A REVIEW ON THE PERFORMANCE ON COMMERCIAL BANKS IN INDIA

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ABSTRACT

In growing economy banks have promised major share of source of money for meeting the numerous obligations of their regulars, patrons and various organizations in day to day marketable environment, though the banks will produce revenue from the business transaction under the kindliness of fluctuations in their operations. The scope of study covers the data of public sector banks and private sector banks in India. It is found from the study that priority sector advances and agricultural advances of both the types of banks had improved manifold over the study period. But, they were still lacking behind to achieve the targets set for them by RBI in agriculture sector. It was observed that the performance of private sector banks in respect of all the parameters was better than that of public sector banks. It is suggested to increase the attention of both the public and private sector banks on the priority sector of the economy.
Keywords: *Public sector banks, private sector banks, priority sector, performance.*

INTRODUCTION

The Indian financial system comprises a vast network of different banks. The banking sector is the core segment in deciding the progress of the entire economy of the country. Activities of a modern economy are significantly influenced by the functions and services of banks and became an indispensable part of socio-economic life of the people. The banking sectors become an important segment of Indian economy for money market dynamics. Financial sector controlled and managed by banking industry works as a source for generating money supply. The commercial banks play a dominant role in the economic development of the country. It is well known that the rapid growth in the various sectors of the economy can be brought through efficient, effective, disciplined banking system (RBI report (2010)). The banking sector in India has played a pivotal role in the Indian economy. Financial institutions in India can broadly be classified into banking and non-banking institutions. Banking institutions are of three types: Commercial Banks, Industrial or Investment Banks and Rural Banks. Most active sector of the Indian money market is the commercial banking sector. The commercial banking structure in India consists of Scheduled Commercial Banks and Non-Scheduled Commercial Banks. Scheduled Commercial Banks constitute those banks which have been included in the second schedule of the Reserve Bank of India (RBI) Act, 1934.

This study intended to analyze the working and operation of commercial banks. The indicators selected to study are Aggregate Deposits mobilized by Scheduled Commercial Banks, credits and investments made by the schedule commercial banks, Credit-Deposits Ratios, Investment-Deposits Ratios, and the Share of Scheduled Commercial Banks in the Priority Sector Lending. This study covers the working performance of entire commercial banks which are operating in the country. The period of the study is 10 years spanning from 2003-2004 to 2012-2013.

The performance of a country's economy drives the fortune of its banking sys-tem. The gross domestic product (GDP) of Indian economy slowed down significantly to 4.5 per cent in the third quarter of financial year 2013. It was the decade's lowest quarterly growth, which has affected the entire capital-intensive industry as well as the consumers. As a result most Indian banks especially public sector banks have suffered a lot in terms of asset quality. Though, the private However, from September, 2012, onwards, the Indian government has taken a number of initiatives to improve the economy, which has boosted the Reserve Bank of India's (RBI) confidence and helped improve certain key rates. Reduction in interest rates has given little relaxation to the entire industry from the liquidity crunch and also credit growth front. We believe, from first quarter of financial year 2014, the sign of improvement may be visible. Also the strong deposits base of Indian lenders and government's persistent support to the public and private banks would act as positive factors for the entire banking industry. Sector banks have shown better performance.

STATEMENT OF THE PROBLEM

Most of the public sector banks (PSBs) and some private banks have reduced the quantum and rates of their bulk deposits (deposits of over ten million rupees, on which banks usually pay higher interest than the normal deposits rates) in order to align with the directive (15 per cent of total deposits) of the Finance Ministry, and also focused more towards the retail loan front. This has helped the Indian banks, especially PSBs, to put bridle on their falling net interest margin (NIM). In the third quarter of financial year 2013, the public sector banks have maintained the NIM after continuing decline from the last five quarters to 2.79 percent, as what it was in the second quarter of year 2013. However, despite the challenging environment, private sector banks have been improving their NIM continuously. It is mainly because of their thoughtful business-mix strategy coupled with healthy loan book. NIM of private banks has been improved by 2bps quarter-on-quarter and 8bps year-on-year to 3.35 per cent in quarter ending December, 2012. Thus, NIM of the 37 listed Indian banks has been stabilized to 3.03 per cent, after continuing decline since last five quarters, supported by private banks. This research is an attempt to study the growth and performance of scheduled commercial banks in India.

REVIEW OF LITERATURE

A lot of reviews are available for the performance evaluation of commercial banks. A few of them are Laxman (1985) analyzed the problem of decline in profitability of banks in India and recommended for mobilisation of potential deposits through a special deposit mobilisation cell, judicious borrowings, control on mounting overdue, and construction of professional investment portfolio to increase the profitability and liquidity. Udeshi (1989) observed that funds management has become difficult due to large network of branches, diversified business and increasing competition among banks. Prashanta Athma and ObulReddy (1997) suggested focusing on interest and discount income that constitute more than 80 per cent of the total income of the banks. Rangarajan (1991) pointed out that improving the quality of loan assets is the true test of improved efficiency of banking system. Arora and Kaur (2006) stated that banking sector in India has given a positive and encouraging response to the financial sector reforms. Entry of new private banks and foreign banks has shaken up public sector banks to competition. Changing financial scenario has opened up opportunities for the banks to expand their global presence through self expansion, strategic alliances, etc. Banks are diverting their focus on retail banking so as to attain access to low-cost funds and to expand into relatively untapped potential growth area. But all the above studies fail to study the performance of scheduled commercial banks during this study period. In order to fulfill that research gap this study is undertaken.

