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RESEARCH ARTICLE

Performance of Indian Public and Private Sector banks- A Comparative study.

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Abstract

The Indian banking system has undergone sea changes and significant transformation following financial sector reforms. It is following international best practices with a vision to strengthen the banking sector in India. The economic reforms in India started in early nineties, but their outcome is visible now. Major changes took place in the functioning of Banks in India only after in second generation reforms. It has become very mandatory to study and to make a comparative analysis of financial services of Public and Private Sector banks. Increased competition, new information technologies, innovative products and thereby declining processing costs, the erosion of product and geographic boundaries, and less restrictive governmental regulations have all played a major role for Public Sector Banks in India to forcefully compete with Private and Foreign Banks. The present study is an attempt to capture that the public sector banks have achieved a greater penetration compared to the private sector banks.

Introduction

The new millennium has brought with it challenges and opportunities in various fields of economic activities including financial sector in general and banking sector in particular. Indian banking, which was operating in a highly comfortable environment till the beginning of the 1990s after new economic reforms, has been pushed into the intense competition. The modern banking system is marked by itineraries into un-charted horizons mingled with risks and heavy competition. Immediately after nationalization, the Public Sector Banks extend their branch to remote as well as rural areas at a rapid pace. Their main objective was to act on behalf of the government to fulfill economic obligations towards the common man. They acted bovver enthusiastically in penetrating into far-flung and remote corners of the country. The social responsibility that was entrusted upon the Public sector Banks digresses them from the profit motive. On the other and private and foreign banks did not make such moves. Instead, they pursued profit making as the objective for their operations.

In 1992 the RBI launched banking sector reforms, as per the recommendations made by the Narasimhan Committee on financial reforms to create a more profitable, sound and efficient banking system. The reforms opened the banking sector for private players. Domestic private sector banks are divided into two categories old banks which existed with the public sector banks before the entry deregulation and the new banks that came into existence after the reforms of 1992. The old banks are smaller in size and are regional. In contrast the new private sector banks are much larger in size, operate primarily in metros and are technologically superior. Interestingly, unlike many developing countries, where the government owned financial institutions own major equity of the private banks, the equity share holders of the old private sector banks were mainly non government bodies. However, most of the new private sector banks, in India are promoted by the government owned financial institutions. These banks, too, are in the process of reducing promoter's stake by raising funds through the capital market.

The mergence of New Private Sector Banks in 1995 exposed the insufficiencies of the public sector banks. New private Sector Banks have set a blistering pace of growth to easily beating the growth rate of Public Sector Banks. The business share for Private Sector Banks is very small but their share in the total net profit of the banking system is disproportionately high. Just like in any other business, profit in banking acts a stimulant factor for management to expand and improve their services. Though Profit maximization is secondary for Public Sector Banks, adequate profit is necessary for their survival and healthy operations because even socioeconomic obligations, like branch expansion in rural areas and priority sector advances cannot be fulfilled without adequate profit.

Commercial banks in India are expected to start implementing Basel III norms with effect from March 31, 2015. They are expected to adopt the standardized approach for credit risk and the basic indicator approach for operational risk initially. After adequate skills are developed, both at the banks and at the supervisory levels, some banks may be allowed to migrate to the internal rating based (IRB) approach.

At present, banks in India are venturing into non-traditional areas and generating income through diversified activities other than the core banking activities, Strategic consolidations are being explored and implemented. With this, the banking sector is currently on the threshold of an exciting phase.

Objectives of the study:

- To make a comparative analysis of financial performance of Nationalized Banks, state Bank Group Private sector Bank & Foreign Bank in Indian During post reform era.
- To analyse the comparative performance of Banking sector in India.
- To suggest suitable measures and recommendations to improve the performance and efficiency of Indian Banks.

Methodology of Study:-

The present study is based on Secondary data, which have been collected from the various books, journals, Research articles and websites. The information so gathered have been properly tabulated and analysed with the help of appropriate statistical tools.

1. Number of Banks and Offices

The number of offices of all scheduled commercial banks almost thrised from 29,677 in 1980 to 92185 in 2013. This rapid increase in the number of bank offices is observed in the case of all the bank groups. However, the number of banks in the case of foreign bank group and domestic private sector bank group decreased from 42 in 2000 to 31 in 2005 and from 33 in 2000 to 20 in 2013. Respectively. This fall in the number of banks is reflective of the consolidation process and, in particular, the mergers and acquisitions that are the order of the banking system at present.

