

Trends And Progress Of Indian Banking Industry

Chatla Gopiraja¹

M.Com Student

Dept. of Commerce

Osmania University, Hyderabad-500007

Email: rajachatla9533@gmail.com

Dr. Pamula Ravikumar²

Assistant Professor

Dept. of Business Management

Osmania University, Hyderabad-500007

Email: dr.raviyam@rediffmail.com

ABSTRACT

Financial sector plays a pivotal role in the economic development. It is generally agreed that a strong and healthy banking system is a prerequisite for sustainable economic growth. Banks in India have been undergoing major challenges in the dynamic environment over the past few years as it is evident from several parameters, including No. of offices, No. of employees, Business per employee, Profit per employee, Net Worth, Deposits, Investments, Advances, Interest income, Other income, Interest expended, Operating expenses, Cost of Funds (COF), Return on advances adjusted to COF, Wages as % to total expenses, Return on Assets, CRAR and Net NPA ratio. In order to resist negative shocks and maintain financial stability, it is important to identify the profile of the banks. The current study is mainly concerned with the analysis of comparative profiles of Public Banks, Private Banks and Foreign Banks in India during the period of 2006-13 that reflects the impact of new competitive environment on the bank's performance in terms of various selected parameters.

The Data was collected through secondary sources from Trend and Progress Report of RBI and the tool used for data analysis of the profile of bank group wise is Compound Annual Growth Rate (CAGR) which is expressed in percentages. The results have found strong evidence that the Private Sector Banks surpasses the other bank groups and topped the position in all the parameters, while Public Sector Banks and Foreign Banks are just competing for the 2nd and the 3rd position.

Key words: Public sector banks, Private sector banks, foreign banks

Introduction

It has been around one and half decade since financial sector reforms were initiated in India. As banks are the major segment of the financial sector in India, reform measures are primarily aimed at improving the performance of the banking sector. An efficient banking system has significant positive externalities, which increases the efficiency of economic transaction in general. The first deals with the history part since the dawn of banking system in India. Government took major step in the 1969 to put the banking sector into systems and it nationalized 14 private banks in the mentioned year. This has been elaborated in Nationalization Banks in India. The last but not the least explains about the scheduled and unscheduled banks in India. Section 42 (6) (a) of RBI Act 1934 lays down the condition of

scheduled commercial banks It is believed that private ownership helps to improve efficiency and performance of bank and accordingly, the Indian government started diluting its equity in PSBs from early 1990s in a phased manner. The privatization of Indian banks really helped to improve their efficiency and performance. Liberalization and Globalization ushered in by the government in the early 90s have thrown open many challenges to the Indian financial sector. Banks, amongst other things, were set on a path to align their accounting standards with the International standards and by global players. They had to have a fresh look into their balance sheet and analyze them critically. In this background, this article is designed to give an outline of profile of bank group wise in Indian banking industry. Banks that employ IT solutions are perceived to be 'futuristic' and proactive players capable of meeting the multifarious requirements of the large customer's base. Private Banks have been fast on the uptake and are reorienting their strategies using the internet as a medium The Indian banking has finally worked up to the competitive dynamics of the 'new' Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization.

Literature Review:

Dipasha Sharma, Anil K Sharma, Mukesh K Barua in their study discussed that both the frontier approaches, parametric and non-parametric, are gaining an edge over the traditional financial performance measures. In the non-parametric approach, data envelopment analysis (DEA) is widely applied to measure a bank's efficiency and productivity. *Siraj and Sudarsanan Pillai*, in their paper determined that asset quality and efficiency of bank is highly correlated. Against this backdrop, this paper investigates the growth of selected NPA variables and compares it with banking performance indicators. Variables that impact NPA of banks is assessed and based on its growth rate, inference is generated. The analysis focused on identifying relative efficiency of different bank groups in managing their NPA. *Singh* analysed the profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, He emphasized to make the banking sector competitive in deregulated environment and prefer non-interest income sources. *Souza*, in his study evaluated the performance of public sector banks, private sector banks and foreign banks during the period 1990- 1991 to 1999-2000. The efficiency of the banking system was measured in terms of spread/working fund ratio and turnover/employees ratio. *Kannan and Aditya Narain* made an attempt to identify the factors influencing spreads

of scheduled commercial banks in India and concluded that nonperforming asset effect bank spread. Centric to the ratio analysis, these studies have customized and blended financial ratios in a model form to examine and predict the financial health. Similarly, comparative performance, recovery performance, cost reduction, productivity and efficiency are vital areas which have been considered by various analysts. With inquisitiveness the present study has been undertaken with specific objectives as envisaged in the objectives of the study.