METHODOLOGY AND SCOPE OF THE STUDY:

Here an attempt has been made to analyze the data with the help of mean, standard deviation, coefficient of variation and ratio. The scope of the study is limited to scheduled commercial banks (SCBs) in India. The scheduled commercial banks include public sector banks (PSBs), private sector banks (Pvt SBs) and foreign banks (FBs). The period of the study is five years, starting from 2007-08 to 2011-12.

OBJECTIVES OF THE STUDY:

(a) To study the growth of all Scheduled commercial banks in India, and

(b) To compare the performance of public, private and foreign banks in India. The variables selected by the researchers for studying the growth of SCBs in India are number of banks business per employee, profit per employee, wages as a percentage to total expenditure return on assets, net NPA ratio, deposits, advances, interest income and interest expended.

Table: 1 Number of Banks

Year	PSBs	Pvt SBs	FBs	SCBs
2007-08	28	23	28	79
2008-09	27	22	31	80
2009-10	27	22	32	81
2010-11	26	21	34	81
2011-12	26	20	40	86
Mean	26.8	21.6	33	81.4
SD	0.84	1.14	4.47	2.7
CV	0.7	1.3	2	7.3

Source: A profile of banks 2011-12, RBI

The above table gives the number of banks in SCB category, which ranges from 79 in 2007-08 to 86 in 2011-12. The number of PSBs and PvtSBs reduced to 26 and 20, respectively, from 28 and 23 in 2007-08, respectively. The number of FBs increased to 40 in 2011-12 from 28 in 2007-08. The average of number of FBs was 33, which is the maximum among the three groups, followed by PSBs. The SD and CV of PSBs are very low and so they are more homogeneous.

Table: 2 Business per Employee				
Year	PSBs	PvtSBs	FBs	SCBs
2007-08	59.42	71.48	112.55	63.45
2008-09	73.44	74.39	128.37	75.34
2009-10	86.43	79.73	141.14	86.76
2010-11	101.67	96.81	155.55	102.09
2011-12	115.12	99.91	183.01	113.76
Mean	87.22	21.6	33	81.4
SD	22.08	13.07	26.91	20.16
CV	25.32	15.48	18.67	22.84

Source: A profile of banks 2011-12, RBI

Above tables presents the business per employee of SCBs, which increased continuously from 63.45 in 2007-08 and reached 113.76 in 2011-12, with an average of 88.28. The SD and CV of business per employee of SCB is 20.16 and 22.84, respectively. While observing the mean of SCBs, the FBs have the highest of 144.12 followed by PSBs. The business per employee of PvtSBs is more relevant because it has lowest SD of 13.07 and lowest CV of 15.48. The business per employee of all the three groups can be seen increasing continuously during the study period.

Table: 3 Wages as a Percentage to Total Expenditure				
Year	PSBs	PvtSBs	FBs	SCBs
2007-08	14.66	10.36	19.95	14.01
2008-09	13.88	10.83	19.44	13.6
2009-10	14.79	12.73	23.48	14.85
2010-11	17.5	14.53	23.3	17.22
2011-12	13.72	12.29	20.01	13.73
Mean	14.91	12.15	21.24	14.68
SD	1.52	1.66	1.98	1.5
CV	10.21	13.63	9.32	10.22

Source: A profile of banks 2011-12, RBI

The table clearly states that the wages as a percentage of total expenses of SCBs in India slightly declined to 13.73 per cent in 2011-12 from 14.01 per cent in 2007-08, with an average of 14.68. Regarding the mean wages to total expenses, the FBs stand first as they have the highest mean of 21.24 during the study period. The PSBs have the lowest SD of 1.52 and FBs have the lowest CV of 9.32.

Table: 4 Returns on Assets				
Year	PSBs	PvtSBs	FBs	SCBs
2007-08	1	1.13	2.09	1.12
2008-09	1.03	1.13	1.99	1.13
2009-10	0.97	1.28	1.26	1.05

2010-11	0.96	1.43	1.75	1.1
2011-12	0.88	1.53	1.76	1.08
Mean	0.97	1.3	1.77	1.1
SD	0.06	0.18	0.32	0.03
CV	5.82	13.76	18.12	2.93

Source: A profile of banks 2011-12, RBI

The Table:4 brings out the return on assets of PSBs and FBs that decreased in 2011-12, whereas the same in Pvt SBs increased to 1.53 in 2011-12 from 1.13 in 2007-08. The FBs in India stand in first place because it has the highest mean of 1.77. The returns on assets of PSBs are homogeneous as these have a minimum SD of 0.06 and minimum CV of 5.82. The returns on assets of SCBs declined to 1.08 in 2011-12 from 1.12 in 2007-08.