Table 1: Number of Scheduled Commercial Banks- Bank Group-wise

Year	SBI & its Associates		Nationalised Banks		Foreign Banks		Domestic Private Sector Banks		All Scheduled Commercial Banks	
	Number of Banks	Number of Offices	Number of Banks	Number of Offices	Number of Banks	Number of Offices	Number of Banks	Number of Offices	Number of Banks	Number of Offices
1980	8	7745	20	18083	13	NA	34	3849	75	29677
1985	8	10568	20	25061	20	NA	32	4833	80	40462
1990	8	12074	20	29800	22	148	25	3961	75	45983
1995	8	12947	19	31817	27	157	32	4213	86	49134
2000	8	13589	19	33905	42	237	33	5437	92	53168
2005	8	13896	20	35075	31	245	29	6321	88	55537
2013	6	21315	20	54528	43	334	20	16008	89	92185

Source : Data on number of bank offices are taken from Banking Statistics, 1980 to 2013 and various issues of Statistical Tables Related to Banks in India for the years from 1990 to 2013.

2. Credit Deposit Ratio

The credit-deposit ratio (C-D ratio) provides an indication of the extent of credit deployment for every unit of resource raised in the form of deposits. The C-D ratios of all scheduled commercial banks decreased gradually from 63.3 per cent in 1980 to 49.3 per cent in 2000. This declining trend has been reversed in the recent years, with the ratio increasing to 79.1 per cent in 2013. The foreign bank group recorded the highest C-D ratio (91.5 per cent) and nationalized banks the lowest (71.9 per cent) in 2013. The C-D ratios of all the bank groups had fallen drastically in 2000, except for foreign banks. With respect to domestic private sector banks group, this ratio was high at 81.9 per cent in 2013. respect to State Bank Group and nationalized bank group, the C-D ratios With were lower at 85.2 per cent and 74.9 per cent, respectively, which were less than the C-D ratio of all scheduled commercial banks at 79.1 per cent in 2013. There has been a significant increase in the C-D ratios in 2013 across all the bank groups. The overall business of foreign banks per office is higher than the per office business of other bank groups. Across the board, the per office deposits are more than the per office credit as expected. With respect to all scheduled commercial banks, deposits per office increased from Rs. 1.4 crore in 1980 to Rs. 53 crore in 2013 and credit per office also increased from Rs. 0.9 crore to Rs. 40.7 crore during the same period.

Table -2 Credit Deposit Ratios of Scheduled Commercial Banks

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks	All Scheduled Commercial Banks
1980	74.4	58.9	73.5	54.3	63.3
1985	64.6	58.9	74.1	55.5	60.8
1990	74.0	56.6	62.3	54.1	61.6
1995	57.1	48.0	54.3	54.3	51.4
2000	50.3	46.4	72.2	49.0	59.3
2005	56.3	61.3	87.1	70.5	62.7
2013	85.2	74.9	91.5	81.9	79.1

Sources: Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2013 and statistical Tables Relating to Banks in India 2012-13.

3. Priority Sector Advances

Priority sector advances of scheduled commercial banks showed some marginal decline from 35 per cent in 1992 to 27 per cent in 2013. This declining trend is observed in the case of all bank groups except for foreign banks. In the case of foreign banks, priority sector advances increased over the years since the banking sector reforms started. Of the total advances, nationalized banks advanced loans to priority sectors to the extent of 28.0 per cent and State Bank group to the extent of 27.2 per cent in 2013. Such loans were low with respect to domestic private sector banks group at 27.2 per cent and foreign banks at 29.8 per cent. A target of 40 per cent of net bank credit has been stipulated for lending to the priority sector by domestic scheduled commercial banks both in the public and private sectors and a target of 32 per cent has been stipulated for lending to the priority sector by foreign bank groups at present. However, the data presented in this section are percentages of priority sector lending to gross bank credit.