Objective of the study:

1. *To analyse the comparison of performance of nationalized banks, state bank group, old private sector banks, new private sector banks and foreign banks.*

Data analysis and interpretation:

**Table No-1:
Trends in deposits relating to bank group wise during 2010-11 to2017- 2018**

Bank Group Wise	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR (%)
Nationalised Banks	1080072	1360724	1679993	21057056	25839338	31265862	35969893	41272523	57.68
SBI and Associates	542409	633476	773875	10070415	11080856	12458624	14050241	16184449	52.88
Public Sector Banks	1622481	1994200	2453868	31127471	36920194	43724487	50020134	57456972	56.19
Old Private Sector Banks	130456	138249	165589	1992735	2298969	2641571	3158914	3738964	52.11
New Private Sector Banks	298000	413738	509444	5371041	5929038	7386018	8586960	10219391	55.56
Private Sector Banks	428456	551987	675033	7363776	8228007	10027588	11745874	13958355	54.57
Foreign banks	113745	150750	191161	2140764	2320995	2406668	2769477	2879997	49.77
Scheduled Commercial Banks	2164682	2696937	3320062	40632011	47469196	56158743	64535485	74295324	55.58

Source: annual reports 2010-18

It is observed from the Table-1 that the scheduled commercial bank offices in the country showed CAGR of 6.12%, over a period of eight years and for this growth the major contribution is observed from the growth in the new private sector banks.

**Table No-2:
Trends in bank group wise number of offices during 2010-11 to2017- 2018**

Bank Group Wise	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR (%)
Nationalised Banks	35858	37431	39234	41041	43690	46462	50713	54478	5.37
SBI and Associates	14130	14673	15846	16938	18390	19338	20256	21301	5.26
Public Sector Banks	50168	52104	55080	57979	62080	65800	70969	75779	5.29
Old Private Sector Banks	4819	4826	4690	4952	5273	5090	5673	6283	3.37
New Private Sector Banks	2016	2598	3632	4336	5243	7007	8297	9718	21.73

Private Sector Banks	6835	7424	8322	9288	10516	12097	13970	16001	11.22
Foreign banks	259	272	279	295	310	318	323	334	3.23
Scheduled Commercial Banks	57262	59800	63681	67562	72906	78215	85262	92114	6.12

Source: Annual reports 2010-18

It is also observed from the Table 2 that there is a continuous increase in number of offices in scheduled commercial banks and this is as a result of continuous increase in number of offices of all bank group wise that is in case of public sector banks, private sector banks and foreign banks.

**Table No-3:
Trends in bank group wise CRAR during 2010-11 to 2017-18**

Bank Group Wise	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR (%)
Nationalised Banks	12.27	12.37	12.13	13.24	13.18	13.47	13.03	12.26	-0.01
SBI and Associates	11.95	12.3	13.21	13.96	13.46	12.25	13.7	12.67	0.73
Public Sector Banks	12.17	12.36	12.51	13.49	13.27	13.08	13.23	12.38	0.21
Old Private Sector Banks	11.69	12.08	14.08	14.74	14.85	14.55	14.12	13.73	2.03
New Private Sector Banks	12.6	11.99	14.39	15.33	18.03	16.87	16.66	17.52	4.21
Private Sector Banks	12.42	12.1	14.34	15.23	17.43	16.46	16.21	16.84	3.88
Foreign banks	13.02	12.39	13.08	14.19	17.26	16.97	16.75	17.88	4.04
Scheduled Commercial Banks	12.32	12.28	13.01	13.97	14.54	14.19	14.24	13.88	1.5

Source: Annual reports 2010-18

It is shown in the Table 3 that the CAGR of foreign banks is 4.04% as compared to public sector banks and private sector banks where it is 0.21 and 3.88 respectively. The Capital to Risk weighted Assets Ratio (CRAR) profile of SCBs remains comfortable and much above the minimum regulatory requirements of 9%. The decline in the capitalization level of the nationalized banks is attributable largely to strong credit growth.

