International Journal of
Emerging Research in Management &Technology
ISSN: 2278-9359 (Volume-3, Issue-2)

Research Article | **February 2014**

Performance Comparison of Private Sector Banks with the Public Sector Banks in India

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Abstract : Recently the Indian economy has witnessed the emergence of many banks in the private sector. There are several reasons behind the increasing number of commercialization of banks. The growth of such banks is not possible unless they witness some success in the context of customer satisfaction or may it be the net assets held by these banks, efficiency of their management or the networks of each bank both in private as well as the public sector bank. The following paper covers the performance comparison of private sector banks and the public sector banks and to give the reasons and suggestions for the same.

Keywords: RBI, ATM, Capital Adequacy Ratio (CAR), liability dimension.

I. Introduction

Though the founding of the commercial banks started with the emergence of the Bank of Calcutta later renamed the Bank of Bengal in the year 1806, thus making it the oldest commercial bank in the Indian subcontinent, but with its merger with the Bank of Madras, Imperial Bank of India which in turn became State Bank of India emerged. Pursuant to the provisions of the State Bank of India Act,1955, the Reserve Bank of India, acquired a controlling interest in the Imperial Bank of India thus on 1 July 1955, the Imperial Bank of India became the State Bank of India.

Today State Bank of India enjoys a privilege of a position of preeminence as an agent of RBI. It is the only bank which has the largest network of 48 overseas offices spread over 28 countries. In a period of 5 years from July 1951 to 1955, State Bank of India was able to provide banking facilities to the rural areas through its across 400 branches. With the merger of 'New Bank of India' with 'Punjab National Bank' in 1993, the number of nationalized banks rose upto a level of 19 and the number of public sector banks reached 27. The number of branches of public sector banks, which was 6,669 in June 1969, increased to 41874 by Mach 1990 and further increased to 46,752 by March 30, 2003. The public sector banks thus occupy a predominant position in the Indian banking industry. It resulted in the creation of public sector banking with a market share of 76.87 per cent in deposits and 72.92 per cent of assets in the banking industry at the end of March 2003.

State Bank of India is a multinational banking and financial services company in India having 20% market share in deposits and loans among Indian commercial banks. As on December 2013, its assets were valued at US$388 billion and a total of 16,000 branches, including 190 foreign offices spread over 34 countries, which makes it the largest banking and financial services company in India by assets. SBI had 14,816 branches in India, as on 31 March 2013, out of which 9,851 (66%) are in Rural and Semi-urban areas. In the financial year 2012-13, its revenue was INR 200,560 Crores (US$ 36.9 billion), wherein domestic operations contributed to 95.35% of revenue, also, domestic operations contributed to 88.37% of total profits.

SBI has five associate banks:

- State Bank of Bikaner & Jaipur
- State Bank of Hyderabad
- State Bank of Mysore
- State Bank of Patiala
- State Bank of Travancore

Apart from its five associate banks, SBI also has the following non-banking subsidiaries:

- SBI Capital Markets Ltd
- SBI Funds Management Pvt Ltd
- SBI Factors & Commercial Services Pvt Ltd
- SBI Cards & Payments Services Pvt. Ltd. (SBICPSL)
- SBI DFHI Ltd
- SBI Life Insurance Company Limited
- SBI General Insurance

In March 2001, SBI (with 74% of the total capital), joined with BNP Paribas (with 26% of the remaining capital), to form a joint venture life insurance company named SBI Life Insurance company limited.

Table-I Rs. in Billion	FY 2009	FY 2010	FY 2011	FY 2012	FY2013
Deposits	7420.73	8041.16	9339.33	10436.47	12027.40
Advances	5425.03	6319.14	7567.19	8675.79	10456.17
Investments	2759.54	2957.85	2956.01	3121.98	3509.27
Total Assets	9644.32	10534.13	12237.36	13355.19	15662.61
Interest Income	637.88	709.94	813.94	1065.21	1196.57
Interest Expenses	429.15	473.22	488.68	632.30	753.26
Net Interest Income	208.73	236.71	325.26	432.91	443.31
Non-Interest Income	126.91	149.68	158.25	143.51	160.35
Total Operating Income	335.64	386.40	483.61	576.43	603.66
Staff Expenses	97.47	127.55	144.80	169.74	183.81
Overhead Expenses	59.01	75.64	85.35	90.95	109.04
Total Operating Expenses	156.49	203.18	230.15	260.69	292.84
Operating Profit	179.15	183.20	253.36	315.74	310.82
Total Provisions	87.94	91.55	170.71	198.66	169.77
Net Profit	91.21	91.66	82.65	117.07	141.05

II. Previous researches

A study on public and private sector banks shows that a gap between expectations of consumers and perceptions of service delivered is highest in public sector banks and lowest in private sector banks. Also it was found that public sector banks are better than private sector banks.

