SUSTAINABLE BANKING STRATEGIES ADOPTED BY INDIAN BANKS: MEETING THE GLOBAL STANDARDS

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ABSTRACT

In the process of globalization, Indian banks are maintaining prudent banking practices to meet the world class standards to improve the performance of public and private sector banks in terms of reducing net NPAs, follow up of Basel standards to gain competitive advantages through implementing IT enabled solutions and greater outreach to develop rural banking habits (Financial inclusion). Adhering to the Universal Banking activities of banking, development financing subject to compliance with statutory and other requirements prescribed by RBI, GOI and other enactment. Activities include accepting deposits, granting loans, investing in securities, credit cards, project finance, remittances, payment systems, project counseling, merchant banking, foreign exchange operations, insurance etc. The new business initiatives coupled with changing customer profiles are being partly addressed by technology enabled support infrastructure in banks. To successfully implement its business strategy, banks will need to conduct an organization restructuring initiative to ensure seamless conduct of multiple business processes for every business unit.

KEYWORDS: prudent banking practices, Basel standards, customer profiles, technology enabled support infrastructure in banks

INTRODUCTION

The competitive environment in the banking sector is likely to result in individual players working out differentiated strategies based on their strengths and market niches. For example, some players might emerge as specialists in mortgage products, credit cards etc. whereas some could choose to concentrate on particular segments of business system, while outsourcing all other functions. Some other banks may concentrate on SME segments or high net worth individuals by providing specially tailored services beyond traditional banking offerings to satisfy the needs of customers they understand better than a more generalist competitor.

To be strengthened to ensure transfer of funds on real time basis eliminating risks associated with transactions and settlement process. Banks will have to adopt global standards in capital adequacy, income recognition and provisioning norms. Risk management setup in Banks will need to be strengthened. Benchmark standards could be evolved. Regulatory set-up will have to be strengthened, in line with the requirements of a market-led integrated financial system. Banks
will have to adopt best global practices, systems and procedures. Banks may have to evaluate on an ongoing basis, internally, the need to effect structural changes in the organization. This will include capital restructuring through mergers / acquisitions and other measures in the best business interests. IBA and NABARD may have to play a suitable role in this regard.

The results of the study highlights that the banking sector in India is still vulnerable to crises. Even though there were remarkable changes in banking sector intended to improve the efficiency of the sector, the banks are still vulnerable to the financial crisis. The growths of NPA, growth rate before and after financial crisis are the indicators of its vulnerability. Reforms should be further strengthened to improve the financial stability of banking sector. The vulnerability of banking sector is not desirable for the growth of economy, hence require precautionary measures. The lessons from banking sector which are not affected by the financial crisis should be incorporated into the banking sector. More researches are desirable which investigates the methods to reduce the vulnerability in the banking sector. Collectively, this paper provides some indicators which can show the effect of financial crisis in banking sector. NPA is an important factor that still prevails as an alarming signal for banking growth and survival. There are other various other indicators like credit-deposit ratio and other by which the performance of the banking sector can be analyzed in the era of global crisis. The high level of competition in the market, increased awareness and quality consciousness of the people, changing social values, increasing emphasis on good corporate governance, etc. have influenced the changes in the environment in a significant way. The 21st century will bring about all-embracing convergence of computing, communications, information and knowledge to radically change the business of banking. The growth of high speed networks, coupled with the falling cost of computing power, is making possible applications undreamed of in the past. Voice, data, images, and video may now be transferred around the world in microseconds. Not only has technology transformed the internal accounting and management systems of banks, it has also fundamentally changed the delivery systems they use to interact with their customers. However, the quest for newer and better technologies continues as worldwide, banks look for ways to meet the challenges and opportunities of a rapidly-changing environment. They recognize that without the right technology, they cannot hope to remain globally competitive. The present study investigates Sustainable Banking Strategies adopted by Indian banks by reviewing the last decade performance of scheduled commercial banks in India. The development of banking sector and its stability is essential for the overall development of the economy. The stability of banking sector is determined on the basis of its performance and quality of assets. This study examines the various issues of the NPA’s and asset quality aspects of Indian scheduled commercial banks of public and private sector. The Indian banking sector underwent structural changes during post liberalization era with the implementation of prudential norms for income recognition, provisioning and asset classification. The banking sector is going to implement Basel III according in the near future. The study has been conducted by using data available for the period 2000-2011. A notable result is the financial stability of public and private sector banks showed a tremendous improvement by way of minimizing the level of NPA’s i.e. sub-standard, doubtful assets, loss assets. In the process of Globalization the role of banks plays an important role to protect the Public money in one hand and to improve the quality standards in terms of management of funds, minimization of non-performing assets, asset liability management, spreads on the other. The introduction of new economic policy, prudential norms by Reserve Bank of India since 1991 in Public and Private Sector Banks facilitated a progressive improvement in implementing best prudential practices. This paper presents an analysis of
progressive and qualitative improvement in Public and private sector banks in terms of quality of assets. In order to bring the Indian banking and finance system will be globally Competitive. For this the market players will have to be financially strong and operationally efficient. Capital would be a key factor in building a successful institution. The banking and finance system will improve competitiveness through a process of minimization of non-performing assets and efficient and effective funds management.

