Performance of Indian Banking System

Priyanka
Research Scholar (Ph.D), Department of Economics, Punjabi University, Patiala, Punjab, India.
Email - mehta.priyanka79@gmail.com,

Abstract: *The purpose of this study is to analyze and compare the performance of Indian banking system and to find that which bank is performed better than others. For this secondary data has been used. To compare the performance of banks ratio analysis method is used. The finding of the study shows that foreign owned banks are mostly efficient. The public sector are not profitable as other banks. Our public sector banks are still lagging behind regarding the various financial parameters in comparison with other banks and they are facing many internal and external challenges, which are hindering their performance so government should take some steps to improve the performance of the public sector bank so they can exist in open competitive environment.*

Key Words: *Productivity, banking sector, finance, profitability, banking, performance.*

1. INTRODUCTION:

There is a common saying that, “finance is the life blood of a modern economy”. The banking sector is one of the biggest service sectors in India and these days attract the biggest market of Asia in investment. In the economic development of a nation, banks occupy an important place. Financial system is the most important institutional and functional vehicle for economic transformation of any country. Banking sector is the backbone of every country. Banking sector is reckoned as a hub and barometer of the financial system. Indian Banking system has played a crucial role in the socio-economic development of the country. The system is expected to continue to be sensitive for the growth & development and needs of all the segments of the society. As a pillar of the economy, this sector plays a predominant role in the economic development of the country. Banking as a part of the financial sector, is a life blood for the whole industry; it is necessary to survive. It plays a decisive role in accelerating the rate of economic growth in each economy. Banking institutions are critical financial intermediaries for economic growth. Bank is a financial institution that acts as a payment agent for customers, borrows, and lends money. Since the process of liberalization and reform of the financial sectors were set in motion in 1991, banking has undergone significant changes. In the new policy regime competition is the buzzword. To compete, the system needs to be more productive, efficient and profitable. During the new reforms period, the banking system in India readjusted its capital, labor and organizational setup to improve its performance, productivity and profitability.

2. OBJECTIVES OF THE STUDY:

- To analyze the comparative performance of Nationalized, SBI & its Associates, Private Banks and Foreign Banks.
- To suggest the policy prescription for better working of the system.

3. RESEARCH METHODOLOGY:

This study is related to the Indian Banking system. For this all Schedule Commercial Banks have been selected for this study. Secondary data was used and the required secondary data had been obtained from financial statements of various banks, the reports of RBI, banking journals, Indian Banks Association publications, Centre for Monitoring Indian Economy database and other web portals. For analysis of the above data, tabular analysis has been supported. To compare the performance of selected sector banks, ratios analysis method was used.

Labour Productivity Ratio

Deposit per Employee
Advance per Employee
Business per Employee

Branch Productivity Ratios

Deposit per Branch
Advances per Branch
Business per Branch

4. REVIEW OF LITERATURE:

D.N.M. Raju (2009) laid emphasis on the performance of the banks in regulating NPAs and identifies the problems faced by the banks and also suggested remedial measures to overcome inefficiencies, limitations and bring down NPAs. The study covered SBI branches operating in Vijayawada zone covering three districts of Coastal Andhra

Pradesh. The financial and operating performance of the SBI was observed with reference to deposit mobilization, deployment of credit and profits. The period covered for the study is 1990-91 to 2000-01. Two structured questionnaires were administered a) on select employees of SBI dealing with NPAs and few other senior officers b) on bank officers dealing with advances. The main statistical tools which have been used for the purpose of this study are percentage, mean, ratio analysis, correlation, regression and chi-square. The study brings out a number of suggestions for improving the performance of SBI, strengthening the recovery position of NPAs, prevention and reduction of NPAs.