Table: 5 Deposits

Year	PSBs	Percentage to SCBs	PvtSBs	Percentage to SCBs	FBs	Percentage to SCBs	SCBs
2007-08	24538677	73.91	6750329	20.33	1 9 11 6 11	5.76	33200616
2008-09	31127471	76.61	7363776	18.12	2140764	5.27	40632011
2009-10	36820194	77.57	8228007	17.33	2320995	5.1	47469196
2010-11	43724487	75.18	10027588	17.24	2406668	7.58	58158743
2011-12	50020134	77.51	11745874	18.2	2770634	4.29	64536642

Source: A profile of banks 2011-12, RBI

Table: 5 presents the growth of deposits of SCBs, which starts with 33,200,616 in 2007-08 and ends with 64,536,642 in 2011-12. The percentage of deposits of PSBs lies between 73.91 in 2007-08 and 77.51 in 2011-12. Though the percentage of deposits of PvtSBs and FBs gradually declined to 18.20 per cent and 1.29 per cent in 2011-12, the amount of deposits of both the groups increased constantly during the entire study period. The PSBs constitute more than per cent of deposits of SCBs and stand in first place, followed by Pvt SBs.

Table: 6Advances

Year	PSBs	Percentage to SCBs	PvtSBs	Percentage to SCBs	FBs	Percentage to SCBs	All SCBs
2007-08	17974008	72.57	5184024	20.93	1611328	6.5	24769360
2008-09	22592117	75.31	5753276	19.18	1653846	5.51	29999239

2009-10	27010187	77.24	6324409	18.09	1632604	4.67	34967200
2010-11	33044329	76.89	7975440	18.56	1955106	4.55	42974875
2011-12	38783125	76.43	9664182	19.04	2298481	4.53	50745793
Source: A profile of banks 2011-12, RBI							

The above table provides the advances of SCBs in India, which have continuously increased to 50,745,793 in 2011-12 from 24,769,360 in 2007-08. The percentage of advances of PvtSBs and FBs to SCBs declined to 19.04 per cent and 4.53 per cent in 2011-12 from 20.93 per cent and 6.50 per cent in 2007-08. The percentage of advances of PvtSBs during the last two years ending with 2011-12 increased slightly, and so the share of PSBs decreased during the same period. It is very clear that more than 70 per cent of advances of SCBs are offered by PSBs only.

Table: 7 Interest Income

Year	PSBs	Percentage to SCBs	PvtSBs	Percentage to SCBs	FBs	Percentage to SCBs	All SCBs
2007-08	2130746	69.07	709912	23.01	244165	7.92	3084823
2008-09	2730882	70.3	850714	21.9	303220	7.8	3884816
2009-10	3059826	73.52	728064	17.49	263897	8.99	4161786
2010-11	3661345	74.52	967131	19.68	284931	5.8	4913407
2011-12	4847401	74	1339795	20.45	363368	5.5	6550585
Source: A profile of banks 2011-12, RBI							

It is obvious that from Table 7 that the percentage of interest income earned by PSBs to all SCBs increased continuously during the study period, except in 2011-12 when there was a mild decrease. The percentage of interest income of PvtSBs in 2011-12 increased to 20.45 per cent although there were continuous decreases in the previous years. The interest income of SCBs was more than double the amount during the period of five years when compared with 2007-08. There was an increase of 8.99 per cent in percentage of interest income of FBs to SCBs during 2009-10. The PSBs contributed more than 69 percent of interest income of all SCBs, which is considerably more when compared with the other two groups.

Table: 8 Interest Expended

Year	PSBs	Percentage to SCBs	PvtSBs	Percentage to SCBs	FBs	Percentage to SCBs	All SCBs
2007-08	148902	71.59	484951	23.31	106039	5.1	2080011

2008-09	1634467	73.49	569574	21.64	128191	4.87	2632232
2009-10	2119401	77.9	512056	18.82	89379	3.28	2720836
2010-11	2311530	77.33	571491	19.12	106227	3.55	2989248
2011-12	3286391	76.34	867843	20.16	151951	3.5	4305185
Source: A profile of banks 2011-12, RBI							

Table: 8 narrate the interest expended by SCBs, which was 2,080,011 in 2007-08 and increased to 4,305,185 in 2011-12. Again, the PSBs prove that they are the number one, who contributed more than70 per cent of interest expended to all SCBs. For the first three ears the percentage of interest in PSBs increases whereas it decreases for the remaining periods, and vice versa for the other groups. The amount of interest expended by all the bank groups is increasing continuously for all the years.

FINDINGS

The PSBs secure first place in number of banks, profit per employee, return on assets and net NPA ratio, as the CV of these banks is the minimum when compared with the others. In case of CV of business per employee and percentage of wages to total expenditure, Pvt SBs and FBs are placed in the first place respectively. With regard to deposits, advances, investments and expenditures, the contribution of PSBs is highly appreciable followed by Pvt SBs.

CONCLUSION

Among the three bank groups in SCBs, the PSBs rendered excellent services towards collection of de-posits, granting of advances, interest income and interest expended. The FBs secured the first position in number of banks, business per employee, profit per employee, percentage of wages to total expenditure, return on assets, when compared with the other banks.

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