**Table No-4:
Trends in bank group wise operating expenses during 2010-11 to 2017-18**

Bank Group Wise	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR (%)
Nationalised Banks	25548	27268	29670	354160	407922	538193	574753	647182	49.78
SBI and Associates	15760	15987	16993	200877	252828	291459	327299	370940	48.41
Public Sector Banks	41308	43255	46663	555037	660749	829652	902052	1018122	49.27
Old Private Sector Banks	3089	2967	3235	39392	47153	56000	65404	77459	49.59
New Private Sector Banks	8949	12353	17032	178401	181357	220064	274898	327392	56.82

Private Sector Banks	12038	15320	20267	217794	228510	276064	340301	404851	55.18
Foreign banks	5854	7745	10353	122984	111019	125686	133367	142882	49.09
Scheduled Commercial Banks	59201	66319	77283	895814	1000279	1231403	1375720	1565855	50.59

Source: Annual reports 2010-18

Table 4 shows, Bank Group wise operating expenses. In case of private sectors banks the operating expenses increased significantly over the period of eight years i.e. from 2010-2018 and overall there was an increase by 50.59%.

**Table No-5:
Trends in bank group wise net worth during 2010-11 to 2017-18**

Bank Group Wise	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR(%)
Nationalised Banks	473725	473179	466400	462926	473041	471727	494520	507694	0.87
SBI and Associates	270608	255699	242029	268598	266605	283375	279809	293965	1.04
Public Sector Banks	744333	728878	708429	731524	739646	755102	774329	801659	0.93
Old Private Sector Banks	51138	48667	48700	51341	55052	55380	62589	66208	3.28
New Private Sector Banks	59367	88617	110123	142237	133280	162573	185695	203733	16.66
Private Sector Banks	110505	137284	158823	193578	188332	217953	248284	269941	11.81
Foreign banks	22117	28426	33969	29582	28012	28041	25907	25384	1.74
Scheduled Commercial Banks	876955	894588	901221	954684	955990	1001096	1048520	1096984	2.84

Source: Annual reports 2010-18

Table-5 Reflects that the new private sectors banks are maintaining high net worth CAGR as compared to other banks which has been followed by the Foreign banks CAGR. The public sector banks showed the lowest CAGR i.e. 56.24. The analyses shows that during the period of eight years study the bank group wise has resulted in a continuous increase in net worth.

Findings on the basis of analysis:

It has been found that the new private sector banks have shown the highest annual expansion in terms of number of branches vis-à-vis old private sector banks. The capitalization profile of private sector banks continues to be better than that of public sector banks, with the private sector banks CAGR at around 3.88% and that of PSBs at around 0.21%.

However, continuous government support (via capital infusion) to enable PSBs maintain a minimum Tier I capital of 7.00% is likely to result in these banks being able to maintain a comfortable capitalization profile over short to medium term. Bank group-wise, public sector banks accounted for the largest CAGR (56.19 per cent) in total deposits followed by private

sector banks (54.57 per cent). Foreign banks showed the lowest CAGR (49.77 per cent) Private sector banks have very good Return on Assets (ROA) as compared to other bank group during the study period of eight years i.e. from 2010-11 to 2017-18.

As far as interest income is concerned, private sector banks are ahead in the race by reporting 61.93% growth, followed by public sector banks (58.70%) and then by foreign banks (55.61%). Foreign banks have the highest business per employee as well as profit per employee. The NPA of public sector bank was also significantly higher than that of private sector and foreign banks, which indicates the asset quality of public sector banks is comparatively poor.

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