A Study on Performance and Progress of Indian Banking Sector

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Abstract – Financial sector plays a pivotal role in the economic development. It is generally agreed that a strong and healthy banking system is a prerequisite for sustainable economic growth. Banks in India have been undergoing major challenges in the dynamic environment over the past few years as it is evident from several parameters, including No. of offices, No. of employees, Business per employee, Profit per employee, Net Worth, Deposits, Investments, Advances, Interest income, Other income, Interest expended, Operating expenses, Cost of Funds (CoF), Return on advances adjusted to CoF, Wages as % to total expenses, Return on Assets, CRAR and Net NPA ratio In order to resist negative shocks and maintain financial stability, it is important to identify theprofile of the banks. The current study is mainly concerned with the analysis of comparative profiles of Public Banks, Private Banks and Foreign Banks in India during the period of 2006-13 that reflects the impact of new competitive environment on the bank's performance in terms of various selected parameters. The Data was collected through secondary sources from Trend and Progress Report of RBI and the tool used for data analysis of the profile of bank group wise is Compound Annual Growth Rate (CAGR) which is expressed in percentages. The results have found strong evidence that the Private Sector Banks surpasses the other bank groups and topped the position in all the parameters, while Public Sector Banks and Foreign Banks are just competing for the 2nd and the 3rd position.

Keywords: Commercial banks; Public sector banks; Private sector banks and foreign banks; NPA

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INTRODUCTION

It has been around one and half decade since financial sector reforms were initiated in India. As banks are the major segment of the financial sector in India, reform measures are primarily aimed at improving the performance of the banking sector. An efficient banking system has significant positive externalities, which increases the efficiency of economic transaction in general. The first deals with the history part since the dawn of banking system in India. Government took major step in the 1969 to put the banking sector into systems and it nationalized 14 private banks in the mentioned year. This has been elaborated in Nationalization Banks in India. The last but not the least explains about the scheduled and unscheduled banks in India. Section 42 (6) (a) of RBI Act 1934 lays down the condition of scheduled commercial banks.

It is believed that private ownership helps to improve efficiency and performance of bank and accordingly, the Indian government started diluting its equity in PSBs from early 1990s in a phased manner. The privatization of Indian banks really helped to improve their efficiency and performance. Liberalization and Globalization ushered in by the government in the early 90s have thrown open many challenges to the Indian financial sector. Banks, amongst other things, were set on a path to align their accounting standards with the International standards and by global players. They had to have a fresh look into their balance sheet and analyze them critically. In this background, this article is designed to give an outline of profile of ban group wise in Indian banking industry. Banks that employ IT solutions are perceived to be 'futuristic' and proactive players capable of meeting the multifarious requirements of the large customer's base. Private Banks have been fast on the uptake and are reorienting their strategies using the internet as a medium The Indian banking has finally worked up to the competitive dynamics of the 'new' Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization.

NEED FOR THE STUDY

Banking business has done wonders for the world economy. The intensifying competitive environment in the banking sector forcing the banks to focus in their operations. The profile of the banks plays an important role in the performance of the banks and

measuring the relative profile of bank group wise has gained academic attentions over the years. Various parameters have been used to determine the profile of the banks. Evaluating the profile of the commercial banks is important to depositors, owners, potential investors, managers and of course, regulators.

OBJECTIVE

1. To explore the concentration of profile of Public sector banks, private sector banks; and Foreign banks

2. To analyze the comparison of performance of Nationalized Banks, State Bank Group, old Private sector Banks, New Private Sector Banks and Foreign Banks.

REVIEW OF LITERATURE

Over the past decade, there has been a considerable growth in studies addressing the profile of the banks. Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of banks. Some of the studies are as follows:

Di pasha Sharma, Anil K Sharma, Mukesh K Barua in their study discussed that both the frontier approaches, parametric and non-parametric, are gaining an edge over the traditional financial performance measures. In the non-parametric approach, data envelopment analysis (DEA) is widely applied to measure a bank's efficiency and productivity [1].

Siraj and SudarsananPillai, in their paper determined that asset quality and efficiency of bank is highly correlated. Against this backdrop, this paper investigates the growth of selected NPA variables and compares it with banking performance indicators [2]. Variables that impact NPA of banks is assessed and based on its growth rate, inference is generated. The analysis focused on identifying relative efficiency of different bank groups in managing their NPA.

