

ASSESSMENT OF PERFORMANCE OF SCHEDULED COMMERCIAL BANKS IN INDIA

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ABSTRACT: This study is undertaken to know the banking structure and its performance. Various researches had been conducted by various scholars, academicians banking industry to find out some useful result about the banking industry which has helped in this study to fulfil objective of my research through statistical inferences about different parameters of scheduled Indian banks. Data of concerned banks have been collected in this study.

BANKING INDUSTRY STRUCTURE IN INDIA

Current Structure: Currently the Indian banking industry has a diverse structure. The present structure of the Indian banking industry has been analyzed on the basis of its organised status, business as well as product segmentation.

Organisational Structure: The entire organised banking system comprises of scheduled and non-scheduled banks. Largely, this segment comprises of the scheduled banks, with the unscheduled ones forming a very small component. Banking needs of the financially excluded population is catered to by other unorganised entities distinct from banks, such as, moneylenders, pawnbrokers and indigenous bankers.

Scheduled Banks: A scheduled bank is a bank that is listed under the second schedule of the RBI Act, 1934. In order to be included under this schedule of the RBI Act, banks have to fulfill certain conditions such as having a paid up capital and reserves of at least 0.5 million and satisfying the Reserve Bank that its affairs are not being conducted in a manner prejudicial to the interests of its depositors. Scheduled banks are further classified into commercial and cooperative banks. The basic difference between scheduled commercial banks and scheduled cooperative banks is in their holding pattern. Scheduled cooperative banks are cooperative credit institutions that are registered under the Cooperative Societies Act. These banks work according to the cooperative principles of mutual assistance.

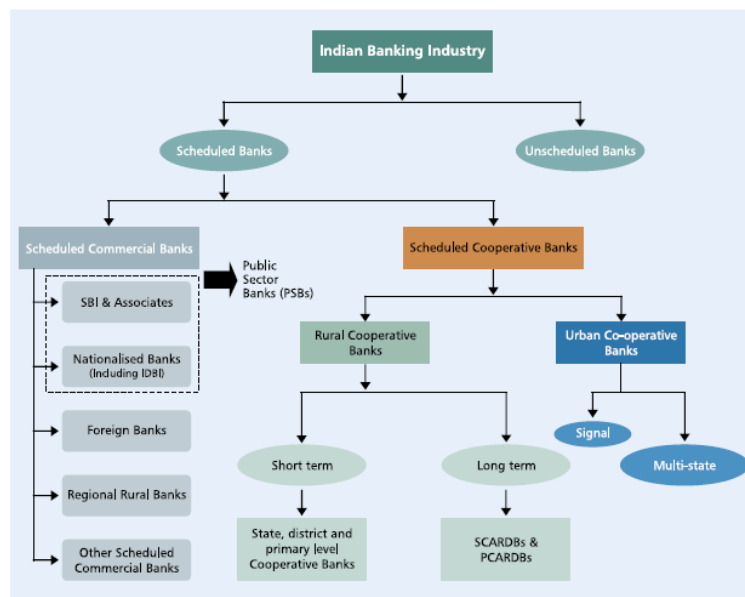
Scheduled Commercial Banks (SCBs): Scheduled commercial banks (SCBs) account for a major proportion of the business of the scheduled banks. As at end-March, 2009, 80 SCBs were operational in India. SCBs in India are categorized into the five groups based on their ownership and/or their nature of operations. State Bank of India and its six associates

(excluding State Bank of Saurashtra, which has been merged with the SBI with effect from August 13, 2008) are recognised as a separate category of SCBs, because of the distinct statutes (SBI Act, 1955 and SBI Subsidiary Banks Act, 1959) that govern them. Nationalised banks (10) and SBI and associates (7), together form the public sector banks group and control around 70% of the total credit and deposits businesses in India. IDBI Ltd. has been included in the nationalised banks group since December 2004. Private sector banks include the old private sector banks and the new generation private sector banks- which were incorporated according to the revised guidelines issued by the RBI regarding the entry of private sector banks in 1993. As at end-March 2009, there were 15 old and 7 new generation private sector banks operating in India.

Foreign banks are present in the country either through complete branch/subsidiary route presence or through their representative offices. At end-June 2009, 32 foreign banks were operating in India with 293 branches. Besides, 43 foreign banks were also operating in India through representative offices.

Structure Of Organised Banking In India

Regional Rural Banks (RRBs) were set up in September 1975 in order to develop the rural economy by providing banking services in such areas by combining the cooperative specialty of local orientation and the sound resource base which is the characteristic of commercial banks. RRBs have a unique structure, in the sense that their equity holding is jointly held by the central government, the concerned state government and the sponsor bank (in the ratio 50:15:35), which is responsible for assisting the RRB by providing financial, managerial and training aid and also subscribing to its share capital.