**Objectives**

1. To review the Sustainable Banking Strategies adopted by Indian banks
2. To study the role of Public and Private Sector Banks in minimization of non-performing assets.
3. To analyze the qualitative improvement in asset quality of both public and private sector banks.
4. To study the impact of prudential norms on public and private sector banks in India during the last decade
5. To suggest measures for strengthening of Sustainable Banking system of public and private sector banks in India.

**Methodology**

The data required for the study has been collected from both primary and secondary sources. The primary data has been collected through administering a structure questionnaire to the experts, employees and bankers. The secondary data has been collected from reports of RBI, Indian Banks Association (IBA) and Journals etc.

**Statistical Tools**

Descriptive statistics, T-test, correlation tools had applied to analyze the results of public and private sector banks in terms of evaluating the qualitative improvement in maintaining asset quality.

**IMPACT OF GLOBAL FINANCIAL CRISIS ON PROFITABILITY OF COMMERCIAL BANKS**

In this article it is highlighted whether the financial crisis has impact on the profitability and quality of assets of scheduled commercial banks or not. The bankgroup wise statistics on major performance indicators were divided into two periods, from 1999-00 to 2006-07 and 2007-09 to 2010-11. The first period i.e., 1999-07 indicates financial performance before global financial crisis. The second period i.e., 2007-00 indicates period after the financial crisis. The average annual growth (AAG) rate is calculated on various performance indicators for the two periods. Table 1 highlight about the performance of banking sector before and after global crisis.
TABLE 1: GROWTH RATE BEFORE AND AFTER THE GLOBAL FINANCIAL CRISIS (in %)

<table>
<thead>
<tr>
<th>Major Performance Indicators</th>
<th>SBI &amp; Associates</th>
<th>Nationalised Banks</th>
<th>Foreign Banks</th>
<th>Other Scheduled Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Interest Income</td>
<td>20.49</td>
<td>12.49</td>
<td>23.31</td>
<td>30.79</td>
</tr>
<tr>
<td>Total other income</td>
<td>14.47</td>
<td>33.31</td>
<td>19.08</td>
<td>60.01</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>14.45</td>
<td>14.70</td>
<td>10.51</td>
<td>3.86</td>
</tr>
<tr>
<td>Provision &amp; Contingencies</td>
<td>24.80</td>
<td>46.33</td>
<td>50.50</td>
<td>34.86</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>24.55</td>
<td>8.99</td>
<td>29.20</td>
<td>2.78</td>
</tr>
<tr>
<td>Profit during the year</td>
<td>35.40</td>
<td>8.99</td>
<td>42.34</td>
<td>11.59</td>
</tr>
</tbody>
</table>