Bahia, K and J Nantel (2000)- The paper suggested an alternative scale for measuring service quality in retail banking and developed a scale called as Banking Service Quality Scale which contained factors like effectiveness and assurance, access, price, tangibles, service portfolio and reliability and was found to be more reliable than SERVQUAL.

Sureshchandar (2002).- The relationship between service quality and customer satisfaction in Indian banking sector were found to be independent but closely related. Both constructs were found to vary significantly in core services ie ,human element, systematization of service delivery, tangibles and social responsibility.

Arora S (2005)- An analysis influencing customer satisfaction in public sector, private sector and foreign banks in northern India. 300 customers were questioned using questionnaire method which reveled that significant differences exist in customer satisfaction level of customers in each group of banks regarding routine operation and situational and interactive factors. Foreign banks were found to be the leaders in mechanization and automation

Debashis and Mishra(2005)-The study measured customer satisfaction in branch services provided by nationalized banks in northern India . 1200 customers were given questionnaires and it was found that computerization, accuracy in transactions, attitude of staff and availability of staff influenced customer satisfaction. Least important factor was promotion of the products and various schemes.

Sharma S, et al (2007)- A comparative study of public and private banks with respect to perceptions of customers regarding service quality was made and was found that service quality is associated with satisfaction and there was significant difference between quality of services provided by banks in smaller cities are far behind big cities in this regard.

Padhy P K and B N Swar(2009)- The role of technology in banking and its impact on perceived service quality in public, private and foreign banks in Orissa using a s ample size of 300 customers was studied. It was found that the foreign banks are very close to expectations of customers followed by ICICI and AXIS. Service quality in public sector banks was found to be very low

Akiko Ueno(2010)- The paper stressed on the importance of quality. The study finds out the features that are important in supporting service quality. The secondary research found that the human resource functions like recruitment, teamwork are helpful in maintaining service quality.

Dr Ravichandran et al(2010)- The paper tries to understand socio demographic and rational profile of public retail banking consumers. Also, the importance of service quality dimensions to predict the multidimensional model of behavioral intentions among public sector consumers in India are studied. Loyalty was found to be influenced by operating hours, error free records etc. Service quality parameters like tangibility, responsiveness were also found to be very important.

Sachin Mittal&Rajnish Jain(2010)- The role of banking industry and effect of IT based services on customer satisfaction was studied in this paper. The study highlights customer satisfaction levels among young customers in banking industry. A survey indicates the gaps between customer's expectations and perception with respect to IT based banking services. Findings indicated need to improve the IT based services for enhancing customer satisfaction.

The studies mentioned above clearly points out to the importance of having a structured study on this where banks in different categories are compared with respect to the service quality aspect which will help them to find out their core competencies and to capitalize on them and at the same time find out the areas where they can improve.

Research Methodology:

The secondary data is collected from various journals, reports and annual reports have been collected from various websites of reserve bank of India and State Bank of India.:

Objectives of the study:

a) To review the performance of the private and public sector banks individually.
b) To make a comparative study on the performance of these banks.

Privatisation of banking sector

Until 1991-92, all Public sector banks were owned by government. After the reform was initiated, the Governments stake was permitted to be reduced to 51 per cent. The reduction in government stake in Public sector banks amounted to partial privatization of banks. There has been a tremendous improvement in the banking sector reforms by lowering pre-emotions and to strengthen the banking system through institution of capital adequacy norms, in addition to income recognition, asset classification and provisioning requirements in line with the international standards. Competition was also promoted through the entry of new private sector banks and more liberal entry of foreign banks. Public sector banks had to make lot of improvement in their work culture and in their services in order to be able to compete with the new entrants with aggressive marketing practices.