Singh analysed the profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, He emphasized to make the banking sector competitive in deregulated environment and prefer non-interest income sources [3].

Souza, in his study evaluated the performance of public sector banks, private sector banks and foreign banks during the period 1990- 1991 to 1999-2000. The efficiency of the banking system was measured in terms of spread/working fund ratio and turnover/employees ratio [4].

Kannan and AdityaNarain made an attempt to identify the factors influencing spreads of scheduled commercial banks in India and concluded that nonperforming asset effect bank spread.

Centric to the ratio analysis, these studies have customized and blended financial ratios in a model form to examine and predict the financial health. Similarly, comparative performance, recovery performance, cost reduction, productivity and efficiency are vital areas which have been considered by various analysts. With inquisitiveness the present study has been undertaken with specific objectives as envisaged in the objectives of the study.

RESEARCH METHODOLOGY

Data collection and sources of data

The study is based on secondary data collected from the select bank records and other secondary sources like research papers, review papers, published papers of related Banks,.Banks' websites, periodicals, Bank's publications, newspapers etc. A list of the related articles from various journals is also used to develop the basic idea about the particular topic. This paper uses the Compound Annual Growth Rate (CAGR) Method and Ranking method to analyse the profile of banks. The study covers for the period of 8 years data from 2005-06 to 2012-13.

Data analysis and interpretation

Customer deposit is a major part of total liabilities of any bank and it is a major source of fund for banks. Since deposit is the main concern for any bank therefore it becomes important to examine the deposit of each bank groups in India. Customer deposits provide funds for investment and financing. Growth in customer deposits is a positive indicator of banking growth. Bank group-wise, public sector banks accounted for the largest CAGR (56.19 per cent) in total deposits followed by private sector banks (54.57 per cent). Foreign banks showed the lowest CAGR (49.77 Percent). High levels of public deposit ensured that most of the banks had a comfortable liquidity profile.

It is observed from the **Table 1** that the scheduled commercial bank offices in the country showed CAGR of 6.12%, over a period of eight years and for this growth the major contribution is observed from the growth in the new private sector banks. It is also observed from the **Table 2** that there is a continuous increase in number of offices in scheduled commercial banks and this is as a result of continuous increase in number of offices of all bank group wise that is in case of public sector banks, private sector banks and foreign banks.

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Table 1: Trends in Deposits Relating to Bank Group Wise During 2006 to 2013.

Bank Group Wise	CAGR (%)	
Nationalised Banks	57.68	
SBI & Associates	52.88	
Public Sector Banks	**56.19**	
Old Private Sector Banks	52.11	
New Private Sector Banks	55.56	
Private Sector Banks	551987	**54.57**
Foreign banks	150750	**49.77**
Scheduled Commercial Banks	2696937	**55.58**

Table 2: Trends in Bank Group Wise Number of Offices During 2006 to 2013.

Bank Group Wise	CAGR(%)
Nationalised Banks	5.37
Sbi& Associates	5.26
Public Sector Banks	**5.29**
Old Private Sector Banks	3.37
New Private Sector Banks	21.73
Private Sector Banks	**11.22**
Foreign banks	**3.23**
Scheduled Commercial Banks	**6.12**

Capital adequacy ratio is a measure of a bank's financial health and it measures the performance of a bank's capital. It reflects the soundness of a financial institution. It is expressed as a percentage of a bank's risk weighted credit exposures. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. A Bank shall maintain a minimum ratio between its total regulatory capital (the numerator) and the aggregate of its risk weighted on balance sheet assets and risk weighted off-balance sheet assets less approved deduction. The Ratio is provided by equity plus reserves over total assets. It is shown in the **Table 3** that the CAGR of foreign banks is 4.04% as compared to public sector banks and private sector banks where it is 0.21 and 3.88 respectively. The Capital to Risk weighted Assets Ratio (CRAR) profile of SCBs remains comfortable and much above the minimum regulatory requirements of 9%. The decline in the capitalization level of the nationalized banks, is attributable largely to strong credit growth.

Table 3: Trends in Bank Group Wise CRAR During 2006 to 2013.