Between 1975 and 1987, 196 RRBs were established. RRBs have grown in geographical coverage, reaching out to increasing number of rural clientele. At the end of June 2008, they covered 585 out of the 622 districts of the country. Despite growing in geographical coverage, the number of RRBs operational in the country has been declining over the past five years due to rapid consolidation among them. As a result of state wise amalgamation of RRBs sponsored by the same sponsor bank, the number of RRBs fell to 86 by end March 2009.

Scheduled Cooperative Banks:

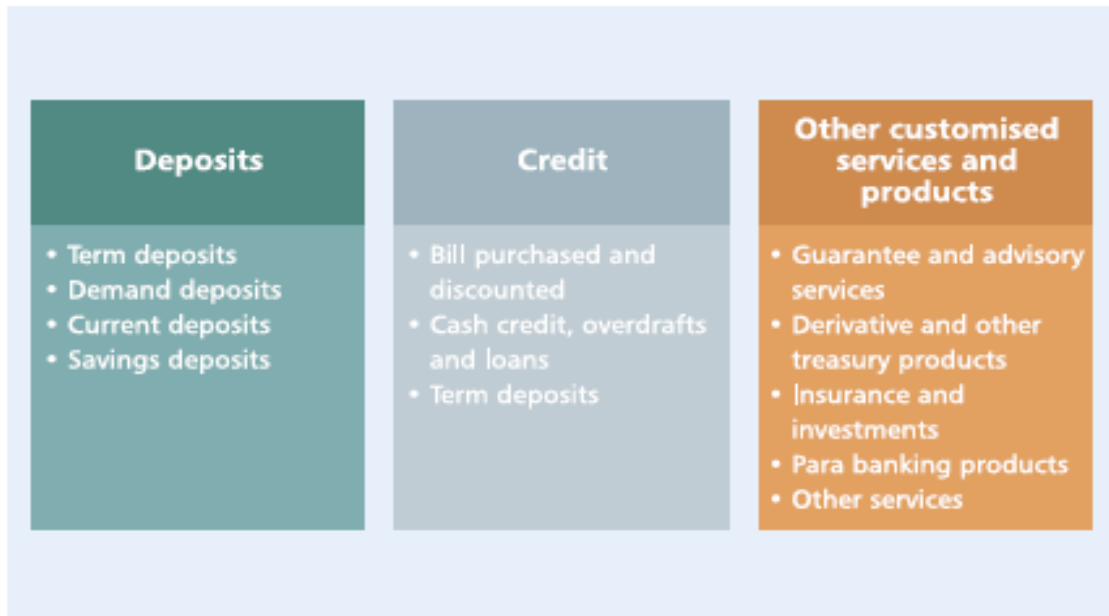
Scheduled cooperative banks in India can be broadly classified into urban credit cooperative institutions and rural cooperative credit institutions. Rural cooperative banks undertake long term as well as short term lending. Credit cooperatives in most states have a three tier structure (primary, district and state level).

Non-Scheduled Banks:

Non-scheduled banks also function in the Indian banking space, in the form of Local Area Banks (LAB). As at end-March 2009 there were only 4 LABs operating in India. Local area banks are banks that are set up under the scheme announced by the government of India in 1996, for the establishment of new private banks of a local nature; with jurisdiction over a maximum of three contiguous districts. LABs aid in the mobilisation of funds of rural and semi urban districts. Six LABs were originally licensed, but the license of one of them was cancelled due to irregularities in operations, and the other was amalgamated with Bank of Baroda in 2004 due to its weak financial position.

Products of the Banking Industry

The products of the banking industry broadly include deposit products, credit products and customized banking services. Most banks offer the same kind of products with minor variations. The basic differentiation is attained through quality of service and the delivery channels that are adopted. Apart from the generic products like deposits (demand deposits – current, savings and term deposits), loans and advances (short term and long term loans) and services, there have been innovations in terms and products such as the flexible term deposit, convertible savings deposit (wherein idle cash in savings account can be transferred to a fixed deposit), etc. Innovations have been increasingly directed towards the delivery channels used, with the focus shifting towards ATM transactions, phone and internet banking. Product differentiating services have been attached to most products, such as debit/ATM cards, credit cards, nomination and demat services.