The list of Private Sector Banks is as follows:

Old Private Sector Banks	New Private Sector Banks
1. Bank of Rajasthan Ltd.	Bank of Punjab Ltd. (since merged with Centurian Bank)
2. Catholic Syrian Bank Ltd.	2. Centurian Bank of Punjab (since merged with HDFC Bank)
3. City Union Bank Ltd.	3. Development Credit Bank Ltd.
4. Dhanalakshmi Bank Ltd.	4.HDFC Bank Ltd.
5. Federal Bank Ltd.	5.ICICI Bank Ltd.
6. ING Vysya Bank Ltd.	6.IndusInd Bank Ltd.
7. Jammu and Kashmir Bank Ltd.	7.Kotak Mahindra Bank Ltd.
8. Karnataka Bank Ltd.	8.Axis Bank (earlier UTI Bank)
9. Karur Vysya Bank Ltd.	9. Yes Bank Ltd.
10. Lakshmi Vilas Bank Ltd.	

III. Evolution of Private sector banks

In 1951, there were 566 private banks, 474 non-scheduled and 92 scheduled as classified on the basis of their capital size. The role of private sector banks started declining when the Government of India entered banking sector with the establishment of State Bank of India in 1955. Consequently, the existence of public sector banks has increased. At present, there are 32 private banks comprising of 24 old banks, which existed prior to 1993-94 and eight new private banks, which were established during 1993-94 and onwards after the RBI announced guidelines in January 1993 for establishment of new private sector banks followed by the recommendations of Narasimham Committee-I (1991). The guidelines prescribed that the private banks should be established with the paid-up capital not less than Rs. 100 crore. The new guidelines issued in 2001 raised the minimum paid-up capital to Rs. 200 Crore, which shall be enhanced to Rs. 300 Crore within three years after the commencement of business. Also, the private sector banks are required to observe priority sector lending targets ensuring that the new entrants are ab initio financially viable and technologically up-to-date. Accordingly, nine banks were set-up in private sector including some by development financial institutions including ICICI Bank, GTB, HDFC and IDBI bank. Another interesting development was merger of some banks. Bareily Corporation Ltd merged with Bank of Baroda in 1999, Times Bank merged with HDFC Bank in 1996, Bank of Madura Ltd merged with ICICI bank in 2001 and Nedungadi Bank Ltd merged with Punjab National Bank in 2003. In 1995-96, the share of old private sector banks in total assets was 6.2 per cent while that of new private sector banks was 1.4 per cent. The Private sector banks had improved their market share to 5.3 per cent by 1999-2000 with comparison to the Public sector banks. The share of private sector banks in the total number of branches in 1992-93 was only 8.33 percent. In 2002-03, the share of private sector banks in total bank branches is 8.75 per cent.

Major competitors

Some of the major competitors for SBI in the banking sector are Axis Bank, ICICI Bank, HDFC Bank, Punjab National Bank, Bank of Baroda, Canara Bank and Bank of India. However in terms of average market share, State Bank of India is one of the Big Four banks of India, along with ICICI Bank, Punjab National Bank and Bank of Baroda thus SBI is by far the largest player in the market .

Basis of comparison

I. Network of banks

Today banks follow a strategy of building a network of branches and ATMs with effective penetration so that they can continue to enlarge their geographical coverage with a greater potential for growth. The banks try to deeply entrench across the country with significant density in areas conducive to the growth of their businesses.

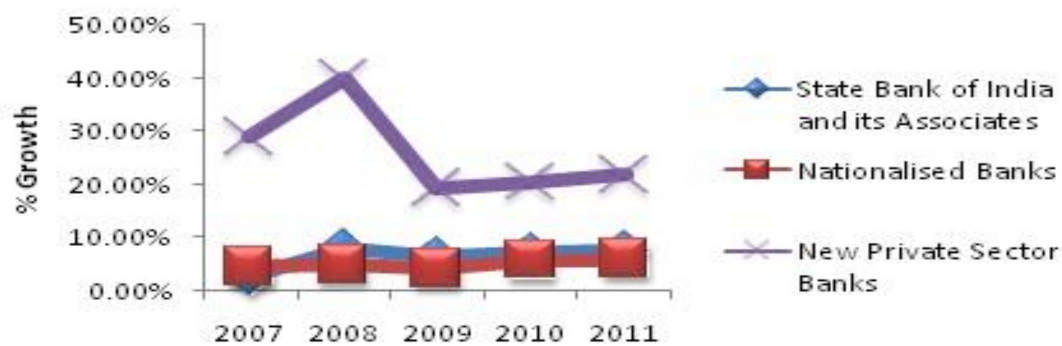


Fig.1 : Percentage growth in Banks network (Source: RBI)

The private sector banks have expanded themselves at a much faster rate than public sector banks. The customer base of these banks has grown manifold since they are able to provide innovative services to the customers at a much faster pace. This is helping them to capture a higher market share and depleting some of the share of the public sector counterparts.

