

“Performance of Indian Banking Sector: A Comparative Study”

INTRODUCTION

The banking sector of India has made significant progress in the last few years. At present public sector banks account for 70 per cent of the Indian banking assets. The period from 1967 to 1991 was characterized by major developments, viz., social control of banks in 1967 and nationalization of 14 banks in 1969 and six more in 1980. The nationalization of banks was an attempt to use the scarce resources of the banking system for the purpose of planned development.

The private sector emerged on the scene in the mid 90's when some new private sector banks entered into the picture and in the period between 2002 -2007 these banks have grown by leaps and bounds. They have increased their incomes, margins, asset sizes and outperformed their public sector counterparts in many areas. The performance of the two sectors is being judged on eight key parameters that enable banks to achieve better bottom line and remain competitive in a highly volatile and regulatory environment.

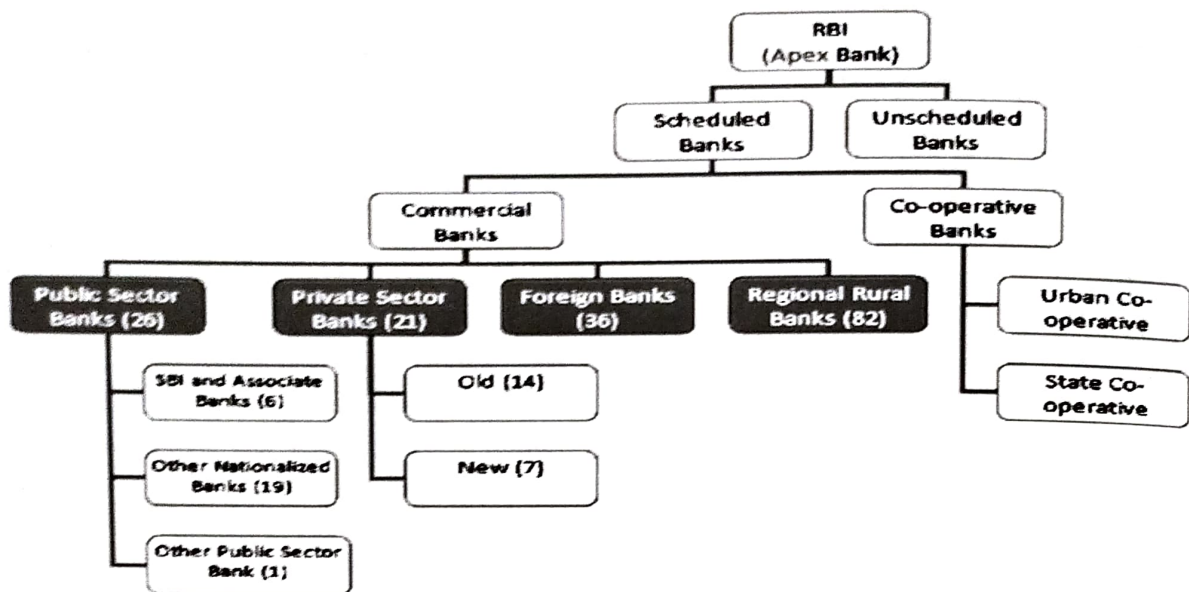
Moreover, in the changing scenario of banking where competition is the trend of the day, virtually survival is crucial. According to an IBA-FICCI-BCG report, India's gross domestic product (GDP) growth will make the Indian banking industry the third largest in the world by 2025. According to the report, the domestic banking industry is set for an exponential growth in coming years with its asset size poised to touch USD 28,500 billion by the turn of the 2025.

ABSTRACT

In the changing shape of the banking industry, this paper aims to see the growth pattern of public and private banks. In the research paper, independent t-tests were used for driving results based on the past eight years figures of independent and dependent variable of public as well as private sector. It has been found that there is a significant difference in patterns of growth in the public and private sector as per the parameters of banking and visa versa in a respective manner.