Gulati, R. & Kumar, S. (2009) observed the relationship between efficiency and profitability of 51 Indian domestic banks operated in the financial year 2006-2007. Efficiency-profitability relationship is explored at the level of individual banks, for this purpose efficiency-profitability matrix is constructed. Data envelopment analysis has been used to obtain efficiency score for individual banks. The study used CCR model to reduce the multiple-input and output situations for each DMU to a scalar measure of technical efficiency. The results obtained using CCR model distinguished the DMUs as: efficient and inefficient. The empirical results have shown that out of 51 sample banks only 9 banks have been found to be technically efficient. The efficiency-profitability matrix revealed that the resource utilization processes of 22 banks initially decreased and last quadrant was not operated well. Further, Tamil Naidu Mercantile Bank and Yes Bank may be considered as an ideal benchmark for the pitiable performing banks on the efficiency and profitability dimensions of performance evaluation.

Koundal, V. (2012) analyzed the performance of Indian banks in Indian financial system. The objective of this paper is to analyses the comparative performance of public sector, old private sector banks, new private banks and foreign banks. This study also expressed the challenges and opportunities particular faced by public sector banks. This study selected all commercial banks. Secondary data has been used in this study. Data has been collected from the various issues of banking statistics, published by RBI. The ratio analysis method has been used to compare the performance of selected sector banks. This study concluded that foreign sector banks are not efficient and new banks are more efficient than old private banks. This study also declares that the public sector banks are not profitability as other sectors. Public sector are facing many internal and external problems which are hindering there performance. So this study suggested some suggestions to tackle the challenges faced by the public sector banks.

Goh, C.H (2012) examined the relationship between percentage of the national workforce in the services sector and the GDP Growth of various countries throughout the world. This study has collected data from 31 countries from the period of 1999 to 2007 with various level of GDP. These countries range from Azerbaijan to United States. In this study, the Data Envelopment Analysis (DEA) method, TFP and Staffing guide methods have been used. This study explores that the services sector is growing fast, all over the world. The impact of services sector has been analyzed as compare to manufacturing sector. This study examines the impact of the services sector on GDP of different countries of the world. The result of this study has shown that percentage share of services sector was negatively related to productivity growth. This study describes the main policy implication for countries with a large services sector as well as for countries where the services sector is increasing rapidly.

Study by **Godfrey E. Ekata (2012),** deals with an investigation to determine whether or not a relationship exists between information technology expenditure and the financial performance of the Nigerian banking industry. A non-experimental quantitative correlation method is used in the investigation. The information technology expenditure data have been collected for the period 2005 through 2009 from the Nigerian banking industry using a survey instrument while the financial performance data is collected from the bank's annual reports for the same period. The total information technology expenditure is analysed against certain financial performance indicators (ROA, ROI and net profit) using Spearman's correlation co-efficient. The results of the study are consistent with the inconclusive results drawn in more than two decades of studies examining the relationship between IT expenditure and organizational financial performance. The study showed evidence of the IT productivity paradox that has been widely reported in literature. The results failed to show evidence of improved profitability from increased IT spending. The results indicate a statistically significant relationship between total IT expenditure and return on asset only, suggesting that bank assets present the greatest opportunity of improving the industry's profitability.

Lee, J. W. and W. Mckinbbin (2014) analyzed the services sector productivity and economic growth. The key objective of this paper is to analyses the role of services sector in structural adjustment and economic growth in Asia. This study is based on the secondary data and the data has been obtained from Groningen Growth and Development Centre Ten Sector Database. It uses shift share technique analysis to investigate the role of services sector productivity growth in overall economic growth. The study described the historical experience of sectoral growth in major economies with a focus on the performance of the services sector relative manufacturing sector and the implication for overall economic growth. It has been observed in this study that a substantial gap still remains in labour productivity between the services sector in Asia and United State. This study stated that productivity of labour is lower in the services sector as compared to manufacturing sector. This study concluded that there was positive relation between the share of services in GDP and GDP per capita. Given the future base line different future scenario of services sector productivity growth in Asian has been explored. The study suggested the simple aggregate model and the method of limited sectoral integration may miss an important dynamic story of productivity growth in the services sector and capital accumulation in on integrated global economy.