II. **Productivity**

Productivity is the ratio of what is produced to what is required to produce. In the banking scenario productivity can be measured by profit per employee, business per employee. Productivity is a very important measure of efficiency of banks because it means that the firm can meet its obligations to employees, shareholders, and governments (taxes and regulation), and still remain competitive in the market place.

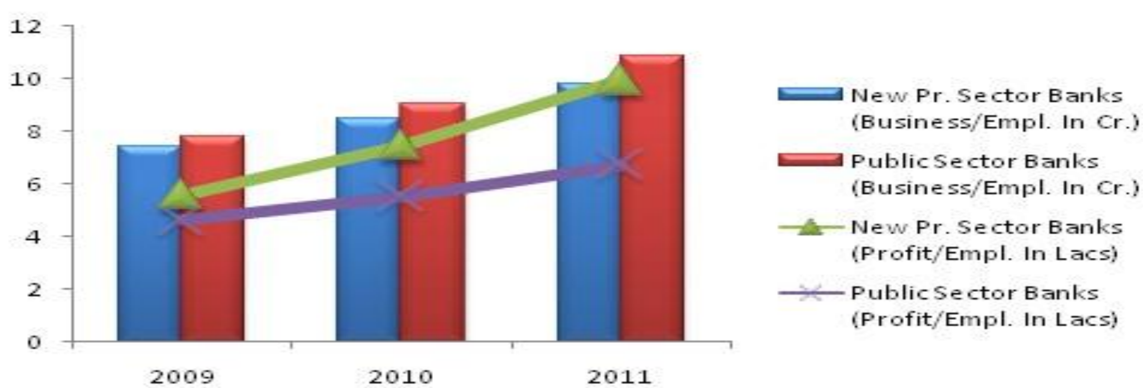


Fig.3 Productivity (Source: RBI)

These ratios can be misleading as banks can improve these ratios by reducing their number of their employees during the time of recession. This is evident since asset base and profit levels declined during 2009-10 for new private sector banks but still the above ratios is showing a continuous increasing trend.

III. **Capital adequacy ratio**

Capital Adequacy signifies the banks' ability to maintain capital with the nature and extent of all types of risk and the ability of management to identify, measure, monitor and control these risks. It also tells about the ability of bank to absorb a reasonable amount of loss and comply with statutory Capital requirements. Currently Reserve Bank of India (RBI) prescribes banks to maintain Capital Adequacy Ratio (CAR) of 9% with regard to credit risk, market risk and operational risk on an ongoing basis, as against 8% prescribed in BASEL framework.

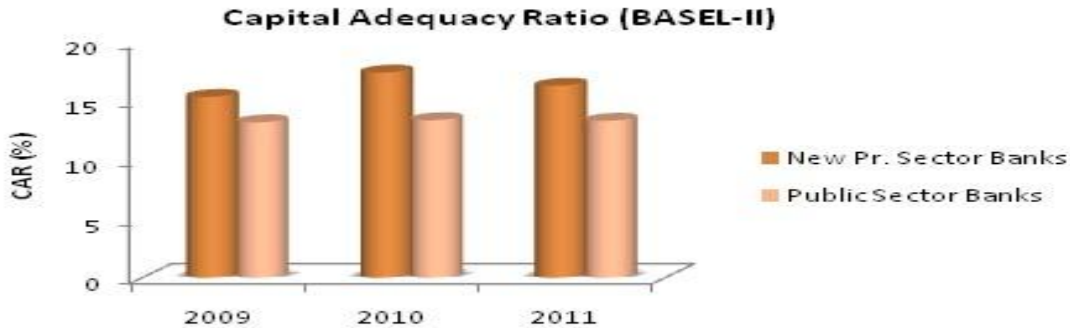


Fig.4 Capital Adequacy Ratio (BASEL-II) (Source: RBI)

The Capital Adequacy ratio (BASEL-II) of new private sector banks is way above RBI's minimum requirement of 9%. This shows that private banks are in comfortable position to absorb losses since they have more capital to cover for their risk weighted assets and they have less risky assets in their portfolio for a fixed capital base.

