PERFORMANCE OF INDIAN BANKS IN INDIAN FINANCIAL SYSTEM

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ABSTRACT

Efficiency and profitability of the banking sector in India has assumed primal importance due to intense competition, greater customer demands and changing banking reforms. This study attempts to measure the relative performance of Indian banks.

For this study, we have used public sector banks, old private sector banks, new private sector banks and foreign sector banks. We know that in the service sector, it is difficult to quantify the output because it is intangible. Hence different proxy indicators are used for measuring productivity of banking sector. Segmentation of the banking sector in India was done along the following basis: number of banks, offices, number of employees, business per employees, deposits per employee, advances per employee, bank assets size, non-performing assets etc.

Overall, the analysis supports the conclusion that foreign owned banks are on average most efficient and that new banks are more efficient that old ones. The public sector banks are not as profitable as other sectors are. In terms of size, the smaller banks are globally efficient, but large banks are locally efficient.

It means that efficiency and profitability are interrelated. It is true that productivity is not the sole factor but it is an important factor which influence to profitability. The key to increase profitability is increase productivity. For this we have recommended some suggestions to tackle the challenges faced by the banks particularly public sector banks.

KEYWORDS: Efficiency, Profitability, Public sector Banks, Financial Reforms.

INTRODUCTION

The banking sector reforms in India were stimulated by the report of the Committee on financial system, popularly known as Narasimham Committee. This committee, which submitted its report in 1991, suggested various measures to improve the efficiency and health of banking sector by making it more competitive and vibrant (Ahuwalia, 2002). It affected the productivity, profitability and efficiency of the banks to a large extent (Mohan, 2005). Now more than two decade has elapsed after banking sector reforms, hence it is high time to analyze that how the new banking policy have affected the banking operations of the different banks.
OBJECTIVES

The specific objectives of the paper are:

1. The present paper seeks to analyze the comparative performance of public sector, old private sector banks, new private sector banks and foreign sector banks.

2. It also studies the challenges and opportunities particularly faced by the public sector banks.

HYPOTHESIS

1. The performance of foreign banks is significantly better than old private sector banks, new private sector banks and public sector banks.

2. The performance of new private sector banks is significantly better than old private sector banks and public sector banks.

RESEARCH METHODOLOGY

The present paper is concerned with the Indian banking system. For this all commercial banks have been selected for this study. The study is based on secondary data. The required data have been collected from the various issues of Banking Statistics, published by Reserve Bank of India.

To compare the performance of selected sector banks, ratio analysis method is used. The following ratios are analyzed to examine the performance of the selected sectors.

(A) LABOUR PRODUCTIVITY RATIO

a. Deposits per Employee

b. Advances per Employee

c. Business per Employee

(B) BRANCH PRODUCTIVITY RATIOS

a. Deposits per Branch

b. Advances per Branch

c. Business per Branch

(C) PROFITABILITY RATIOS

a. Spread as percentage of working funds

b. Burden as percentage of working funds

c. Net profits as percentage of working fund
(D) RATIO OF NON-INTEREST INCOME AS PERCENTAGE OF TOTAL INCOME

(E) RATIO OF NON-PERFORMANCE ASSETS AS PERCENTAGE OF NET ADVANCES

RESULTS AND DISCUSSION

COMMERCIAL BANK EXPANSION

After the second generation reforms, the total number of commercial banks in India increased from 79 in 2007-08 to 81 in 2009-2010 and further declined to 80 in 2010-11 (Table-1). It is evident that the number of bank under public and private sector decreased but foreign sector showed improvement during 2007-08 to 2010-11.