Source: Statistical Tables relating to banks in India, 2000-11

It may be observed from the above table that the growth rate indicates a better performance before the financial crisis. The provision and contingencies that includes provisions towards NPA has grown considerably for all bank groups during 2007-08 to 2010-11. For SBI and associates, the average annual growth rate for the period 1999-00 to 2006-07 was 13.43% which increases to 57.60% during 2007-08 to 2010-11. This highlights the vulnerability of the banking sector and the problems in asset quality. It is same for other banks. Only for other scheduled banks, the average annual growth rate showed a declining trend, where it came down from 50.53% to 34.86% during the mentioned period. The foreign banks were very much affected in the financial crisis where the profitability declined from 34.51% during period before financial crisis to 8.99% during periods after financial crisis. It also shows a sharp decline in profitability. The average annual growth rate in profitability during 2007-08 to 2010-11 was 8.99%, which was far below than its annual average growth rate during 1999-00 to 2006-07, i.e., 34.51%. SBI and associates reported better performance among the other bank groups, with an increased interest income during the period 2007-08 to 2010-11. So as a general conclusion it is found that the global financial crisis affected the profitability of banks.

Non-performing assets (NPA)

Introduction of Financial Sector reforms since 1991 have greatly changed the face of Indian Banking. The banking industry has moved gradually from a regulated environment to a deregulated market economy. The market developments kindled by liberalization and globalization have resulted in changes in the intermediation role of banks. The pace of transformation has been more significant in recent times with technology acting as a catalyst. While the banking system has done fairly well in adjusting to the new market dynamics, greater challenges lie ahead. Financial sector would be opened up for greater international competition under WTO. Banks will have to gear up to meet stringent prudential capital adequacy norms under Basel II. In addition to WTO and Basel II, the Free Trade Agreements (FTAs) such as with Singapore, may have an impact on the shape of the banking industry. Banks will also have to cope with challenges posed by technological innovations in banking. Banks need to prepare for the changes. In this context the need for drawing up a Road Map to the future assumes relevance.
Management of Non-performing assets

A NPA is a loan or an advance where; Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan, the account remains “out of order” in respect of an overdraft/ cash credit, the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, the installment or interest remains overdue for two crop seasons in case of short duration crops and for one crop season in case of long duration crops.

Categories of Non-performing assets

Substandard Assets – Which has remained NPA for a period less than or equal to 12 months.
Doubtful Assets – Which has remained in the sub-standard category for a period of 12 months?
Loss Assets – where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

Prudential Norms

Standard Assets – general provision of a minimum of 0.25%
Substandard Assets – 10% on total outstanding balance, 10 % on unsecured exposures identified as sub-standard & 100% for unsecured “doubtful” assets.
Doubtful Assets – 100% to the extent advance not covered by realizable value of security. In case of secured portion, provision may be made in the range of 20% to 100% depending on the period of asset remaining sub-standard
Loss Assets – 100% of the outstanding

Factors Contributing to NPA’S

The main factors contributing to non-performing assets are Poor Credit discipline, Inadequate Credit & Risk Management, Diversion of funds by promoters, Funding of non-viable projects.

In the early 1990s PSBs started suffering from acute capital inadequacy and lower/ negative profitability. The parameters set for their functioning did not project the paramount need for these corporategoals.

