

Comparative Performance Analysis of Public Sector Banks, Private Sector Banks and Foreign Banks in Indian Financial System

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I. 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.

II. OBJECTIVES

The objectives of the study are as follows:

1. To analyze the comparative performance of Public sector old Private sector banks, new private sector banks and foreign sector banks.
2. To study the challenges and opportunities particularly faced by the public sector banks.

III. 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.

IV. 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

- d. Spread as percentage of working funds
- e. Burden as percentage of working funds
- f. 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

V. RESULTS AND DISCUSSION

COMMERCIAL BANK EXPANSION

After the second generation reforms, the total number of commercial banks in India increased from 79 in 2012-13 to 81 in 2013-2014 and further declined to 80 in 2014-15 (Table-1). It is evident that the number of bank under public and private sector decreased but foreign sector showed improvement during 2012-13 to 2015-16.

TABLE 1, NUMBER OF BANKS OF DIFFERENT SECTOR BANK

Sector Banks	Number Of Banks in different Years			
	2012 - 13	2013 -14	2014 -15	2015 - 16
Public Sector Banks	28	27	27	26
Old Pvt. Sector Banks	15	15	15	14
New Pvt. Sector Banks	8	7	7	7
Foreign Sector Banks	28	31	32	33
Total Commercial	79	80	81	80

Banks				
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Source: www.rbi.org.in

BRANCH EXPANSION

The total number of commercial bank branches in India went up from 63705 in 2015-16 to 76696 in 2015-16. 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 2012-13 to 2015-16, 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

Different Sector Banks	Net Non-Performance Assets of Net Advances			
	2012-13	2013-2014	2014-2015	2015-2016
Public Sector Banks	55103	57850	61630	64412
Old Sector Banks	4690	4908	5220	5011
New Sector Banks	3635	4333	5232	6957
Foreign Sector Banks	277	295	308	316
Total Commercial Banks	63705	67386	72390	76696

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

Different Sector Banks	Number Of Employees in different Years			
	2012-13	2013-2014	2014-2015	2015-2016
Public Sector Banks	715408	731524	739646	757535
Old Sector Banks	48700	51341	55052	55075

New Sector Banks	110123	124998	127468	163604
Foreign Sector Banks	31301	29582	28012	27968
Total Commercial Banks	905532	937445	950178	1004182

Source: www.rbi.org.in

LABOUR PRODUCTIVITY

Labour productivity brings in light - 4employee'sshowsthe c 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 2015-16 the ratio is highest in the case of foreign sector banks with Rs. 860.59 lakhs 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 lakhs per employee and second highest was public sector bank with Rs. 436.37 lakhs 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 2015-16, foreign sector banks with Rs. 1559.74 lakhs per employee was on the top followed by public sector banks with Rs. 1013.63Per employee

TABLE 4, LABOUR PRODUCTIVITY OF DIFFERENT SECTOR BANKS

Different Sector Banks	Profitability Ratios in 2015-2016 (in %)		
	Spread as % of Working Funds	Burden as % of Working funds	Net Profit as % of Working Funds
Public Sector Banks	2.92	0.66	2.26
Old Sector Banks	3.12	0.54	2.58
New Sector Banks	3.16	0.44	2.72
Foreign Sector Banks	3.86	0.34	3.52
Total Commercial Banks	3.27	0.50	2.77

Source: www.rbi.org.in

BRANCH PRODUCTIVITY

Table 5 highlights the branch productivity of all the banks, which depicts the capacity of a business per employee; 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

Different Sector Banks	Branch Productivity Ratios in 2015-2016		
	Deposits Per Branch	Advances Per Branch	Business Per Branch
Public Sector Banks	6789.08	5132.01	11921.07
Old Sector Banks	5271.54	3684.83	8956.42
New Sector Banks	10616.67	8809.63	19426.24
Foreign Sector Banks	76167.41	61879.43	138046.86
Total Commercial Banks	7322.98	5604.86	12927.78

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

Different Sector Banks	Profitability Ratios in 2015-2016 (in %)		
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Source: www.rbi.org.in

NON-INTEREST INCOME AS PERCENTAGE OF TOTAL INCOME

Non- interest income ratio shows the banks' activities. Table-7 shows decreasing trend for all the Indian banks during 2012-13 to 2015-16 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.

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

Different Sector Banks	Non-Interest Income as Percentage of Total Income (in %)	
	2012-2013	2015-2016
Public Sector Banks	1.41	1.20
Old Sector Banks	1.88	1.63
New Sector Banks	2.06	1.80
Foreign Sector Banks	2.26	2.37
Total	1.90	1.75

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

Different Sector Banks	Net Non-Performance Assets of Net Advances		
	2013-2014	2014-2015	2015-2016
Public Sector Banks	0.94	1.10	1.09
Old Sector Banks	0.90	0.82	0.53
New Sector Banks	1.40	1.09	0.56
Foreign Sector Banks	1.81	1.82	0.67
Total Commercial Banks	1.26	1.21	0.71

Source: www.rbi.org.in

VI. 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 asset quality
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.

VII. 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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