### TABLE 1, NUMBER OF BANKS OF DIFFERENT SECTOR BANK

<table>
<thead>
<tr>
<th>Sector Banks</th>
<th>Number Of Banks in different Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007-08</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>28</td>
</tr>
<tr>
<td>Old Pvt. Sector Banks</td>
<td>15</td>
</tr>
<tr>
<td>New Pvt. Sector Banks</td>
<td>8</td>
</tr>
<tr>
<td>Foreign Sector Banks</td>
<td>28</td>
</tr>
<tr>
<td>Total Commercial Banks</td>
<td>79</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in

BRANCH EXPANSION

The total number of commercial bank branches in India went up from 63705 in 2007-08 to 76696 in 2010-11. Table-2 shows that maximum branches are with public sector banks followed by new private sector banks and old sector banks. Foreign sector banks have very less branches in the Indian banking system. But if we see the growth rate of different sectors banks during the period of 2007-08 to 2010-11, the number of branches witnessed the highest growth rate in new private sector banks (91.39%) followed by public sector banks (16.89%) and foreign sector bank (14.08%). Very small growth (6.84%) observed in the old private sector banks. So overall growth during this period was 20.39 % noticed.
TABLE 2, BANK OFFICES OF DIFFERENT SECTOR BANKS

<table>
<thead>
<tr>
<th>Sector Banks</th>
<th>Number Of Banks Offices in different Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007-08</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>55103</td>
</tr>
<tr>
<td>Old Sector Banks</td>
<td>4690</td>
</tr>
<tr>
<td>New Sector Banks</td>
<td>3635</td>
</tr>
<tr>
<td>Foreign Sector Banks</td>
<td>277</td>
</tr>
<tr>
<td>Total Commercial Banks</td>
<td>63705</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in

EMPLOYEE’S POSITION

Table-3 indicates the position of employees in different sector banks. It is noticed that maximum workers are working with public sector banks. Since these banks have maximum branches in the country and using out dated technology, therefore, they have employed large staff with them whereas foreign sector banks which are less in number but using latest technology to render the services to their customers have very less staff.

TABLE 3, EMPLOYEES OF DIFFERENT SECTOR BANKS

<table>
<thead>
<tr>
<th>Sector Banks</th>
<th>Number Of Employees in different Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007-08</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>715408</td>
</tr>
<tr>
<td>Old Sector Banks</td>
<td>48700</td>
</tr>
<tr>
<td>New Sector Banks</td>
<td>110123</td>
</tr>
<tr>
<td>Foreign Sector Banks</td>
<td>31301</td>
</tr>
<tr>
<td>Total Commercial Banks</td>
<td>905532</td>
</tr>
</tbody>
</table>
LABOUR PRODUCTIVITY

Labour productivity brings in light employee’s capacity to produce. Table-4 shows the the productivity in term of Deposits, Advances and Business per employee of all the four sector banks. This is the most common productivity indicator used by banks. Deposits ratio has been computed by dividing the amount of total deposits by the number of employees in the bank. In 2010-11 the ratio is highest in the case of foreign sector banks with Rs. 860.59 lakh per employee followed by public sector bank with Rs. 577.23.

Advances per employee have been computed by dividing the amount of total advance by the number of employees in the bank. Here also foreign sector bank was ahead with Rs. 699.15 lakh per employee and second highest was public sector bank with Rs. 436.37 lakh per employee.

Business per employee ratio has been computed by dividing the amount of total business by the number of employees in the bank. Here also, foreign sector bank is on the top followed by public sector banks. In 2010-11, foreign sector banks with Rs. 1559.74 lakh per employee was on the top followed by public sector banks with Rs. 1013.63 Per employee

**TABLE 4, LABOUR PRODUCTIVITY OF DIFFERENT SECTOR BANKS**

<table>
<thead>
<tr>
<th>Different Sector Banks</th>
<th>Labour Productivity Ratios in 2010-2011 (in Rs Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deposits Per Employees</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>577.23</td>
</tr>
<tr>
<td>Old Sector Banks</td>
<td>479.63</td>
</tr>
<tr>
<td>New Sector Banks</td>
<td>451.46</td>
</tr>
<tr>
<td>Foreign Sector Banks</td>
<td>860.59</td>
</tr>
<tr>
<td>Total Commercial Banks</td>
<td>559.30</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in

BRANCH PRODUCTIVITY

Table 5 highlights the branch productivity of all the banks, which depicts the capacity of a branch to produce. These ratios like deposits per employees, advances per employees and business per employees have been computed by dividing the amount of total deposits, advances and business by the number of branches in the bank. In 2010-11 the ratios were the highest in the case of foreign sector banks and the lowest in case of old sector banks. Public
sector banks are far behind the foreign sector banks and new private sector banks which cannot be ignored.