Source: D&B Industry Research Service

Number of scheduled Commercial Banks in India

PUBLIC SECTOR BANKS		PRIVATE BANKS		FOREIGN BANKS
NATIONALISED BANKS	19	OLD	15	
STATE BANK GROUP	6	NEW	7	36
OTHER PUBLIC SECTOR	1			
TOTAL	<u>26</u>		<u>22</u>	

*Source: RBI website

There are 26 public sector banks

Allahabad Bank	Indian Bank	UCO Bank
Andhra Bank	Indian Overseas Bank	Union Bank of India
Bank of Baroda	Oriental Bank of Commerce	United Bank of India
Bank of India	Punjab & Sind Bank	Vijaya Bank
Bank of Maharashtra	Punjab National Bank	Central Bank of India
Canara Bank	Syndicate Bank	Corporation Bank
Dena Bank		

State Bank of India and associates banks

State Bank of Bikaner & Jaipur

State Bank of Hyderabad

State Bank of Mysore

State Bank of Patiala

State Bank of Travancore

Other Public Sector Bank

IDBI

Private Sector Banks in India

OLD PRIVATE SECTOR BANKS

City Union Bank Ltd.

ING Vysya Bank Ltd.

SBI Commercial & International Bank Ltd.

Tamilnad Mercantile Bank Ltd.

The Bank of Rajasthan Ltd.

The Catholic Syrian Bank Ltd.

The Dhanalakshmi Bank Ltd.

The Federal Bank Ltd.

The Jammu & Kashmir Bank Ltd.

The Karnataka Bank Ltd.

The Karur Vysya Bank Ltd.

The Lakshmi Vilas Bank Ltd.

Nainital Bank Ltd.

The Ratnakar Bank Ltd.

The South Indian Bank Ltd.

NEW PRIVATE SECTOR BANKS

Axis Bank Ltd.

Development Credit Bank Ltd.

HDFC Bank Ltd.

ICICI Bank Ltd.

Indusind Bank Ltd.

Kotak Mahindra Bank Ltd.

YES Bank

Foreign Sector Banks in India

Antwerp Diamond Bank N.V.

Bank Internasional Indonesia #

Bank of America NA

Bank of Bahrain and Kuwait B.S.C.

Bank of Ceylon

Barclays Bank PLC

BNP Paribas

Chinatrust Commercial Bank

Citibank N.A..

DBS Bank Ltd.

Deutsche Bank AG

FirstRand Bank Ltd.

JPMorgan Chase Bank

JSC VTB Bank

Krung Thai Bank Public Company Limited

Mashreqbank psc

MIZUHO Corporate Bank Ltd.

Oman International Bank S.A.O.G.

The Bank of Nova Scotia	Sberbank
The Bank of Tokyo-Mitsubishi UFJ Ltd.	Shinhan Bank
HSBC Ltd	Societe Generale
The Royal Bank of Scotland NV	Sonali Bank #
UBS AG	Standard Chartered Bank
United Overseas Bank Ltd.	State Bank of Mauritius Ltd.

LITRATURE REVIEW

(Sathye, 2005) examines the impact of privatization on bank performance and efficiency using data of banks in India for the five-year period — 1998-2002. Statistical analysis was performed using the difference of means test for three groups of banks — partially privatized, fully state-owned, and those already in the private sector. Partially privatized banks have performed better as compared to the fully public sector banks in respect of certain financial performance and efficiency parameters. Partially privatized banks also seem to be catching up with the banks already in the private sector. No significant performance or efficiency difference was seen in these two cohorts of banks. Overall, going by the results of this study, partially privatized banks have continued to show improved performance and efficiency in the years after privatization. In several countries, post-privatization outcomes were far from satisfactory. A study on banking reforms in India by a team of MIT scholars (Banerjee, Cole, & Duflo, 2004) was studied. The results obtained by the authors are congruent with intuition—that is, there is little about them that is surprising. A working paper on Commercial Aspects of SHG Banking in India (Dave, 2002) which may include an analysis of elements of the SHG Banking products and their incorporation in other financial products, such joint liability for small loans through in solidarity or self-help groups and credit 17 In a delegated system, supervision is delegated by a central authority to organs at lower tiers, such as auditing apexes of networks of SHGs, cooperatives or types of banks. 42 appraisal by groups for larger individual loans without joint liability. A reseach paper on Indian banking system (Deolakar, 2006). Banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. A working paper on (Shirati, 2007) financial reforms of 1991, there have been significant favourable changes in India's highly regulated banking sector. This research has assessed the impact of the reforms by examining seven hypotheses. It concludes that the financial reforms have had a moderately positive impact on reducing the concentration of the banking sector (at the lower end) and improving performance.

RESEARCH METHODOLOGY

Objective of the study:

- To evaluate the performance of different of scheduled commercial banks.
- To comparative evaluation between public, private sector and foreign banks.

- To find out the desired results according to research objectives.
- Data collection: Secondary data has been collected from annual reports and websites of concerned banks and RBI.

Research tools: In this Study t-test and ANOVA test have been used to find out desired results according to objectives.