Table-3 Percentage of Priority Sector Advances to Total Advances: Bank Group-wise

Year	SBI & its Associates	Nationalised Banks	Foreign Banks	Domestic Private Sector Banks
1992	36.0	38.4	7.9	28.9
1995	31.1	33.6	20.7	27.0
2000	32.3	34.1	21.4	26.6
2001	32.2	333.9	21.1	24.5
2002	31.4	34.1	21.6	16.9

2003	31.2	36.2	21.9	22.2
2004	33.2	38.6	23.2	26.9
2005	35.3	37.4	25.8	26.5
2013	27.26	28.0	29.2	27.2

Source : Base data are taken from Annual of Accounts Scheduled Commercial Banks 1992 to 2013 and Statistical Tables Relating to Banks in India 2012-13.

4. Bank Group-wise Share in Deposits

The bank-group-wise share in deposits of scheduled commercial banks that nationalized bank group contributed more than 50 per cent in the total deposits mobilized by all scheduled commercial banks in the year 2013. This share dropped from 64.4 per cent in 1980 to 51.4 per cent in 2013. The share of deposits of State bank group remained more or less than one fourth of the total deposits by all constituting a little more than one fourth of the total deposits by all scheduled commercial banks. However, nationalized bank group in total deposits is showing increasing trend. The share of foreign banks increased from 2.9 per cent to 6.7 per cent and in the case of domestic private sector banks, it increased from 5.3 per cent in 1980 to 27.0 per cent in 2013. This shows that banks in the private sector have taken a head start in the deposit mobilization after the liberasitation measures adopted with regard to entry of new private sector banks in 1995.

Table 5: Bank Group-wise Share of Deposits of Scheduled Commercial Banks to Total

Year	**SBI & its Associates**	**Nationalised Banks**	**Foreign Banks**	**Domestic Private Sector Banks**
1980	32.2	59.9	3.3	4.5
1985	31.1	61.2	3.5	4.2
1990	33.7	58.4	4.5	3.4
1995	30.8	54.3	7.3	7.6
2000	29.1	50.3	8.0	12.6
2005	24.8	49.5	6.5	19.2
2013	23.4	51.4	5.2	20.1

Source : Base data are taken Annual Accounts of Scheduled Commercial Banks 1979 to 2013 and Statistical Tables Relating to Banks in India 2012-13.

6. Non-performing Assets (NPAs)

The measure of non-performing assets helps us to assess the efficiency in allocation of resources made by banks to productive.The ratio of gross non-performing assets (NPAs) to gross advances of all scheduled commercial banks decreased from 14.4 percent in 1998 to 3.6 per cent in 2013. Bank group-wise analysis shows that across the bank groups there has been a significant reduction in the gross non-performing assets. With respect to public sector bank (State Bank group and nationalised bank group together), NPAs have decreased from 16.0 per cent in 1998 to 4.1 per cent in 2013. In the case of foreign banks group, gross NPAs as a percentage to gross advances, which was the lowest among all the groups at 6.4 per cent in 1998, decreased to 2.9 per cent in 2013. With regard to domestic private sector banks group, gross NPAs decreased from 8.7 per cent to 2.0 per cent during the same period. The ratio of net NPAs to net advances of different bank groups also exhibited similar declining trends during the period from 1998 to 2013. The net NPAs of all scheduled commercial banks declined from 7.3 percent in 1998 to 1.7 per cent in 2013.

Table 6: NPAs of Scheduled Commercial Banks (Bank Group-wise)

Year	Public Sector Banks		Foreign Banks		Domestic Private Sector Banks		All SCBs	
	Gross NPA	Net NPA	Gross NPA	Net NPA	Gross NPA	Net NPA	Gross NPA	Net NPA
1998	16.0	8.2	6.4	2.2	8.7	5.3	14.4	7.3
2000	14.0	7.4	7.0	2.4	8.2	5.4	12.7	6.8
2001	12.4	6.7	6.8	1.8	8.4	5.4	11.4	6.2
2002	11.1	5.8	5.4	1.9	9.6	5.7	10.4	5.5
2003	9.4	4.5	5.3	1.8	8.1	5.0	8.8	4.4
2004	7.8	3.0	4.6	1.5	5.8	2.8	7.2	2.9
2005	5.4	2.1	2.9	0.9	3.9	2.2	5.1	2.0
2013	4.1	2.0	2.9	1.0	2.0	0.5	3.6	1.7

Source : Report on Trend and Progress of Banking in India 2012-13.