The banks had little freedom to price products, cater products to chosen segments or invest funds in their best interestNon-performing assets, also called non-performing loans, are loans, made by a bank or finance company, on which repayments or interest payments are not being made on time.A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time a loan is classified as past due. Once a payment becomes really late (usually 90 days) the loan classified as non-performing. A high level of non-performing assets compared to similar lenders may be a sign of problems, as may a sudden increase. However this needs to be looked at in the context of the type of lending being done. Some banks lend to higher risk customers than others and therefore tend to have a higher proportion of non-performing debt, but will make up for this by charging borrowers higher interest rates, increasing spreads. A mortgage lender will almost certainly have lower non-performing assets than a credit card specialist, but the latter will have higher spreads and may
well make a bigger profit on the same assets, even if it eventually has to write off the non-performing loans. The asset quality of the banks can be examined by considering the NPAs. These NPAs should be considered against not just total assets but also against the advances, because the NPAs primarily arise. When NPAs arise, banks have to make provision for the same as per the regulatory prescriptions. When the provisions are adjusted against the Gross NPAs it gives rise to the net NPAs. Provisions reduce the risk exposure arising due to the NPAs to a reasonable extent as they ensure that the banks sustain the possible loss arising from these assets. The sharp rise in credit growth continued to be accompanied by a significant improvement in asset quality. Several options available to banks for dealing with bad loans and the improved industrial climate in the country helped in recovering a significant amount of NPAs. Banks were specifically advised to ensure that recoveries of NPAs exceed Write-offs while bringing down bad debts. An improved industrial climate contributed to a better recovery position. The recourse to aggressive asset restructuring by banks in 2004-05 also helped in reducing the level of NPAs. In the global context, the Indian banking system is among the best in the world because Indian banks are favorable on growth, asset quality and profitability; RBI and Government have made some notable changes in policies and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations of commercial banks. In terms of quality of assets and capital adequacy, these banks have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. Public and private sector banks need to strengthen institutional skill levels especially in sales and marketing, service operations, risk management and the overall organizational performance ethic & strengthen human capital. The best indicator for the health of the banking industry in a country is its level of Non-performing assets (NPAs). Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. The efficiency of a bank is not always reflected only by the size of its balance sheet but also the level of return on its assets. The NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits. The NPAs have destructive impact on the return on assets in the following ways. The interest income of banks reduced it is to be accounted only on receipt basis. The current profits of the banks are eroded because the providing of doubtful debts and writing it off as bad debts and it limits the recycling funds. The capital adequacy ratio is disturbed and cost of capital will go up. The economic value addition (EVA) by banks gets upset because EVA is equal to the net operating profit minus cost of capital.
Table 1: Comparative Performance of Scheduled Commercial Banks in India during the period 2005 to 2011

<table>
<thead>
<tr>
<th>Particulars</th>
<th>SBI &amp; Associates</th>
<th>Nationalized Banks</th>
<th>Public Sector Banks</th>
<th>Old Private Sector Banks</th>
<th>New Private Sector Banks</th>
<th>Private Sector Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.of offices (Growth in %)</td>
<td>6.42</td>
<td>4.76</td>
<td>5.14</td>
<td>1.85</td>
<td>27.07</td>
<td>11.04</td>
</tr>
<tr>
<td>No.of employees (Growth in %)</td>
<td>-0.09</td>
<td>-0.34</td>
<td>-0.3</td>
<td>1.88</td>
<td>22.25</td>
<td>13.58</td>
</tr>
<tr>
<td>Business per employee (in Rs.lakh)</td>
<td>21.72</td>
<td>25.43</td>
<td>24.19</td>
<td>13.87</td>
<td>-1.26</td>
<td>4.5</td>
</tr>
<tr>
<td>Profit per employee (in Rs.lakh)</td>
<td>21.4</td>
<td>26.77</td>
<td>24.79</td>
<td>29.48</td>
<td>6.17</td>
<td>12.86</td>
</tr>
<tr>
<td>Capital and Reserves &amp; Surplus</td>
<td>22.67</td>
<td>19.42</td>
<td>20.41</td>
<td>20.76</td>
<td>34.33</td>
<td>31.42</td>
</tr>
<tr>
<td>Deposits</td>
<td>19.78</td>
<td>24.37</td>
<td>22.85</td>
<td>15.36</td>
<td>19.45</td>
<td>17.99</td>
</tr>
<tr>
<td>Investments</td>
<td>14.99</td>
<td>19.44</td>
<td>17.73</td>
<td>17.39</td>
<td>19.38</td>
<td>18.55</td>
</tr>
<tr>
<td>Advances</td>
<td>23.37</td>
<td>25.9</td>
<td>25.06</td>
<td>16.8</td>
<td>20.81</td>
<td>19.61</td>
</tr>
<tr>
<td>Interest Income</td>
<td>19.16</td>
<td>24.04</td>
<td>22.31</td>
<td>19</td>
<td>28.22</td>
<td>25.3</td>
</tr>
<tr>
<td>Other Income</td>
<td>18.7</td>
<td>25.44</td>
<td>22.51</td>
<td>26.49</td>
<td>27.36</td>
<td>27.08</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>24.83</td>
<td>29.72</td>
<td>28.04</td>
<td>23.16</td>
<td>29.27</td>
<td>26.93</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>12.85</td>
<td>12.52</td>
<td>12.61</td>
<td>11.64</td>
<td>20.33</td>
<td>17.78</td>
</tr>
</tbody>
</table>

Source: Off-site returns (domestic) of banks, Department of Banking Supervision, RBI.

