

Preface

This book is on consolidation, restructuring and banking performance in post reform era of a quarter century. Idea of writing a book on banking reforms germinated with our research paper published on mergers and acquisitions of banks in Economic and Political Weekly, September 12, 2015. It got crystallized with further research on competition, cost efficiency and non-performing assets of banks in India, and some of these issues were explored in Ph.D. thesis of the second author. This became a fruitful and meaningful enquiry for update research and thus the idea of writing a book on this subject became concrete.

For past 25 years, banking industry was being transformed across the world to make it efficient enough to benefit from opportunities and deal with challenges of globalization. In the same way, Indian banking was also subjected to reforms since 1991 that led to gradual transformation on some dimensions of performance in the course of time, particularly with regard to efficiency, capitalization, technology, governance with equal emphasis on stability. Banking reforms became a positive political popular movement and forward looking measures in all academic and policy debates for a long time. Meantime global crisis of 2007–2008 led to bank failures in many countries and making

others vulnerable to instability. However, Indian banks with limited risk exposure to overseas operation escaped from major catastrophic financial damages banks might have suffered. But it could not remain insulated from dampening effect of recession in Indian economy. Profits of banks slipped to lower level because of higher provisioning made against rising bad loans. Consequently, substantial banks' net-worth eroded and slide continued in post crisis period. All these events put a question mark on 25 years old banking reforms and its long term implications for banks in particular and for economy in general. Long term consequences of banking reforms were unknown except some research studies available on select issues or positive outlook projections described in scholarly lectures on the topic. Objectives of consolidation and restructuring, greater competition and lower concentration were attempted during progressive introduction of banking reforms. Consequently outcome of reform measures were expected to be tangible in terms of consolidation and restructuring of banks' operation. The question that whether these efficiency seeking reforms contributed to objectives is subject matter covered in various chapters of this book.

The question of optimal banking structure is elaborated and evaluated in first chapter. The discussion focused on criteria and indicators specified in literature and compatibility of emerging structure with developmental needs of Indian economy. Optimal structure of banking, though it is difficult to attain and maintain in view of multiple optima—is also necessary condition for efficient operation of the system. Market conditions of a service industry like banking is unlikely remain static in dynamic large economy like India. In view of banking deregulation and liberalization in general, market forces come into play to sharpen competition and discourage high concentration. These issues being a part of banking reforms are discussed in first two chapters. Despite reforms competition has not changed much but qualitative improvement in banking services is visible, concentration level marginally declined—all appeared to be constituents of oligopoly banking structure. Optimum size of firm grows with growth of economy, so was the case with banking entities in public sector having increased its efficient size over the period. Analysis of cost efficiency, economies of scale and diseconomies, if any, are presented in a chapter.

Equally important issue of productivity of inputs used by banks is scrutinized and given separately to validate cost efficiency. Unfinished consolidation and restructuring as examined in chapter on mergers and acquisitions proved that this objective did not materialize as recommended in Narasimham Committee Report. Deregulation of interest rates and liberalization in other operational aspects including variable reserve ratios contributed to performance that is seen in chapter on profitability. Also the issues of non-performing assets, technology innovations adding to efficiency are equally important and hence covered in this book.

This book would be useful reference to the academicians in teaching various post graduate programs in Economics and Finance. This book will serve as good reference text for research students, practitioners and policy makers for research, training and policy formulation in the area of banking in particular and economics in general.

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<http://www.springer.com/978-3-319-55662-8>

Banking Reforms in India
Consolidation, Restructuring and Performance
Bishnoi, T.R.; Devi, S.
2017, XXI, 241 p., Hardcover
ISBN: 978-3-319-55662-8