A COMPARATIVE ANALYSIS ON THE BUSINESS PERFORMANCE OF PRIVATE AND PUBLIC SECTOR BANKS IN INDIA

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Abstract

The banking sector has undergone a complex but comprehensive structural change since 1991. The main intention of the banking sector reforms was to encourage a diversified, efficient and competitive financial system with the ultimate objective of improving the allocative efficiency of resources through operational flexibility, improved financial viability and institutional strengthening. Two decades passed since then, hence it is important to analyse and compare the performance of private and public sector banks functioning in India. For these purpose variables like Deposits, Advances, Investments, Interest Income, Interest Expenses, Number of banks, Number of Employees, Business per Employee and Profit per Employee are considered for a period of five years from 2007-08 to 2011-12. Descriptive statistics and correlation is used to measure the movement of variables and to analyse the relationship among the variables. The analysis shows that deposits, advances and investments are more in Public Sector Banks than in Private Sector Banks. However, Business per Employee and Profit per employee is more in Private Sector Banks than in Public Sector Banks.

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I Introduction:

The Indian banking system is unique and perhaps has no parallels in the banking history of any country in the world. Evolution of Indian banking over the last six decades in terms of organisation, functions, resource mobilisation, socio economic role, problems and solutions helped many macro-economic developments. Evolution of Indian banking in different ways in different time periods influenced changes in monetary and banking policies and external situation. The first phase covers the period from 1948 to 1968 (Banking before Nationalisation), the second phase from 1969 to 1991(Banking after Nationalisation), the third phase from 1992 to 2002 (Regime of reforms) and the fourth phase beyond 2002 to 2011 (New Challenges).

The focus of economic reforms consisted of stabilisation of economy, deregulation of financial sector reforms and removal of the license and permits system, liberalisation of international trade in various sectors to promote competition and efficiency and integration with the world economy to attract capital and modern technology. However, economic reforms in the real sectors of the economy would not succeed without parallel reforms in the financial sector. Thus, financial sector reforms were a necessary concomitant of liberalisation of industrial and trade policies.

Banking reforms broadly focused on overall improvement in the monetary policy framework, strengthening financial institutions and gradual integration of the domestic financial system into the global economy. The task of the banking reforms have two aspects; macro - level policy changes and micro-level policy reforms. Table 1 depicted below presents the improvement in the profile of public and private sector banks during the study period. It is important to know the impact of macro and micro level policy changes, in terms of number of employees, number of offices, business per employee and profit per employee. To perform the banking operations first three variables number of banks, number of offices (branches) and are the contributory factors to get business per employee and profit.

Table 1: Profile of Private and Public Sector Banks

Year	No. of banks		No. of offices		No. of employee		Business per employee		Profit per employee	
	Pvt	Pub	Pvt	Pub	Pvt	Pub	Pvt	Pub	Pvt	Pub

2007-08	23	28	8325	55103	166960	715408	71.48	59.42	0.57	0.37
2008-09	22	27	9241	57850	176339	731524	74.39	73.44	0.62	0.47
2009-10	22	27	10452	61630	182520	739646	79.73	86.43	0.72	0.53
2010-11	21	26	12031	65217	187913	755102	95.81	101.67	0.94	0.59
2011-12	20	26	13408	69498	214304	771388	99.91	115.12	1.06	0.64

Source: Data extracted from RBI Database.

At this background, this study is undertaken to analyse about the changes in Deposits, Advances, Investments, Interest Income and Interest Expenses and its relationship between them. The remaining chapters are classified as II objectives, III Review of literature, III data and methodology, IV Results and Discussion finally V conclusion.

II Objectives of the Study

The main objective of the study is to analyse Performance of commercial banks considering the growth in advances, deposits, investments, interest income and interest income.

III Review of Literature:

Substantial amount of study has been done on performance and profitability of Indian banks. A brief review of the major studies are given below:

Abbas, Tahir, & Mutee-ur-Rahman, (2012) made an attempt to study the financial perfomarnce of the commercial banks in Pakistan considering five years (2007-2011) when revoutionary changes were made in thebanking industry. It was found that banks having more Total assets, Total equity and Total operating fixed assets have better financial perfomance.

Kavitha, (2012) examined about management of asset-liability in banking sector. This paper mainly focused on indentifying optimal mix of asset and liabilities in realtion to profitability. The finading suggested that SBI and its associalte bank group were better performed as compared to private banks group and nationalised banks group.

Broker & Senjaliya, (2013) investigated the extend and use of IT enabled services. It mainly focused on analysing the quality of services that constitutes customer satisfation among public, private and foreign banks in India. It was found that the demands of the people are increasing and banks are trying to introduce new schemes and policies to protect and rpomote the interest of their customers.

Bodla & Verma, (2006) attempted to indentify the key determinants of profitability of Public Sector Banks in India using multi variate analysis on the data from 1991-92 to 2003-04. It was found that the variables like non-interest income, operating expenses, provision and contingencies and spread have significant realtionship with net profits.