5. RESULT AND DISCUSSION:

Scheduled commercial bank expansion:

Table 1 depicts ownership wise schedule commercial in India. There is decrease in total number of tables due to amalgation, merge and consolidation in banks. Out of 90 banks, public sector banks are 25 in number, Private Banks are 20 and Foreign Banks are 43. Foreign Bank are mostly newly entered.

Table: 1. Ownership-wise Number of Scheduled Commercial Banks in India

Different Sector Banks	Ownership wise No. of Commercial Banks in India			
	1996-97	2001-02	2006-07	2012-13
Nationalized Banks	19	19	20	19
SBI & its Associates	8	8	8	8
Private Banks	35	31	25	20
Foreign Banks	39	40	29	43
All Banks	101	98	82	90

Source: *Banking Statistics,* Reserve Bank of India, various issues

Branch Expansion:

Total number of scheduled commercial banks branches in India is Increase from 75681 in 2011 to 99562 in 2013. Table depicts that maximum branches are with public sector banks followed by SBI & its Associates and private banks. Foreign banks are very less branches in India. Foreign banks are only 371 branches in India.

Table: 2. Bank Offices of Different Scheduled Commercial Banks Banks in India.

Sector Banks	Number of Banks Offices in different years			
	2011	2012	2013	2014
Nationalized Banks	45305	49028	52975	59270
SBI & its Associates	18155	19167	20288	21684
Private Banks	11904	13712	16100	18291
Foreign Banks	317	320	332	371
All Banks	75681	82227	89695	99562

Source: *Banking Statistics,* Reserve Bank of India, various issues

Employee Position

Table-3 shows the position of employee in different sector banks. Table describe that maximum workers are working in nationalized banks followed by SBI & its Associates and private banks. Since the public sector banks have maximum branches in the country and using the old technology, therefore they have employee large staff with them. Foreign banks have very less staff but using latest technology.

Table: 3. Employee of Different Sector Banks in India.

Sector Banks	Number of Employees in different years			
	2011	2012	2013	2014
Nationalized Banks	582029	594132	541342	536357
SBI & its Associates	285370	292358	301471	293893
Private Banks	202746	229124	303865	296115
Foreign Banks	21622	20836	24727	24834
All Banks	1091767	1136450	1171405	1151199

Source: *Banking Statistics,* Reserve Bank of India, various issues.

Labour Productivity

Labour productivity brings in light employee's capacity to produce. The deposit per branch of a bank is one of the parameter of measuring the productivity performance of bank. This ratio has been computed from by dividing the amount of total deposits by the number of branches in the bank. A high ratio indicates better productivity and low ratio indicates lower productivity. In year 2013-2014 the ratio is highest in case of foreign banks is 14.19 crore per employee followed by nationalized banks i.e. 8.88 crore per employee.

Advances per employee have been computed from by dividing the amount of total advances by the number of employees in the bank. This ratio is an indicator of degree of employee's productivity of banks. A high ratio indicates better productivity of employees in banks and low ratio indicates lower productivity. Here also foreign banks are on top with 11.72 crore per employee followed by nationalized banks i.e. 6.59 crore, SBI and its Associates i.e. 5.32 crore and private banks i.e. 4.54 crore per employee.

Business per employee ratio has been computed by dividing the amount of total business by number of employee. A high ratio indicates better productivity of employees in banks and low ratio indicates lower productivity. This tool measures the efficiency of all the employees of a bank in generating business for the bank. In year 2013-2014, foreign banks was ahead with 36.4 crore and followed by nationalized banks with 18.18 crore per employee.

Table: 4. Labour Productivity of Different Sector Banks.

Different Sector Banks	Labour Productivity Ratios in 2013-2014 (in Crore)		
	Deposit Per Employee	Advances Per Employee	Business Per Employee
Nationalized Banks	8.88	6.59	18.18
SBI & its Associates	6.22	5.32	11.72
Private Banks	5.38	4.54	12.1
Foreign Banks	14.19	11.72	36.4
All Banks	7.14	9.94	15.36

Source: *Banking Statistics,* Reserve Bank of India, various issues.

