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 (Ahluwalia, 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.

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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

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.

LABOUR PRODUCTIVITY

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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. 1013.63Per employee

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.

1. 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

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2. 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.

3. 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.

4. 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.

5. 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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