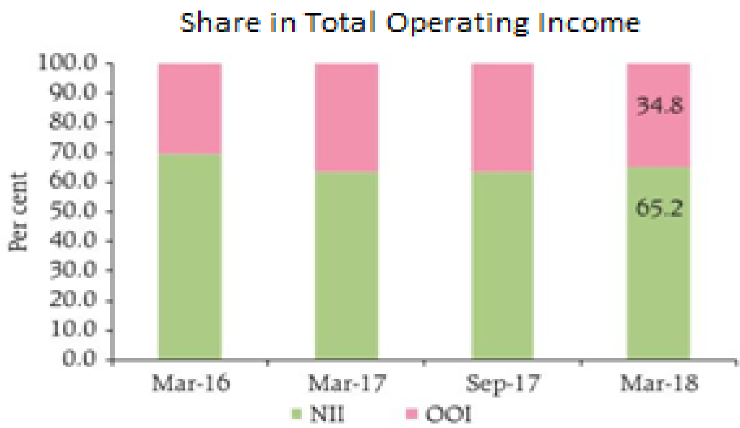

Fig 4:- (NII of Scheduled Commercial Banks from 2016 to 2018)[15]

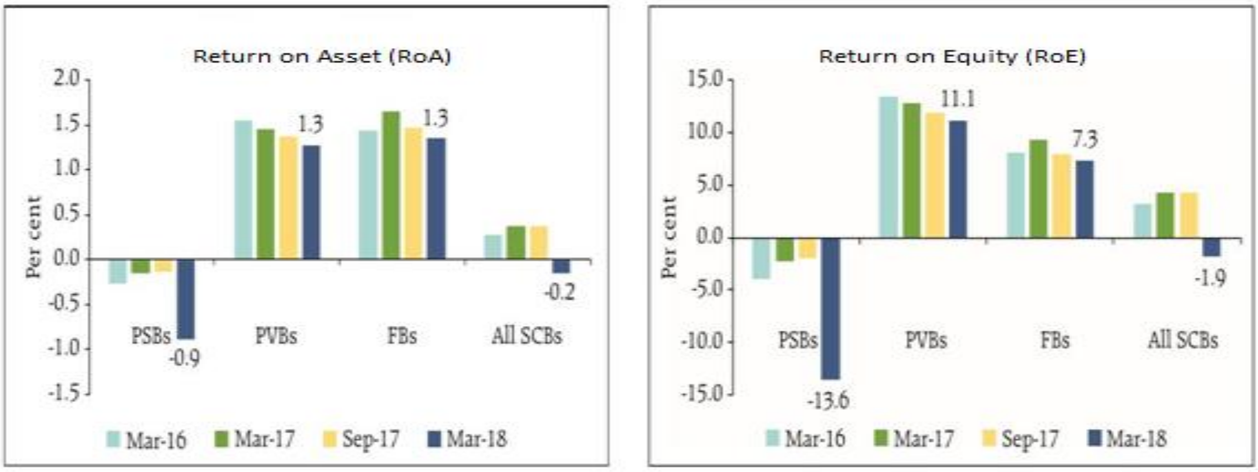

Fig 5:- (ROA and ROE of Scheduled Commercial Banks from 2016 to 2018)[16]

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[14] *Source: RBI "Financial Stability Report 2017*
[15] *Source: RBI "Financial Stability Report 2018*
[16] *Source: RBI "Financial Stability Report 2018*

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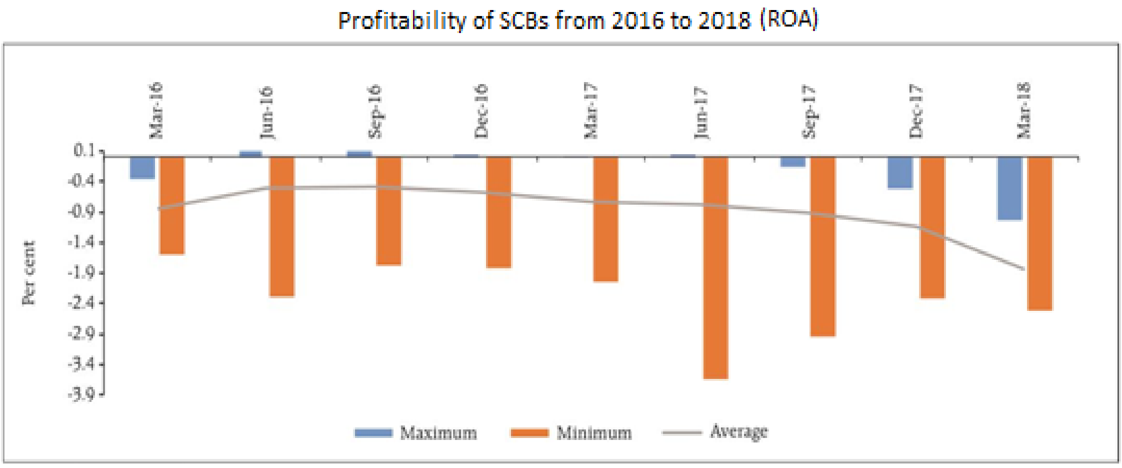

Fig 6:- (ROA and ROE of Scheduled Commercial Banks from 2016 to 2018)[17]