7. Income Composition

Income composition of scheduled commercial banks shows that across the different bank groups, interest income viz., income from advances and investments are falling and the percentage of other income is increasing. Other income inter alia includes income earned in the form of commission, exchange and brokerage and income from profit on sale of investments. In 1980, the share of interest income of all scheduled commercial banks was 89.0 per cent, which decreased to 88.6 per cent in 2013. Other income on the other hand, increased from 11.0 per cent to 11.4 per cent during the same period. This reflects upon the increasing reliance on non-interest income vis-à-vis interest income of commercial banks. This is a welcome as it may reduce the risks arising out of the sole dependency on interest as the source of income.

Bank group-wise interest and non-interest shows that in the case of SBI and its Associates, interest income increased from 84.5 per cent in 1980 to 89.2 percent in 2005 and in the case of nationalized banks group, the same decline from 91.4 per cent to 91.3 per cent. In the case of domestic private sector banks also, interest income declined from 90.3 per cent in 1990 to 84.5 per cent in 2013. It is evident from these figures that more than 80 per cent of the income still comes from interest income in the case of public sector banks are seen to be dependent mainly on the traditional way of earning income even though there is a reduction in such dependence. In contrast, foreign banks are seen to be increasingly dependent upon non-interest sources of income. Non-interest income of foreign banks formed about 21.0 per cent of their total income, followed by domestic private sector banks 15.2 per cent, State Bank of India and its Associates 10.8 percent and nationalized banks 8.7 per cent.

A comparison of the break-up of interest income viz., interest on advances and interest on investments shows that with respect to all scheduled commercial banks, interest income on advances has fallen from 89.0 percent in 1980 to 87.0 percent in 2013.

Table 8 - Income Composition of Scheduled Commercial Banks

Year	SBI & its Associates		Nationalised Banks		Foreign Banks		Domestic Private Sector Banks		All Scheduled Commercial Banks	
	Interest Income	Other Income	Interest Income	Other Income	Interest Income	Other Income	Interest Income	Other Income	Interest Income	Other Income
1980	84.5	15.5	91.4	8.6	-	-	-	-	89.0	11.0
1985	88.2	11.8	93.6	6.4	-	-	-	-	91.8	8.2
1990	89.1	10.9	91.9	8.1	82.8	17.2	90.3	9.7	90.3	9.7
1995	86.9	13.1	88.8	11.2	80.1	19.9	86.0	14.0	87.2	12.8
2000	85.8	14.2	88.4	11.6	79.2	20.8	83.9	16.1	86.2	13.8
2005	82.3	17.7	84.0	16.0	70.4	29.6	80.5	19.5	82.0	18.0
2013	89.2	10.8	91.3	8.7	79.0	11.0	84.8	15.2	88.6	11.4

Source : Base data are taken from Annual Accounts of Scheduled Commercial Banks 1979 to 2013 and Statistical Tables Relating to Banks in India 2012-13.

Conclusion

There has been a spurt in the number of banks during the late 1990s after new economic reforms, which decreased during the early period of the new millennium. This could be reflective of the consolidation process, and in particular, the consolidation that are the order of the banking system at present. The number of bank offices increased significantly during the early 1980s. After a consolidation phase during the late 1980s and early 1990s, there has been a significant increase in the number of offices mainly due to the entry of new generation private sector banks since late 1990s. The public sector banks continued to play a very prominent role in both deposit mobilization and credit disbursement even after the implementation of financial reforms since 1991. Though the overall operating performance of the nationalised banks in India may be regarded as good, it could not be termed as commendable. Even a casual survey of the performance of the nationalised banks vis-a-vis private domestic banks and foreign banks, in particular after the implimentation of economic reforms with reference to globalization, privatisation and liberalisation, may revel the truth. Public sector banks should make the loan disbursement process easy and transparent and loans should be made available to all sectors at appropriate rates. At present the loan rates are too high, it should be lowered down to reach all income level persons. Banks should facilitate more innovative products like kiosk deposits,mobile banking, internet banking etc. banks should take more urgent steps to stop cyber crime as now a days use of internet banking is one of the best method to stimulate the banking habits mainly in rural areas. In present era, competition among banks has intensified. The market share of the public sector banks has reduced but that of private sector banks including the foreign banks improved. It seems that while the new generation banks are all set to revolutionise the very fabrics of tradition of banking services and to bring it on far with global standard, our public sector banks are groping in the dark. It may, further, be concluded that Indian public sector banks are hesitating to even accept the changed behavior of customers. The modern bank customers are more aware, more time savers, more conscious, more educated, and finally choosy.

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