Prasad & Ghosh, (2007) analysed and suggested that the competetive nature of the Indian banking system is not significantly different from other countries. It is also inferred from the value of H statistics in India that there is a scope for further consolidation.

Verma & Kaur, (2012) attempted to examine theimpact of reforms on the perfomance of Indian banking sector during 1991-92 and 2009-10. Ratio analysis and t test were used to compare the performance of banks. It was traced that reforms have significan impact on the performance of banks by improving profitability, productivity and efficiency of banks.

Mohan, (2005) discussed on the impact of economic reforms on the productivity and efficiency of Banking in India.

Girardone, Molyneux, & Gardener, (2004) investigated the main determinants of Italian banks. The results suggested that the most efficient and profitable institutions are more capable of controlling all aspects of costs, especially labour costs. The analysis also depicts that there is no clear relationship between asset size and bank efficiency.

Data and Methodology:

This analysis is undertaken with a view to compare the performance of Public Sector Banks and Private Sector Banks in India. For this purpose data is extracted from the profile of banks issued by Reserve Bank of India. This study covers between 2007-08 and 2011-12. To analyse the performance and growth of these two groups variables like Number of banks, Number of Employees, Business per Employee, Profit Per Employee, Deposits, Advances, Investments, Interest Income and Interest Expenses are considered. Descriptive statistics is used to depict the performance and growth of Public and Private Sector banks in India.

Results and Discussion:

Table 2: Details of Deposits, Advances and Investments

(Amount in million)

Year	Deposits	Advances	Investments

	Pvt	Pub	Pvt	Pub	Pvt	Pub
2007-08	67,50,329	2,45,38,677	51,84,024	1,79,74,008	2785781	7998413
2008-09	73,63,776	3,11,27,471	57,53,276	2,25,92,117	3065312	10126658
2009-10	82,28,007	3,69,20,194	63,24,409	2,70,10,187	3541169	12155981
2010-11	1,00,27,588	4,37,24,487	79,75,440	3,30,44,329	4220576	13360764
2011-12	1,17,45,874	5,00,20,134	96,64,182	3,87,83,125	5259822	15040765
Mean	88,23,115	3,72,66,193	69,80,266	2,78,80,753	37,74,532	1,17,36,516
Standard Deviation	20,47,776	1,00,51,938	18,27,287	82,52,202	9,92,487	27,52,147
Minimum	67,50,329	2,45,38,677	51,84,024	1,79,74,008	27,85,781	79,98,413
Maximum	1,17,45,874	5,00,20,134	96,64,182	3,87,83,125	52,59,822	1,50,40,765

Figure 1 - Details of Deposits, Advances and Investments

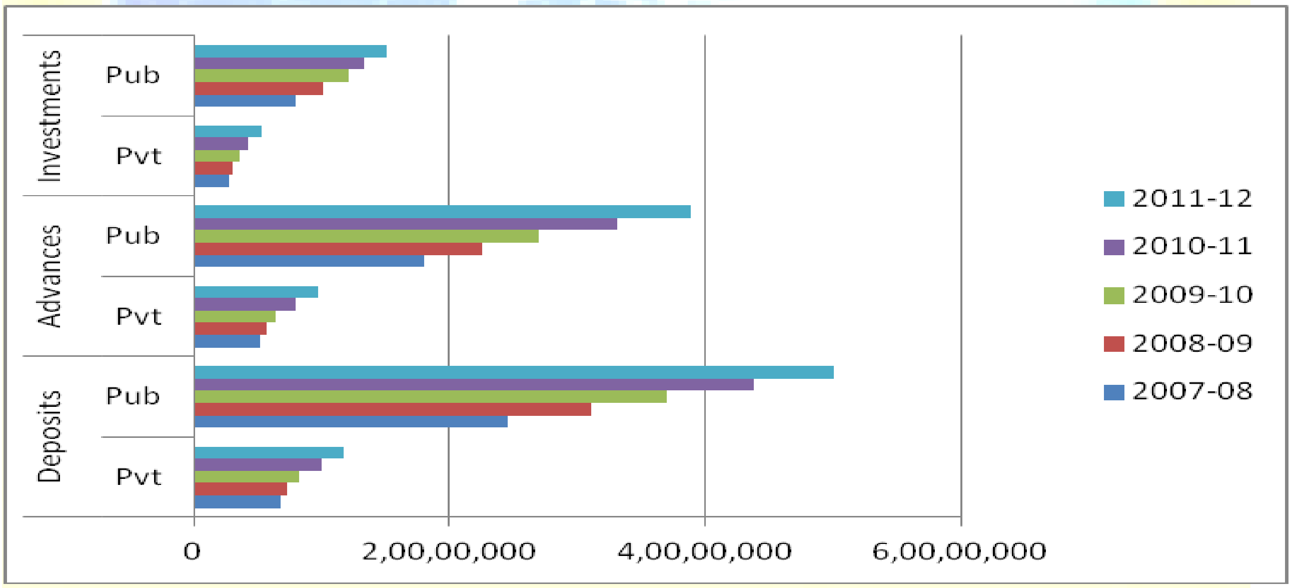

Table 2 shows that deposits, advances and investments of public sector bank groups generated 100% more than that of private sector bank group during the study period. Among all the three variables across the group during 2010-11 they have crossed the mean deposits, advances and investment. The same is reflected in the Figure 1 which clearly indicates that public sector group performed well during the study period. But both the group has shown an upward movement between 2007-08 and 2011-12.