Keywords: Banking, performance, public sector, private sector,

Indian Banking Structure



Literature review

A study has been done in Pakistan on the conventional banks and Islamic banks. Kouser, Aamir, Mehvish and Azeem (2011) used CAMEL (Capital adequacy, Asset quality, Management capability, earnings, Liquidity) model for analysing financial performance of respective bank for the period of 2006-2010. The statistical tools were used to make the financial health comparison of Islamic and conventional banks. They noticed no such significant difference indicating that the performance of Islamic banks is better than the conventional banks. On the other hand it was noticed that the financial performance of Islamic and conventional banks are at increasing trend. The same CAMEL model was used in India for analyzing Regional rural bank's financial performance by Reddy and Prasad (2011). They assessed the efficiency of RRB's during the year of 2005-2006. The authors have compared Andhra Pragathi Grammeena bank (APGB) and

Sapthagiri Grammeena Bank (SGGB) an RRB's forth viewing significant performance of one over another and used parameters of CAMEL Model for making such evaluation. They noticed APGB performance was better than SGGB on the basis of overall efficiency. Moreover, it was observed RRB's have taken up amalgamation process during the year of 2005-06.

The study by Sangmi and Nazir (2010) used CAMEL Model for analyzing financial performance of Commercial banks in India. He took samples of Nationalized bank (Punjab National Bank) and private bank (Jammu and Kashmir Bank) for the period of 2001-2005. They investigated that both banks showed partial improved performance, as PNB was found to be better than JNK in Net interest margin, Spread ratio and investment to deposit, whereas JNK was found to be better in liquidity position, Net NPA to net advance. Hence, it was concluded, that private and public banks both have exclusive advantages over each other in

a respective manner like public banks are good at targeting more profitability and investment opportunities whereas, private banks have large liquidity base and non performing asset losses. In the fast changing scenario of Liberalization, Globalization and consolidation made this Comparative study essential performance of the Indian public and private sector bank . Chaudhary and Sharma (2011) assessed the efficiency of managing Nonperforming asset level and management of private and public sector through statistical tool for projection of the trend. Moreover, the article is more information based which provides primary knowledge towards asset maintenance. Therefore, NPA judge the performance and financial health of banks because it is driver of financial stability and growth of the bank.

Medhat Tarawneh (2006) investigated the impact of assets management, operational efficiency and bank size on the financial performance of a commercial bank in Oman. This study assessed upon 5 banks for a period of 1999-2003 by using Regression, Correlation and Annova tool to analyze the impact of dependent variable Return on assets (ROA) and Interest income on dependent variables. It has been found that financial performance is strongly and positively influencing by operational efficiency, assets management and bank's Size. And Correlation among indicator made the statement above stronger. Moreover, Goyal and Joshi (2012) emphasized on global challenges and opportunities of Indian Banking Sector. They observed the global scenario of management of risk underlying in banking structure, growth of banking, transparency, financial inclusion, etc. are current issues of changing banking industry. Hence, they emphasized on to grasp those changes for survival in the banking industry,

Therefore, in the literature most researchers have discussed on performance through CAMEL

Model or individual indicator for banking industry performance but no substantial work has been done on physical performance parameters of the banking industry for analyzing the growth and the trends of growth in public and private sector banking. In other words, this paper aims to see asymmetric or symmetric difference between the growth patterns of public and private banks. In addition, it's known that public sector covers larger market share than the private sector.

Objectives of paper

As per performance of the banking sector, we have aimed in this paper:

- Analyze performance of public and private sector bank
- Study growth pattern of both, private sector as well as public sector
- To see which sector has superior performance in light of certain parameters

Ho= There is differences in the pattern of growth of public and private sector banks over a period of time

H1= There is no difference in the pattern of growth of public and private sector over a period of time

Research methodology and sample selection

The sample selection of the past 8 years consolidated figures of private and public sector banks. Entire data have been taken from RBI site. List of banks variable of public and private sector by seeing Annexure-1 and II

To reach the desired results SPSS tool was used via T-test to assess whether the means of two groups are statistically different from each other or not. So forth, comparison of public and private sector have been analyzed.