Bank Group Wise	CAGR(%)	
Nationalised Banks	-0.01	
Sbi& Associates	0.73	
Public Sector Banks	**0.21**	
Old Private Sector Banks	2.03	
New Private Sector Banks	12.60	4.21
Private Sector Banks	12.42	**3.88**
Foreign banks	13.02	**4.04**
Scheduled Commercial Banks	12.32	**1.50**

Total operating expenses includes staff costs, general and administrative Expenses. A lower Operating Expense (OE) shows better control and highlights higher earnings. Operating Expense (OE) differentiates between low efficiency and high efficiency bank. **Table 4** shows, Bank Group wise operating expenses. In case of private sectors banks the operating expenses increased significantly over the period of eight years i.e. from 2006-2013 and overall there was an increase by 50.29%.

Table 4: Trends in Bank Group Wise Operating Expenses During 2006 to 2013.

Bank Group Wise	CAGR (%)
Nationalised Banks	49.78
Sbi& Associates	48.41
Public Sector Banks	**49.27**
Old Private Sector Banks	49.59
New Private Sector Banks	56.82
Private Sector Banks	**55.18**
Foreign banks	**49.09**
Scheduled Commercial Banks	50.59

It is observed from **Table 5** that the rate of distribution of employees in new private sector banks is high as compared to any other bank group. The trend of number of employees during the study period is highly volatile. In case of Nationalized banks it is observed that there was a decrease in number of employees in the year 2007 when it is compared to 2006 then again there was increase in number of employees in 2008 as compared to 2007 then again there was a slight decrease in 2009 as compare to 2008. From the year 2010 to 2013 there was continuous increasing trend. In case of SBI and Associates there was a continuous decrease in the year 2007 and 2008 as compared to the base year then there was a marginal increase in the year 2009 but again in 2010 it decreased. In the year 2011 the number of employees increased but again in the year 2012 the analysis showed a decreasing trend and it again picked up in the year 2013. Public sector banks also showed the same trend as SBI and Associates till 2009. In case of old private sector banks only in the initial year of the study that is from 2006 to 2007 the number of employees decreased otherwise till 2012 it showed increasing trend then later on in the year 2013 there was a decrease in number of employees. In case of New Private Sector banks there was a drastic increasing trend and as result the private sector banks CAGR was at 11.81. In case of Foreign Banks from the year 2006 to 2008 there was increase in the number of employees but it has decreased in 2009 and 2010, later on 2011 to 2013 it was continuously increasing, and the scheduled commercial banks continuously increased during the study period.

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Table 5: Trends in Bank Group Wise Number of Employees 2006 to 2013.

Bank Group Wise	CAGR(%)
Nationalised Banks	0.87
SBI & Associates	1.04
Public Sector Banks	**0.93**
Old Private Sector Banks	3.28
New Private Sector Banks	16.66
Private Sector Banks	**11.81**
Foreign banks	**1.74**
Scheduled Commercial Banks	**2.84**

Table 6 Reflects that the new private sectors are maintaining high net worth CAGR as compared to other banks which has been followed by the Foreign banks CAGR. The public sector banks showed the lowest CAGR i.e. 56.24. The analyses shows that during the period of eight years study the bank group wise has resulted in a continuous increase in net worth.

Table 6: Trends in Bank Group Wise Net worth During 2006 to 2013.

Bank Group Wise	CAGR(%)
Nationalised Banks	56.84
Sbi& Associates	54.98
Public Sector Banks	**56.24**
Old Private Sector Banks	55.45
New Private Sector Banks	65.59
Private Sector Banks	**60.5**
Foreign banks	60.56
Scheduled Commercial Banks	**57.93**

Table 7 is displaying the data related to return on assets (ROA) of public, private, and foreign banks during the period of 2006-2013. The ROA is a functional indicator of bank's profitability. ROA reflects bank's management ability to utilize the bank's financial and real investment resources to generate profits. This ratio is used to know the earning capacity of profit of a bank by using its assets and can be calculated as the after tax net profit percentage to total assets. Here, private banks have high ROA than public and foreign banks, which means they are using their assets efficiently. It refits the efficiency with which banks deploy their assets.

Table 7: Trends in Bank Group Wise Return on Asset (ROA) During 2006 to 2013.