Table 3 – Details of Interest Income and Interest Expended

Year	Interest Income		Interest Expended	
	Pvt	Pub	Pvt	Pub
2007-08	7,09,912	21,30,746	4,84,951	14,89,021
2008-09	8,50,714	27,30,882	5,69,574	19,34,467
2009-10	8,28,064	30,59,826	5,12,056	21,19,401
2010-11	9,67,131	36,61,345	5,71,491	23,11,530
2011-12	13,39,795	48,47,401	8,67,843	32,85,391
Mean	**9,96,426**	**35,74,864**	**6,30,241**	**24,12,697**
Standard Deviation	**2,36,881**	**9,31,737**	**1,60,784**	**6,01,818**
Minimum	**8,28,064**	**27,30,882**	**5,12,056**	**19,34,467**
Maximum	**13,39,795**	**48,47,401**	**8,67,843**	**32,85,391**

Figure 2 Details of Interest Income and Interest Expended

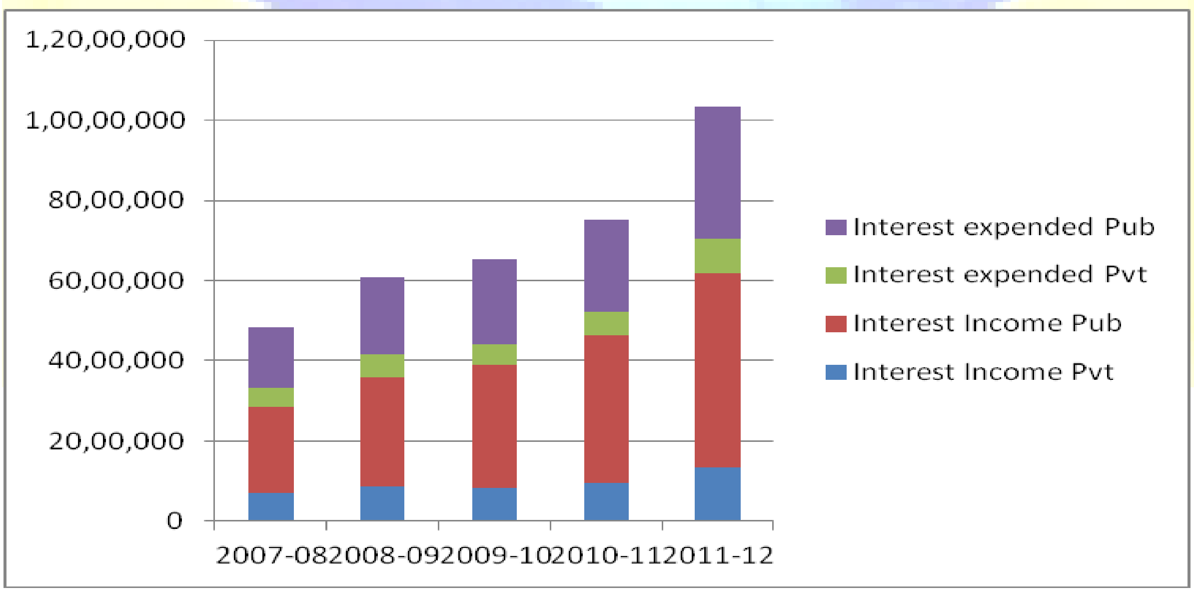

Table 3 and Figure 2 explain the movement of interest income and interest expended. Interest income generated by public sector bank group is more than that of private sector bank group during the study period. But both the group shows upward trend.

Table 4 – Table showing Relationship between the variables

Variables	Pvt	Pub
	"R" Value	
Deposits & Advances	**0.99865**	**0.99834**
Deposits& Investments	**0.99658**	**0.99357**
Deposits &Interest Expenses	**0.86103**	**0.94505**
Advances & Interest Income	**0.95949**	**0.98308**

It is true that deposits are the main source of fund for both the group of banks to perform the banking operations. Hence it is important to know the relationship between deposits and advances, investments, interest expenses & interest income. The above Table 4 represents the existence of a high degree of positive relationship among advances, investments and interest expenses on the deposits. Again it is evident among advances and interest income. It means change in independent variable is clearly reflected on the dependent variable.

Conclusion:

From the above analysis and discussion it is clear that there is a growth in the business of public and private sector bank group. And also across the years public sector bank group has performed well than the private sector bank group. But while considering the business per employee and profit per employee private sector bank group has performed well it is because of less number of employees in private sector bank group to do their operation than in the public sector bank group. It is also clear that deposits of both the group have a highly positive relationship with other dependent variables like advances, investments and interest income.

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