The performance of scheduled Commercial Banks in India (2005-2011) is presented in table 1. It reveals that the performance of Scheduled Commercial Banks in India particularly public and private sector banks showed an excellent competitive performance in terms of profit per employee, Reserves and Surplus, deposits, Investments, Advances, interest income, interest expenses, operating expenses etc. Public Sector Banks SBI and Associates and nationalized banks showed comparatively and relatively good operational efficiency in terms of business per employee, deposits, position, advances and minimizing operating expenses. At the same time the private sector banks such as old and new private sector banks showed commendable operations in terms of capital and reserves of surpluses, interest, income, other income etc.
Table:2 Growth of Advances by commercial Banks during the period 2000 to 2011

<table>
<thead>
<tr>
<th></th>
<th>standard advances</th>
<th>substandard advances</th>
<th>doubtful assets</th>
<th>loss assets</th>
<th>total NPA</th>
<th>total advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector banks</td>
<td>22.51</td>
<td>7.44</td>
<td>-1.39</td>
<td>-1.78</td>
<td>1.33</td>
<td>20.96</td>
</tr>
<tr>
<td>Private sector banks</td>
<td>27.51</td>
<td>22.1</td>
<td>16.06</td>
<td>26.41</td>
<td>17.28</td>
<td>26.81</td>
</tr>
<tr>
<td>foreign banks</td>
<td>17.03</td>
<td>26.89</td>
<td>9.35</td>
<td>4.92</td>
<td>15.96</td>
<td>16.64</td>
</tr>
<tr>
<td>all scheduled banks</td>
<td>22.75</td>
<td>9.97</td>
<td>0.55</td>
<td>1.38</td>
<td>3.64</td>
<td>21.38</td>
</tr>
</tbody>
</table>

Source: Off-site returns (domestic) of banks, Department of Banking Supervision, RBI.

It can be observed from the table.2 the growth of advances in sector wise and bank group wise particularly public sector banks out performed on the private sector banks in terms of Asset quality and management of NPA’s during the period 2000-11. The growth of advances of public sector banks showed a considerable improvement in terms of standard asset(22.5%), substandard assets (7.44%), doubt full assets(16.06%),loss assets(1.78%) and total NPA’s(1.33%).

Where as in case of private sector banks the asset quality is not shown considerable improvement because of increasing growth of advances in terms of standard asset(27.51%), substandard assets (22.10%), doubt full assets(-1.39%),loss assets(26.41%) and total NPA’s(17.28%).It is found that the increased presence of all categories is not desirable and Leeds to accumulation of NPA’s.
Table 3: Gross and net NPAs of Commercial banks in India during the period 2000 to 2011

<table>
<thead>
<tr>
<th>Years</th>
<th>Public sector Banks</th>
<th>Private sector Banks</th>
<th>Public sector Banks</th>
<th>Private sector Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross NPAs(Rs in Crores)</td>
<td>% of Gross NPAs to gross advance</td>
<td>Gross NPAs(Rs in crores)</td>
<td>% of Gross NPAs to Gross advances</td>
</tr>
<tr>
<td>2000</td>
<td>52,241</td>
<td>14</td>
<td>4761</td>
<td>8.17</td>
</tr>
<tr>
<td>2001</td>
<td>54,672</td>
<td>12.4</td>
<td>5933</td>
<td>8.32</td>
</tr>
<tr>
<td>2002</td>
<td>56,473</td>
<td>11.1</td>
<td>11662</td>
<td>9.64</td>
</tr>
<tr>
<td>2003</td>
<td>54,089</td>
<td>9.4</td>
<td>11082</td>
<td>8.07</td>
</tr>
<tr>
<td>2004</td>
<td>51,541</td>
<td>7.8</td>
<td>10381</td>
<td>5.8</td>
</tr>
<tr>
<td>2005</td>
<td>46,596</td>
<td>5.4</td>
<td>8782</td>
<td>3.9</td>
</tr>
<tr>
<td>2006</td>
<td>41,379</td>
<td>3.9</td>
<td>7811</td>
<td>2.6</td>
</tr>
<tr>
<td>2007</td>
<td>38,602</td>
<td>2.8</td>
<td>9256</td>
<td>2.4</td>
</tr>
<tr>
<td>2008</td>
<td>39,749</td>
<td>2.3</td>
<td>12997</td>
<td>2.7</td>
</tr>
<tr>
<td>2009</td>
<td>44,039</td>
<td>2.1</td>
<td>16983</td>
<td>3.2</td>
</tr>
<tr>
<td>2010</td>
<td>59,927</td>
<td>2.27</td>
<td>17638</td>
<td>2.97</td>
</tr>
<tr>
<td>2011</td>
<td>73,481</td>
<td>2.22</td>
<td>18243</td>
<td>2.28</td>
</tr>
</tbody>
</table>