Bank Group Wise	CAGR(%)
Nationalised Banks	-2.28
Sbi& Associates	0.14
Public Sector Banks	**-1.50**
Old Private Sector Banks	8.84
New Private Sector Banks	4.54
Private Sector Banks	**5.40**
Foreign banks	**-0.87**
Scheduled Commercial Banks	**0.25**

It is revealed from the above facts that the foreign banks are at number position in case of profit per employee as compared to other two players in the banking industry i.e. public and private sector banks. The profit per employee is not in a similar trend in case of all bank group wise during the study period, in case of Nationalised banks there was a continuous increase in the profit per employee from the year 2006 to 2011, but in the year 2012 and 2013 it has been reduced. In case of SBI and Associates there was a continuous increasing trend in profit per employee till the year 2010, in the year 2011 it has been reduced but again in the year 2012 and 2013 it has shown an increasing trend. Old private sector banks showed increasing trend till the year 2009 and in the year 2010 it has decreased but again from the year 2011 to 2013 it resulted in increasing trend. In case of New private sector banks the profit per employee decreased in the year 2007 as compared to 2006 and increased in the year 2008 and again decreased in the year 2009, from the year 2010 to 2013 there was a continuous increasing trend. In case of foreign banks there was a continuous increase, except in the year 2010.

It has been observed and derived from the analysis over sample period, that the Changes over the past eight years i.e., from 2005-2006 to 2013-2014 in the banking system have been drastic. The above ranking is done based on the CAGR of each parameter. The results show that public, private and foreign banks has different rankings based on different parameters such as No. of offices, No. of employees, Business per employee, Profit per employee, Net Worth, Deposits, Investments, Advances, Interest income, Other income, Interest expended, Operating expenses, Cost of Funds (CoF),Wages as % to total expenses, Return on Assets, CRAR and NPA ratio. Private sector banks are at first on the base of return on total assets (ROA), Number of offices, Number of Employees, Non-Performing Assets (NPA), Interest Income and other income. Based on CRAR, cost of funds, operating expenses, Investments, Net worth, Interest expended, Business per employee, profit per employee and Wages as % of total expenses, Business per employee Foreign Banks are at the first as compared to public bank and private banks Findings.

On the basis of results and analysis, the following are the findings

1. It has been found that the new private sector banks have shown the highest annual expansion in terms of number of branches vis-à-vis old private sector banks.

2. The capitalization profile of private banks continues to be better than that of Public Sector Banks, with the private banks CRAR at around 3.88% and that of PSBs at around 0.21%. However, continuous government support (via capital infusion) to enable PSBs

maintain a minimum Tier I capital of 7% is likely to result in these banks being able to maintain a comfortable capitalization profile over short to medium term.

3. Bank group-wise, public sector banks accounted for the largest CAGR (56.19 per cent) in total deposits followed by private sector banks (54.57per cent). Foreign banks showed the lowest CAGR (49.77 Percent)

4. Private sector banks have very good Return on Assets (ROA) as compared to other bank group during the study period of eight years i.e. from 2005- 06 to 2013-14.

5. As far as interest income is concerned, private banks are ahead in the race by reporting 61.93% growth, followed by pubic banks (58.7%) and then by foreign banks (55.61%).

6. Foreign banks have the highest business per employee as well as profit per employee.

7. The NPA of public sector bank was also significantly higher than that of private and foreign banks, which indicates the asset quality of public banks is comparatively poor.

RECOMMENDATIONS

Based on the findings of study the following are few suggestions to the Indian banking Industry, which helps them to improve their performance and efficiency and make them fit to compete in this competitive global scenario.

1. As the ROA i.e. Return on assets is the parameter that indicates the efficiency of banks management in utilization of its assets, it is advised that the public sector banks should take care regarding this parameter in general, and in particular it is in the case of nationalized banks where there is a need for improvement.

2. In case of cost of funds there is a need for both public sector banks and private sector banks to work upon this parameter because it shows on the higher side when it is compared to the foreign banks.

3. Having high ratio 11th of Non-Performing Asset i.e., NPA is a sign of poor asset quality and in this study it is noticed that there is a high NPA in public sector banks as compared to private sector banks and foreign banks, and this high NPA's in public sector banks is due to high NPAs in nationalized bank, so there is a need for nationalized banks to focus on this parameter in particular and public sector banks in general, as the simple reason is that the asset quality effects the performance of the banks

4. In case of business per employee the private sector banks are at the back end when it is compared with the other bank groups in the study, this point out that there is a need for private sector banks to look into this matter.

5. When we take profit per employee into consideration, the foreign banks are at front position so it is an indication to both the bank groups i.e. public sector and private sector to try to with stand with the foreign banks in the global scenario.

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