Branch Productivity:

The profitability of a bank is determined by the productivity and profitability of the branches of a bank. So, productivity of a branch is a nucleus center of productivity of a bank. As a consequence the branch productivity, in terms of deposits per branch, advances per branch, and business per branch are calculated as a financial index of branch productivity to show the trend behavior of productivity of a bank. These ratios have been computed by dividing the amount of total deposits, advances and business by the number of branches in the bank. In 2014 the ratios were the highest in the case of foreign sector banks is 2851.84 crore per branch and the lowest in case of SBI & its Associates i.e.158.87 crore. Nationalized bank is far behind the foreign banks.

Table: 5. Branch Productivity of Different Sector of Banks.

Different Sector Banks	Branch Productivity Ratios in 2013-2014 (in Crore)		
	Deposit Per Branch	Advances Per Branch	Business Per Branch
Nationalized Banks	195.91	158.87	164.48
SBI & its Associates	72.15	84.32	158.87
Private Banks	73.42	87.02	195.91
Foreign Banks	918.47	1111.75	2851.84
All Banks	67.65	85.71	177.59

Source: *Banking Statistics,* Reserve Bank of India, various issues.

6. CONCLUSION:

The overall conclusion of the study is that the new policy regime generated the competition and banks irrespective of ownership went for improving their systems. In the reforms period of two decades, the model of efficient baking has been lead by foreign banks, private banks, nationalized and SBI & its Associated followed it. Our public sector banks are still lagging behind regarding the various financial parameters in comparison with other banks and they are facing many internal and external challenges, which are hindering their performance so government should take some steps to improve the performance of the public sector bank so they can exist in open competitive environment.

7. POLICY IMPLICATION:

On the basis of detailed analysis and the conclusions arrived above, following are the policy implications:

- Reforms process in the new policy regime has changed the structure of banking, generated competition and has made the banking sector to be efficient and productive. Hence, the process of reforms must continue.
- Privatization and liberalization has created a compulsion for public sector to become more profitable and productive. New policy regime must continue and create competitive conditions in the market.
- Competition necessitated improvement in branch efficiency. Branch efficiency means, organizational changes and business re-engineering should be there so that the processes of business become more productive.
- Most of the public sector and old private sector banks were overstaffed. A little bit of downsizing and labour adjustment has lead to higher productivity gains. Hence not only downsizing but the rightsizing of the organizations should be done.

8. LIMITATIONS OF THIS STUDY:

- The relevant data and information for the study have been collected from the secondary sources. Hence, the study carries all the limitations, inherent with the secondary data and information.
- There was non-availability of some requisite data.

REFERENCES:

1. Gulati, R. & Kumar, S. (2009), "Efficiency-Profitability Relationship in Indian Domestic Banks: A Disaggregate Analysis", Asian Economic Review, *Journal of the Indian Institute of Economics*, 51*(3), 411-433.*
2. Goh, C.H (2012), "Services Sector and Productivity", *International Journal of Management, 20(2), 6-9.*
3. Gofrey. E. E. (2012), "The IT Productivity Paradox: Evidence from the Nigerian Banking Industry, *EJISDC*, *51(4), 1-22.*
4. Lee, J.W. and W. Mckinbbin. (2014),"Services Sector Productivity and Economic Growth in Asia, *ADBI Working Paper490.*
5. Raju, D. N. M. (2009), "Evaluation of the Performance of State Bank of India with special reference to Non-Performing Assets (NPAs)", *Abstract of Doctoral Dissertation, Finance India, Indian Institute of Finance, XXII (3) 985-989.*
6. Koundal, V. (2012), "Performance of Indian Banks in Indian Financial System", *International Journal of Social Science and Interdisciplinary research, 1(9), 204-2014.*