IV. **Growth of bank**

Every bank aspires to grow and its growth can be judged by various parameters like growth in balance sheet size i.e. asset base, total income and many others.

	% Growth in Balance Sheet Size		% Growth in Total Income	
	2010	2011	2010	2011
New Private Sector Banks	10.86%	23.51%	-2.19%	14.63%
Public Sector Banks	17.93%	19.21%	12.46%	16.71%

Fig.2 Percentage growth in banks' Balance Sheet & Income (Source: RBI)

The public sector banks' asset base and income grew at an increasing rate in the last 2 years whereas new private sector banks faced many fluctuations mainly due to recession. But the growth of these banks was phenomenal during 2010-11 that shows their ability to recover faster after such a phase.

V. **Asset Quality**

Asset Quality reflects the amount of existing credit risk associated with the loan and investment portfolio as well as off-balance sheet activities. The asset quality of banks can be judged by the non-performing assets (NPA) ratio.

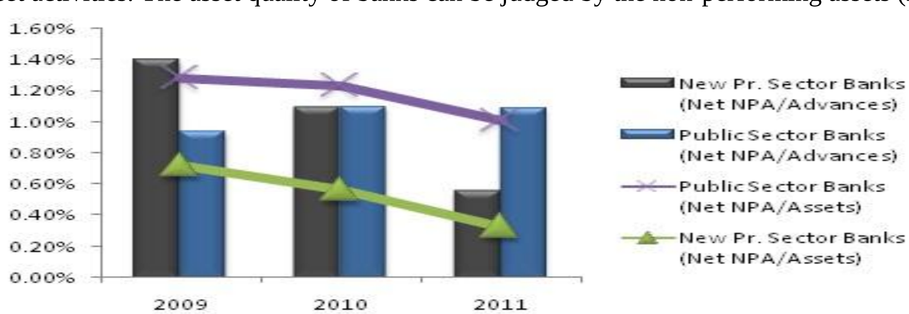


Fig.5 Asset Quality (Source: RBI)

However there is huge difference in asset qualities of public & new private sector banks because the public sector banks have higher NPAs in services sector. The NPAs in other sectors like Agriculture, Industry and Personal Loans are almost similar for these banks. The asset quality of a bank directly affects its credit rating.

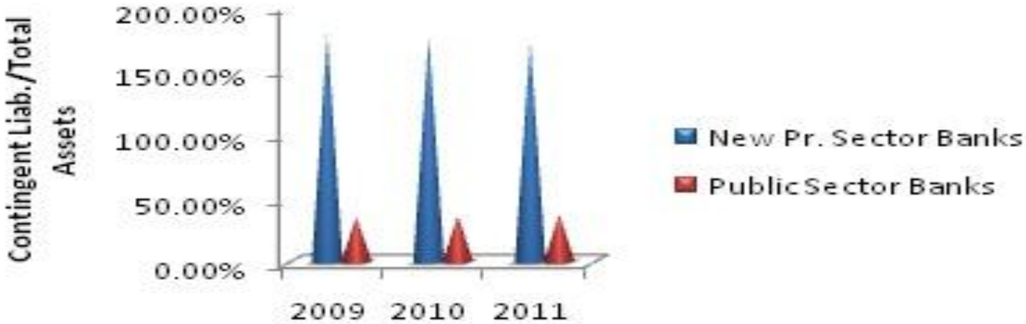


Fig.6 Off- Balance Sheet Exposure (Source: RBI)

The Off-Balance Sheet (BS) activities under the purview of New Private Sector banks are astoundingly large as compared to public sector banks, being the liability of these banks on outstanding derivative contracts like Interest rate swaps, currency options and interest rate futures. This makes their business highly susceptible to market risk.

VI. **Efficiency of management**

Several indicators are used to measure the efficiency of the management for example ratio of non-interest exp to total assets which explains the management controls on operating expenses. Similarly efficiency ratios like Asset Turnover ratio can be used to assess how efficiently company is using its assets to earn the revenue.