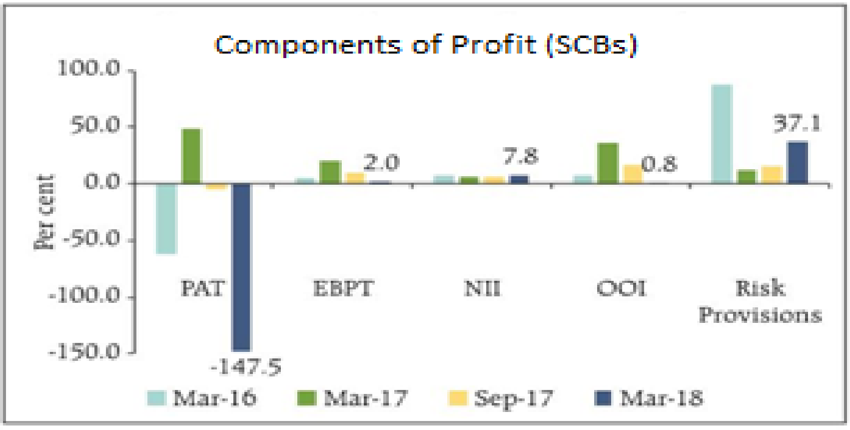

Fig 7:- (NII & PAT of Scheduled Commercial Banks from 2013 to 2018)[18]

[17] *Source: RBI "Financial Stability Report 2018*
[18] *Source: RBI "Financial Stability Report 2018*

VII. POLICY/CORRECTIVE MEASURES

Despite the existing corrective and preventive measures undertaken by the government, the attempts at curbing most of these problems have not been successful as evinced by the data mentioned earlier. It therefore implies that certain revisions and revamping of the existing policies and regulations are required for them to produce better outcomes.

➢ *Measures to manage Non-Performing Assets*

Non-Performing Assets have been a long withstanding problem and considering the operations and the core function of the banking sector, it is even unavoidable, but it is possible to manage it. As such, the following steps could be taken to curb the problem of NPA in the Indian banking sector:

- RBI had previously reported deterioration of banking asset quality in its Financial Stability report 2017; therefore a stronger NPA management system with stricter evaluation of prospective borrowers could help mitigate the problem.
- Priority Sector banking needs to be reformed in order to allow banks greater autonomy so they can conduct their own due-diligence before sanctioning loans. While the priority sector investment has been an important step in propelling India’s economic growth forward, it is now increasingly being exploited and taken for granted which needs to be rectified.
- Political and Bureaucratic influence over banking managerial decisions need to be curbed and shifted to bankers for better performance as bankers are more qualified to make such decisions over politician and bureaucrats.

➢ *Measures to prevent, detect and control Bank Frauds and Cyber Crimes*

- Big Data Analytics cell need to be established in each individual bank as a fraud detection tool as they can tremendously help in tracking down perpetrators who commit cyber frauds. Finding patterns among massive amounts of data that are generated everyday through various web applications, websites and networks can be analyzed, structured and refined by big data analysts to reconstruct anonymous identities to the most shocking details.
- Regular security auditing and updated cyber security awareness workshops need to be mandated in all banking branches to avoid employees falling victim to innumerable phishing traps that can compromise the entire banking network.
- Through verification of collaterals and furnished documents need to be carried out before any sanctions are made.
- Detailed follow-ups should be conducted by banks to avoid borrowers siphoning of bank funds for purposes other than the intended use.
- Stricter Know Your Customer policies should be adopted to avoid fraud risks to the banks.

➢ *Measures to Increase Bank profitability*

- Further Privatisation of banks need to be permitted to offer banks higher control over their funds and thereby control over its balance sheets, investments, assets and facilities.
- Adoption of strict NPA management measures to avoid bleeding of profits.
- Revision of SARFAESI, DRT and other debt recovery organisations need to be carried out and facilitate their operations work along with management of underlying economic problems which aggravate NPAs and prevent repayment of existing dues by defaulters.
- Improvement of banking facilities, 24x7 hours banking, and improvement of customer service.

VIII. SUMMARY AND CONCLUSIONS

This study attempts to put the problems that are currently prevalent in the banking system viz., non-performing assets, frauds and cybercrimes, low profitability as well as improper regulation of non-bank financial institutions; and to proffer possible policy changes towards dealing with the prevailing problems. From the study, it is apparent that the causes of these problems are mostly internal, as can be seen with growing bank frauds that have resulted from lack of due diligence in the sanctioning of loans. Moreover, the absence of effective post-sanction monitoring systems mean that the funds are diverted from the original purpose for which they were sanctioned.

Moreover, through financial ratio analysis, the decline in profitability of the banks is shown to have been going on for a number of years. The ratios used are the return on assets, return on equity, net interest income and profit after taxes. The current Financial Stability Report reports that banks reported a PAT of -147.5%; an NII of 65.2%; RoA of -0.9, and a RoE of -1.9 for March 2018. The RBI has even highlighted this issue to be of great importance and that banks with worsening profitability would require more effort in order to improve their resilience.

The cyber security issue that is at the heart of many frauds is also touched upon, with several cases including the recent case of Nirav Modi and Punjab National Bank.

In conclusion, the Indian banking sector is currently under tremendous pressure to revamp itself and bring things back to normal. The granting of credit is a very important aspect of the economy, but when the institutions that are responsible for this task grapple with carrying it out properly, it is the economy that stands to bear the brunt.

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