Profitability of banks and recent trends in banking

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Abstract
In 1992 RBI Launched banking sector reforms, as per the recommendation made by The Narasimhan Committee on financial reforms to create a more profitable, efficient and sound banking system.The business share for private Sector Banks is very small but Their share in total net profit fo the banking system is disproportionately high. Without adequate profit socio-economic obligations cannot be fulfilled by public Sector Banks. Factors influencing The profitability of Banks Capital, Free-Reserves, Deposits and borrowing are the resources of funds for a bank. They take strategic decisions to reduce the cost of resources because all funds cannot be deployed for earning income. Deposits represent a very stable source of funds-low volatility. It is virtually impossible to run an effective retail bank of any size without a culture of deposit gathering and deposit growth. For bringing down other costs, expense on staff and technology and utilities have to be reduced. Though, adoption of technology can lead to business transformation and cost advantage in the long term other measures such as online banking, optimize cash management and reducing communication costs. Can also be applied/adopted.

High competitive environment in the banking sector since 1993 will force institutions to cut costs, outsource office functions, diversify into new activities, to eliminate cost subsidies, and increases non interest income. In the current rising interest rate scenario, banks are in a hurry raise their loan rates, but slow in offering higher interest to depositors.