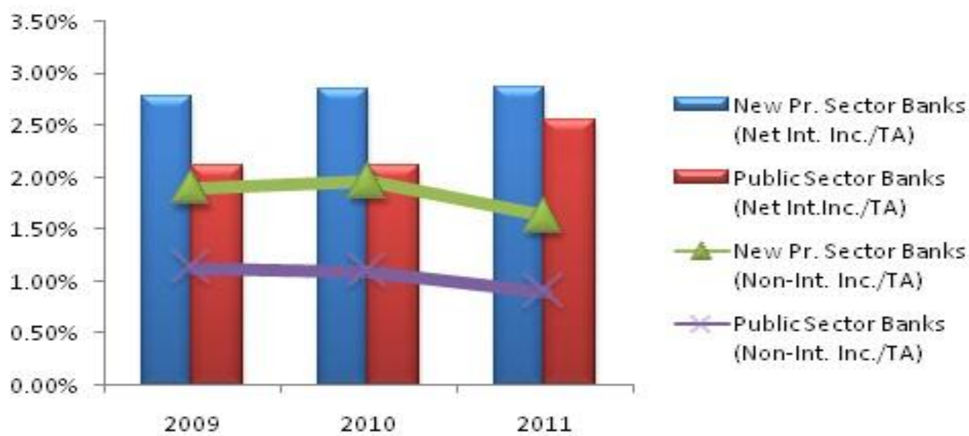


Fig.7(a) Management Efficiency (Source: RBI)

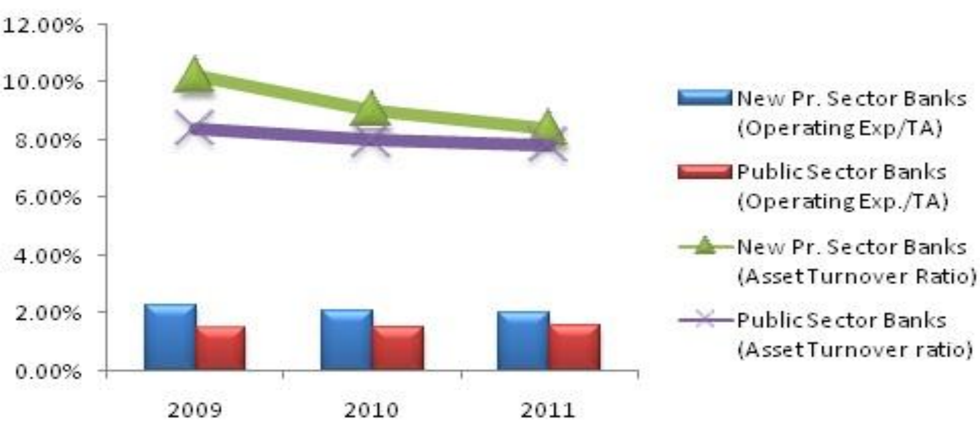
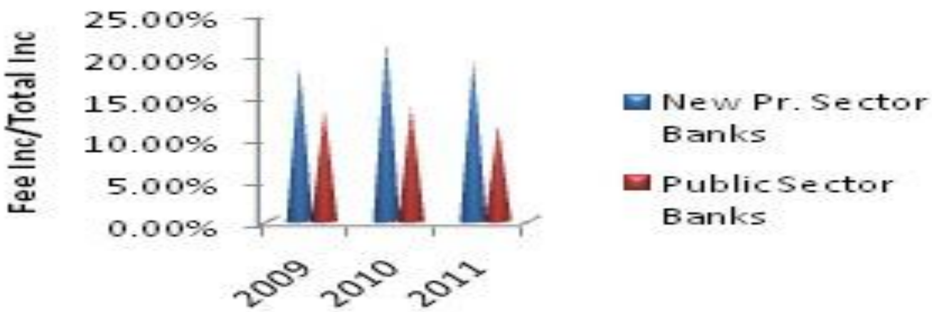


Fig.7(b) Management Efficiency (Source: RBI)

The efficiency ratios of new private sector banks are better than public sector banks which eventually lead to enhanced bottom line. The asset turnover of both sectors banks is decreasing over the last 3 years which is mainly due to a combination of decrease in non-interest income and increase in asset base.