Data Analysis

Table: 1 See the trend of growth in Independent variable of Public and Private sector banks

Year	% Δ ¹	\nearrow ²	% Δ	\nearrow	% Δ	\nearrow	% Δ	\nearrow
2012	23	4	21	3	20	2	23	4
2011	19	4	19	3	17	0	19	4
2010	14	2	15	3	17	5	16	3
2009	12	2	12	0	12	2	13	3
2008	10	2	12	4	10	2	10	2
2007	8	1	8	2	8	1	8	2
2006	7	1	6	1	7	0	6	1
2005	6		6		8		5	
Private Sector	Capital		Deposits		Investment		Advance	
Year	% Δ	\nearrow	% Δ	\nearrow	% Δ	\nearrow	% Δ	\nearrow
2012	22	3	21	3	22	4	22	4
2011	19	3	18	3	17	3	18	4
2010	16	3	14	2	15	2	14	1
2009	14	1	13	1	13	1	13	1
2008	12	6	12	2	11	3	12	2
2007	7	1	10	2	9	1	9	2
2006	6	2	8	2	7	2	7	2
2005	4		6		6		5	

As per above table it was observed that aggregate capital growth is faster in the private sector than the public sector, but trend of growth in the public sector is 4% in year 2012 and 2% in 2009 which seems more fluent than private sector growth by 3% in 2012 and 1% in 2009. While noticing flexible change in deposit of public sector with 3% in 2012, 0% in 2009 and 1% in 2006, Private sector noticed a change in deposits with 3% in 2012, 1% in 2009 and 2% in 2006. Similarly in case of investment public sector is slower than private sector on an aggregated basis over a period of 8 years.

Last, Advances of the public sector are faster than private sector as can see 1% growth in 2006 and 4% growth in 2012, other side private sector growth of 2% in 2006 and growth of 4% in 2012 has been noticed.

To conclude, all variable are independent and found that capital pattern of public and private are completely different in terms of growth and size. Investment pattern of a public sector bank is lagging behind by the private sector bank. And in terms of Deposit and Advance of the public sector are ahead of the private sector.

Table: 2 See the trend of progress in the dependent variable of Public and private sector bank

Public Sector		Interest Income		Other Income		Interest Expended		Operating Expenses	
Year	%Δ	↗	%Δ	↗	%Δ	↗	%Δ	↗	
2012	24	6	18	2	25	8	20	1	
2011	18	3	16	-1	17	2	18	4	
2010	15	2	17	2	15	1	14	2	
2009	13	3	15	3	14	3	12	2	
2008	10	2	12	4	11	3	10	1	
2007	8	2	8	1	7	2	9	1	
2006	6	1	7	-1	6	1	9	1	
2005	5		8		5		8		
Private Sector		Interest Income		Other Income		Interest Expended		Operating Expenses	
Year	%Δ	↗	%Δ	↗	%Δ	↗	%Δ	↗	
2012	23	6	19	3	23	8	21	4	
2011	17	2	16	0	15	2	17	3	
2010	14	0	16	2	14	-2	14	1	
2009	15	2	14	1	15	2	13	1	
2008	12	4	13	4	13	4	13	3	
2007	9	2	10	3	9	3	9	2	
2006	6	2	6	1	6	1	7	2	
2005	5		5		4		5		

In the above table it was noticed that Public sector is more ahead in Interest Income because of Independent variable of public sector, whereas in other income noticed negative growth in year 2006 and 2011, the private sector is far ahead in other incomes on an aggregate level. Further, Interest expended of the public sector and the private sector is working at more or less at similar growth pattern. And in last, it was noticed that the private sector spent more than the public sector in operating expenses of maintenance business of banks, though

private sector is more technology oriented and public sector still is in the developing phase of technological efficiency.

It was also analyzed that in terms of making money, the public sector has put their flag up, while private is putting more money on maintaining their business up rather public sector. Further Interest expended by the public and private banks have similar growth patterns but public sector other income have showed indifferent attitude over a period of time, consistent growth seems in the private sector.

Table: 3 comparison of nationalized and private sector bank

Variable	Sector	N	Mean	Std.dev	Std. Error
Capital, Reserves and surplus	Public sector	8	1.3721E6	6.38364E5	2.25696E5
	Private Sector	8	9.1739E5	4.68093E5	1.65496E5
Deposit	Public sector	8	2.1113E7	9.62266E6	3.40212E6
	Private Sector	8	7.1333E6	2.87018E6	1.01476E6
Investment	Public sector	8	6.8323E6	2.73283E6	9.66201E5
	Private Sector	8	3.0289E6	1.28877E6	4.55647E5
Advance	Public sector	8	1.4831E7	7.66222E6	2.70900E6
	Private Sector	8	5.5489E6	2.46532E6	8.71624E5
Interest Income	Public sector	8	1.7597E6	9.08690E5	3.21270E5
	Private Sector	8	7.2577E5	3.52252E5	1.24540E5
Other Income	Public sector	8	2.2554E5	80205.07724	28356.77700
	Private Sector	8	1.5929E5	64243.50091	22713.50757
Interest expended	Public sector	8	1.1851E6	6.58180E5	2.32702E5
	Private Sector	8	4.6404E5	2.26654E5	80134.45916
Operating Expenses	Public sector	8	3.6702E5	1.29649E5	45837.83683
	Private Sector	8	2.0235E5	81100.96887	28673.52253