Source: Off-site returns (domestic) of banks, Department of Banking Supervision, RBI.

Gross and net NPA’s of Public and Private Sector Banks during the period (2000-2011) is presented in Table 3, it reveals that both public and private sector banks showed a significant improvement in respect of minimizing gross and net NPA’s to gross Advances of Public Sector Banks during the period 2000-2011.

The Gross NPA’s to gross Advances, Public Sector Banks during the period 2000-2011 varies from 14% to 2.2% where as private sector banks varied form 8-17% to 2.28%. In fact both the banks relatively improved the performance. At the same time percentage of net NPA’s to net advances of Public Sector ranged from 7.42% to 1.09% and private sector banks 5.41% to 0.57% during the period 2000-2011. Therefore this study analyzed and found that both public and
private sector banks strengthened asset quality, asset liability managements, Funds Management, necessary steps has taken to improve the recovery of loans both in Agri and Non-Agri Sectors.

**Descriptive Analysis:**

<table>
<thead>
<tr>
<th></th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>3.01416667</td>
<td>1.8175</td>
</tr>
<tr>
<td><strong>Standard Error</strong></td>
<td>0.70713727</td>
<td>0.370786</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>1.88</td>
<td>1.305</td>
</tr>
<tr>
<td><strong>Mode</strong></td>
<td>1.1</td>
<td>#N/A</td>
</tr>
<tr>
<td><strong>Standard Deviation</strong></td>
<td>2.44959536</td>
<td>1.284439</td>
</tr>
<tr>
<td><strong>Sample Variance</strong></td>
<td>6.00051742</td>
<td>1.649784</td>
</tr>
<tr>
<td><strong>Kurtosis</strong></td>
<td>-0.9048947</td>
<td>5.852864</td>
</tr>
<tr>
<td><strong>Skewness</strong></td>
<td>0.86020265</td>
<td>2.211618</td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>6.62</td>
<td>4.84</td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
<td>0.8</td>
<td>0.57</td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
<td>7.42</td>
<td>5.41</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>36.17</td>
<td>21.81</td>
</tr>
<tr>
<td><strong>Count</strong></td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td><strong>Confidence Level(95.0%)</strong></td>
<td>1.55639864</td>
<td>0.816094</td>
</tr>
</tbody>
</table>

**Analysis:**

- The average NPA’s of Public Sector Banks is higher than the average NPA’s of Private Sector Banks.
- The Coefficient of Variance in Private Sector Banks is less than the Coefficient of Variance in Public Sector Banks.
t-Test: Two-Sample Assuming Unequal Variances:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Public Sector</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>23087.08</td>
<td>4750.333</td>
</tr>
<tr>
<td>Variance</td>
<td>44935534</td>
<td>2108700</td>
</tr>
<tr>
<td>Observations</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Hypothesized Mean Difference</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>df</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>t Stat</td>
<td>9.261041</td>
<td></td>
</tr>
<tr>
<td>P(T&lt;=t) one-tail</td>
<td>4.08E-07</td>
<td></td>
</tr>
<tr>
<td>t Critical one-tail</td>
<td>1.782288</td>
<td></td>
</tr>
<tr>
<td>P(T&lt;=t) two-tail</td>
<td>8.16E-07</td>
<td></td>
</tr>
<tr>
<td>t Critical two-tail</td>
<td>2.178813</td>
<td></td>
</tr>
</tbody>
</table>

Analysis: The calculated value of ‘t’ is > tabulated value reveals that the average NPAs in public and private sector banks are not homogenous.