TABLE 5, BRANCH PRODUCTIVITY OF DIFFERENT SECTOR BANKS

<table>
<thead>
<tr>
<th>Different Sector Banks</th>
<th>Branch Productivity Ratios in 2010-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deposits Per Branch</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>6789.08</td>
</tr>
<tr>
<td>Old Sector Banks</td>
<td>5271.54</td>
</tr>
<tr>
<td>New Sector Banks</td>
<td>10616.67</td>
</tr>
<tr>
<td>Foreign Sector Banks</td>
<td>76167.41</td>
</tr>
<tr>
<td>Total Commercial Banks</td>
<td>7322.98</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in

PROFITABILITY RATIO

Table-6 shows that profitability of foreign sector banks is the highest, whereas new private sector banks are following foreign banks. But profitability of public sector banks is far behind the profitability of foreign banks and new private sector banks. One of the reason is highest burden ratio and lowest spread ratio which is responsible for making it out of competition.

TABLE 6, PROFITABILITY RATIO OF DIFFERENT SECTOR BANKS

<table>
<thead>
<tr>
<th>Different Sector Banks</th>
<th>Profitability Ratios in 2010-2011 (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spread as % of Working Funds</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>2.92</td>
</tr>
<tr>
<td>Old Sector Banks</td>
<td>3.12</td>
</tr>
<tr>
<td>New Sector Banks</td>
<td>3.16</td>
</tr>
<tr>
<td>Foreign Sector Banks</td>
<td>3.86</td>
</tr>
<tr>
<td>Total</td>
<td>3.27</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in
NON-INTEREST INCOME AS PERCENTAGE OF TOTAL INCOME

Non interest income ratio shows the banks’ efficiency in earning income from fee based activities. Table-7 shows decreasing trend for all the Indian banks during 2009-10 to 2010-11 but it is increasing continuously in foreign sector banks. In the last year, the share of this income is the highest in foreign sector banks. This share of income is also comparatively good in new private sector banks. Public sector banks are at the last position.

**TABLE 7. NON-INTEREST INCOME AS PERCENTAGE OF TOTAL INCOME**

<table>
<thead>
<tr>
<th>Different Sector Banks</th>
<th>Non-Interest Income as Percentage of Total Income (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009-2010</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>1.41</td>
</tr>
<tr>
<td>Old Sector Banks</td>
<td>1.88</td>
</tr>
<tr>
<td>New Sector Banks</td>
<td>2.06</td>
</tr>
<tr>
<td>Foreign Sector Banks</td>
<td>2.26</td>
</tr>
<tr>
<td>Total</td>
<td>1.90</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in

NET NPA AS PERCENTAGE OF NET ADVANCES

Net NPA to net advances, as analyzed in table-8, shows the actual burden of banks. Net NPA to net advances show decreasing trend for all the three years for all the banks except public sector banks. Public banks show fluctuating trend in this ratio during all the years study. Overall, it can be concluded that private sector banks both old and private show the least NPA with excellent rate of decrease and foreign sector banks are following private sector banks with decreasing NPA. Public sector banks show large volume of NPA as compared to foreign sector banks and private sector banks mainly due to loose and ineffective policies to allocate and manage loans.
TABLE 8. NET NPA AS PERCENTAGE OF NET ADVANCES

<table>
<thead>
<tr>
<th>Different Sector Banks</th>
<th>Net Non-Performance Assets of Net Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008-2009</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>0.94</td>
</tr>
<tr>
<td>Old Sector Banks</td>
<td>0.90</td>
</tr>
<tr>
<td>New Sector Banks</td>
<td>1.40</td>
</tr>
<tr>
<td>Foreign Sector Banks</td>
<td>1.81</td>
</tr>
<tr>
<td>Total Commercial Banks</td>
<td>1.26</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in

TESTING OF HYPOTHESES

After analyzing the tables, it is found that the performance of foreign sector banks is better than public sector banks and also to private sector banks. Similarly, the performance of new private sector banks is better than public sector banks.