Table4: Independent T-test on public and private sector banks growth pattern

Variable	T-value	DF	Sig (2-tailed)	ACCEPT/REJECT
Capital, Reserves and surplus	1.625	14	.126	Accept the Ho
Deposit	3.938	14	.001	Reject the Ho
Investment	3.560	14	.003	Reject the Ho
Advance	3.262	14	.006	Reject the Ho
Interest Income	3.001	14	.010	Reject the Ho
Other Income	1.823	14	.090	Accept the Ho
Interest expended	2.930	14	.011	Reject the Ho
Operating expenses	3.046	14	.009	Reject the Ho

This table shows clearly that apart from Capital Reserves and surplus and other income, the rest of the indicators are rejecting the null hypothesis. The hypothesis was tested through SPSS 16 and Independent t- test was used to prove the same. The value of significance was decided on .05 and it proved there that There are no differences in the pattern of growth of

public and private sector banks over a period of time had values lesser than it. Hence, the hypothesis is rejected.

Whereas, variable comes under acceptance region proves that there are difference in growth pattern of public and private sector bank over a period of 8 years.

Findings

This paper lay emphasis on changing patterns of indicator of public and private sector and to see which indicator of the public sector is performing differently than the private sector. In the article analyzed and noticed that in terms of size of capital and its pattern of growth of the public sector is completely different from the private sector over a period of time and same has been proven in the paper. Further observed other income pattern of growth is different from public sector virtually, a private sector bank is more engaged in other activities rather main course of business of lending and deposits and the same is visible in the above table-2. Moreover, it was noticed that in terms of operating expenses of the public sector is far less than private sector was noticed in table-2 which means private sector in putting enough money in keeping their business. On Addition, earnings found more frequent and larger in the public sector rather in the private sector banks and at the same time leverage technology as well.

CONCLUSION

This paper tries to see visible growth in Indian banking industry because future growth depends on past performance, seems that public and private sector both have its own way of growth and attributes over a period of years. This paper helps in establishing relation between past performance with future performance of public and private sector of banks.

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Annexure-I Public Sector bank performance for period of 2005-2012

(Figure at Rs million)	Public Sector							
Year Variable	2012	2011	2010	2009	2008	2007	2006	2005
Capital and Reserves & Surplus	2483271	2059079	1572758	1359202	1130795	926890	773838	671294
Deposits	35969893	31265862	25839338	21057056	16799930	13607240	10800720	9308911
Investments	10867544	9503797	8281248	6550419	5360181	4529812	4087956	4255085
Advances	27263212	23102793	18430819	15197619	12036784	9578768	7346084	5694607
Interest income	3412524	2563064	2080289	1838924	1426469	1107201	885739	763136
Other income	324674	287249	304996	263936	209794	142641	123794	147217
Interest expended	2396879	1641351	1457115	1316762	1010933	693534	524641	439224
Operating expenses	574750	538193	407922	354160	296700	272678	255483	236307

Annexure-II Private Sector Bank performance for period of 2005-2012

(Figure at Rs million)	Private Sector							
Year Variable	2012	2011	2010	2009	2008	2007	2006	2005
Capital and Reserves & Surplus	1592952	1385664	1199839	996686	913707	504727	438235	307348
Deposits	11745874	10027588	8228007	7363776	6750329	5519871	4284556	3146297
Investments	5259822	4220576	3541169	3065312	2785781	2146547	1805679	1406666
Advances	9664182	7975440	6324409	5753276	5184024	4147513	3129618	2213033
Interest income	1339795	967131	828064	850714	709912	495665	352226	262654
Other income	244986	208734	204231	178602	170063	123129	80913	63672
Interest expended	867843	571491	512056	569574	484951	328565	215075	162733
Operating expenses	333450	276064	228510	217794	202671	153201	120384	86749