Correlation:

<table>
<thead>
<tr>
<th>particulars</th>
<th>Public sector</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Private sector</td>
<td>0.839659</td>
<td>1</td>
</tr>
</tbody>
</table>

Analysis:-The correlation between the public and private sector is nearly a positive sign (+1), it is indicating a high correlation between them.
Table: 4 Classification of Advance of Public and Private sector banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>standard advances</td>
<td>substandard advances</td>
</tr>
<tr>
<td>2001</td>
<td>18.54</td>
<td>-9.88</td>
</tr>
<tr>
<td>2002</td>
<td>16.91</td>
<td>7.07</td>
</tr>
<tr>
<td>2005</td>
<td>26.21</td>
<td>-34.45</td>
</tr>
<tr>
<td>2006</td>
<td>33.63</td>
<td>2.8</td>
</tr>
<tr>
<td>2007</td>
<td>29.69</td>
<td>24.16</td>
</tr>
<tr>
<td>2008</td>
<td>24.07</td>
<td>19.24</td>
</tr>
<tr>
<td>2009</td>
<td>24.34</td>
<td>15.72</td>
</tr>
<tr>
<td>2010</td>
<td>19.53</td>
<td>41.83</td>
</tr>
</tbody>
</table>

Source: Off-site returns (domestic) of banks, Department of Banking Supervision, RBI.

The detailed analysis of classification of advances of public and private sector banks during the period 2001-2010 presented in table 4. The performance of public sector banks in respect of asset quality in terms of standard assets, substandard assets, doubtful assets and loss assets showed a considerable improvement in terms of growth rate of classification of advances during the period 2001-2010. The absolute growth rate of classification of advances of public sector banks standard assets ranged from 18.54% in 2001 to 19.53% in 2010, substandard assets 9.88% to 41.83%, doubt full assets 9.66% to 19.17% and loss assets 2.28% to 29.60%. It is found that there is a lot of fluctuations happened during the period due to cyclical changes in agri and non-agri lending and recovery problems. The performance of private sector banks is also evidenced lot of fluctuations in terms of standard, substandard, doubtful and loss assets.
Table5 Growth rate of Net NPA’s in Commercial Banks during the period 2001 to 2011

<table>
<thead>
<tr>
<th></th>
<th>Rate of Growth of Net NPA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SBI and associates</td>
</tr>
<tr>
<td>year</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>8.03</td>
</tr>
<tr>
<td>2002</td>
<td>-5.15</td>
</tr>
<tr>
<td>2003</td>
<td>-13.08</td>
</tr>
<tr>
<td>2004</td>
<td>-23.46</td>
</tr>
<tr>
<td>2005</td>
<td>6.64</td>
</tr>
<tr>
<td>2006</td>
<td>-4.57</td>
</tr>
<tr>
<td>2007</td>
<td>4.73</td>
</tr>
<tr>
<td>2008</td>
<td>32.06</td>
</tr>
<tr>
<td>2009</td>
<td>29.43</td>
</tr>
<tr>
<td>2010</td>
<td>18.05</td>
</tr>
<tr>
<td>2011</td>
<td>5.27</td>
</tr>
</tbody>
</table>

Source: Off-site returns (domestic) of banks, Department of Banking Supervision, RBI.

Table 5 represents the prime performance indicator of public and private sector banks in terms of rate of growth of net NPA’s during the period 2001-2010. It reveals that the increased trend after 2007 due to the various economic fluctuations and also the impact of global meltdown, In spite of the global crisis and it’s impact on Indian economy even though public and private sector banks had taken a prudent banking practices to with stand in the competitive market conditions and reducing the growth of net NPA’s.

Findings

1. Business for employee is higher side in public Sector Banks in compared to private sector banks.
2. Profit per employee high in public sector.
3. Capital and reserves of surplus is high in private sector banks.
4. Deposits are higher in public sector banks.
5. Investments in public and private sectors and equally good.
6. Advances are high in public sector.
7. Interest income higher in private sector banks.
8. Other income higher in private sector.
9. Interest expansions both are equally good.
10. Operating experience higher in private sector.

References