CHALLENGES AND OPPORTUNITIES

Although a lot of reforms have been made in the public sector banks, still there is a need to modify the policies of public sector banks. At present they are facing many internal and external challenges, which are hindering their performance, but these banks can convert these challenges into opportunities with care and some modifications.

1. COMPETITION: In this globalize world, banks are facing severe competition internally as well as externally. To stay ahead in the race, public sector banks will have to leverage technology for innovative product development.

2. GREATER CUSTOMER-ORIENTATION: Greater customer-orientation is the only way to retain customer loyalty and stay ahead of competition. Public sector banks need to bring about total customer orientation not only in their products/services but their policies and strategies should also be customer focused.

3. TECHNOLOGY: In the deregulated environment managing a wide range of products and offering top class customer services will create new challenges. In this context, technology will be the key to reduce transaction costs, offering customized products and managing risks. This is compelling banks to provide internet banking facilities and increasingly customers are demanding fast, convenient and glitch free banking services. Our public sector banks are lagging behind in technology when we compare them with their counterparts. There is a need for planning and co-ordination at all levels of organization
4. **MANAGEMENT OF NPA:** After the global financial turmoil in 2008, public sector banks begin the New Year with a lurking fear that their Non Performing Assets (NPA) would go up with their portfolios coming under severe stress. There is already a visible strain on consumer, credit card and vehicle loan portfolios and many banks have taken conscious decision to scale down their advances to risky sectors. The ongoing financial crisis has had its toll on export-related sectors like IT, textile and SMEs. This may indirectly impact banks’ asset quality. There is, therefore, a pressing need to ensure adequate risk-management mechanisms to overcome this challenge.

5. **NEW BASEL CAPITAL ACCORD:** Basel II Accord emphasizes on three Pillars viz., Capital Adequacy, Supervisory Review and Market Discipline. The new Accord will increase the level of capital that is required for the banking institutions in the region, mainly owing to the new operational risk charge. Measuring credit, market, operational, interest rate, liquidity and other risks in compliance with the new Accord will not be an easy task for either bank managers or supervisory authorities, where there is a lack of ratings agencies and the majority of individual claims remain unrated. Further, banks and supervisors will be required to invest considerable resources in upgrading technology, including adequate data access, technical capacity and human resources to meet the minimum standards in the new Accord.

6. **ISSUE OF HRM:** Different committees related to public sector banks have enumerated a number of problems relating to HRM in public sector banking such as over Manning, low man power productivity, indiscipline, restrictive practices, lack of management commitment to training etc. Banks need to build a service culture using technology in a customer friendly manner. This requires reorienting HRD strategies in public sector banks on an urgent basis and banks need to emphasize right size, right skills and right attitude.

7. **PUBLIC PERCEPTION:** At last, it is the public perception that will decide the future of public sector banks. The perception of customers regarding public sector banks is very poor. Public sector banks should improve their perception by all means to remain competitive in the market.

8. **POLITICAL INTERFERENCE:** Over the year the most serious damage to the banking system has been done by the political and administrative interference in the credit decision making. Some political leaders for their political reasons have used write-off system. It should be checked.

**CONCLUSION**

The paper concludes that although various reforms have produced favorable effects on commercial banks in India and because of this transformation is taking place almost in all categories of the banks. It has also realized that the profitability of the public sector banks appears to have started improving but despite this, the foreign and private sector banks take a big share of cake. Our public sector banks are still lagging behind regarding the various financial parameters in comparison with other banks. It is also true that presently, they are facing many internal and external challenges, which are hindering their performance. Hence, there is a need to consider the above listed challenges for another reform to improve the performance of the banks particularly of public sector banks to meet the requirement of new and open competitive environment.
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REPORTS


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