VII. **Earnings**



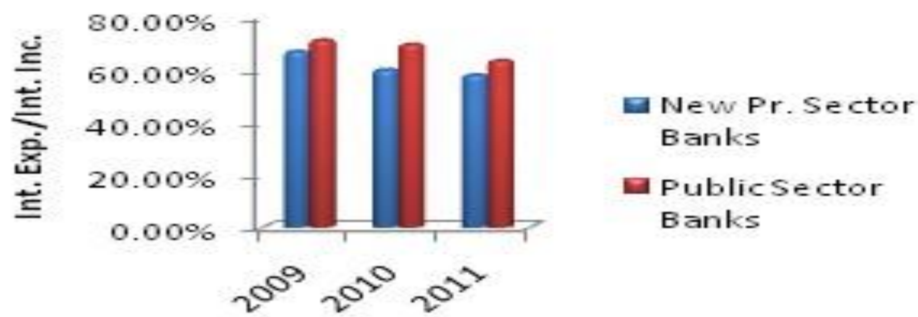


Fig.8 Earnings Quality (Source: RBI)

The above two graphs signifying the new private sector banks have better ratios since:

a) The interest expense is less as compared to interest income due to better asset liability management.

b) The share of fee income is more in total income which reflects that banks have other options to earn money like in exchanges, commissions, brokerages etc.

VIII. **Liquidity**

The inadequacy of liquidity in a bank causes liquidity risk is two-dimensional: risk of being unable to fund portfolio of assets at appropriate maturity and rates (liability dimension) and the risk of being unable to liquidate assets in a timely manner at a reasonable price (asset dimension).

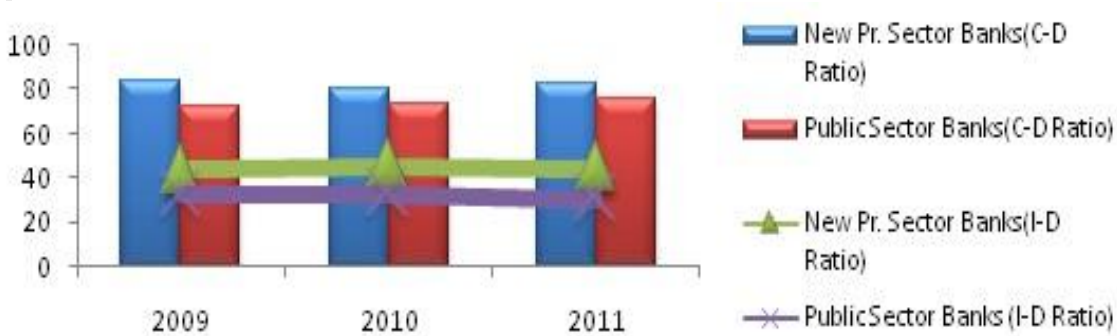


Fig.9 Liquidity (Source: RBI)

The credit deposit (C-D) ratio of any bank signifies the proportion of loan-assets created by banks from the deposits received, higher the ratio, better it is for the banks. Similarly higher is the investment deposit (I-D) ratio good it is for the banks as it increases the opportunity of earning but on the other hand may also create liquidity problems. Therefore it is essential for the banks to have a stock of short-term investments to ensure higher liquidity.

IV. Conclusion

It can be concluded that during the year 2009-11, most of the new private sector banks have shown better performance than their public sector counterparts. Based on the comparison of banks of both the sectors, the following ranks have been designated.

Bank	**Rank**
Yes Bank	1
Punjab National Bank	2
HDFC Bank	3
Kotak Mahindra Bank	4
State Bank of India	5
Axis Bank	6
Bank of Baroda	7
ICICI Bank	8
Indian Bank	9
Canara Bank	10
Allahabad Bank	11
Bank of India	12

V. Suggestions

As discussed above, it has been witnessed that the major area of concern for any bank is the customer service and customer satisfaction, thus just like the private sector banks, it is high time that the public sector banks also start concentrating more on the customers and the services provided to them. Top most rank held by a private bank is a clear indicator of the better performance of the private banks due to their higher concern towards customer feedback, their efficient management and thus yielding to higher productivity and networks throughout India. To strive the cut throat competition given to the public sector banks by the private sector banks, the public sector will have to pull up their shoes to be at the better half part of the race else the time is very near which can make these public sector banks just a memory or a history for everyone.

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