Assessment through analysis of data. Percentage change in growth rate of Deposits, Investments and Advances with scheduled banks during the period 2011-2015 is given in below table 1

Table 1

BANKS	DEPOSITS	INVESTMENT	ADVANCES
PUBLIC SECTOR BANKS			
NATIONALISED BANKS	55	22	48
STATE BANK GROUP	42	6	42
OTHER PUBLIC SECTOR BANKS(IDBI)	76	23	48
PRIVATE SECTOR BANKS			
15 OLD PRIVATE SECTOR BANKS	49	55	50
7 NEW PRIVATE SECTOR BANKS	46	49	49
FOREIGN BANKS IN INDIA	45	62	46

From the table 1 is interpreted that growth rate of deposit is highest in case of IDBI followed by nationalised bank , growth rate of investments is highest in case of foreign banks followed by old private banks and growth rate of advances is highest in case of old private banks followed by new private banks.

Null hypothesis: There is no signify cant difference in percentage change in growth rate of different type of assets of different bank groups.

Alternate hypothesis: There is significant difference in percentage change in growth rate of different type of assets of different bank groups.

Anova: Single Factor

SUMMARY

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>	
DEPOSITS	6	313	52.16666667	155.7666667	
INVESTMENT	6	217	36.16666667	494.1666667	
ADVANCES	6	283	47.16666667	8.166666667	
ANOVA					
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>
Between Groups	804	2	402	1.832548245	0.194069661
Within Groups	3290.5	15	219.3666667		
Total	4094.5	17			

Interpretation

As the P-value is 0.194069661 which is the significance value on the basis of which null hypothesis which is “There is no significant difference in growth rate of different type of assets of different bank groups” is accepted and alternate hypothesis is rejected.

Percentage change growth rate of Gross NPA and Net NPA of scheduled banks during the period 2011-2015 is given in below table 2.

Table 2

BANKS	GROSS NPA	NET NPA
PUBLIC SECTOR BANKS		
NATIONALISED BANKS	38	58
STATE BANK GROUP	59	58
OTHER PUBLIC SECTOR BANKS(IDBI)	56	57
PRIVATE SECTOR BANKS		
15 OLD PRIVATE SECTOR BANKS	24	26
7 NEW PRIVATE SECTOR BANKS	59	13
FOREIGN BANKS IN INDIA	58	30

From the table 2 is interpreted that the position of Gross NPA is highest in case of State Bank Group followed by 7 new private banks and position of Net NPA is highest in nationalised banks followed by state bank group.

Null hypothesis: There is no significant difference in percentage change in position of Gross NPA and Net NPA of different bank groups. **Alternate hypothesis:** There is significant

difference in percentage change in position of Gross NPA and Net NPA of different bank groups.

t-Test: Two-Sample Assuming Equal Variances

	<i>GROSS NPA</i>	<i>NET NPA</i>
Mean	49	40.33333333
Variance	215.2	392.2666667
Observations	6	6
Pooled Variance	303.7333333	
Hypothesized Mean Difference	1	
Df	10	
t Stat	0.761940363	
t Critical two-tail	2.228138842	

Interpretation

As the calculated value i.e. t stat is 0.761940363 which is less than the tabulated value i.e. t Critical two-tail 2.228138842. This means that the null hypothesis is accepted i.e. “There is no significant difference in percentage change in position of Gross NPA and Net NPA of different bank groups”.

Percentage change in growth rate of Interest income and Other income of scheduled banks during the period 2011-2015 is shown in below Table 3

Table 3

BANKS	INTEREST INCOME	OTHER INCOME
PUBLIC SECTOR BANKS		
NATIONALISED BANKS	56	27
STATE BANK GROUP	52	40
OTHER PUBLIC SECTOR BANKS(IDBI)	66	24
PRIVATE SECTOR BANKS		
15 OLD PRIVATE SECTOR BANKS	52	49
7 NEW PRIVATE SECTOR BANKS	50	42

FOREIGN BANKS IN INDIA	46	46	
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From the table 3 is interpreted that the growth rate of Interest income is highest in case of IDBI followed by Nationalised Banks and change rate of other income is highest in case of old Private Banks followed by Foreign Banks.

Null hypothesis: There is no significant difference in percentage change in growth rate Interest income and Other income of different bank groups.

Alternate hypothesis: There is significant difference in percentage change in growth rate Interest income and Other income of different bank groups.

t-Test: Two-Sample Assuming Equal Variances

	<i>INTERES T INCOME</i>	<i>OTHER INCOME</i>
Mean	53.66666667	38
Variance	47.06666667	104.4
Observations	6	6
Pooled Variance	75.73333333	33
Hypothesized Mean Difference	1	
df	10	
t Stat	2.919096908	
t Critical two-tail	2.228138842	

Interpretation

As the calculated value i.e. t stat is 2.919096908 which is more than the tabulated value i.e. t Critical two-tail 2.228138842. This means that the alternate hypothesis is accepted i.e. “There is significant difference in percentage change in growth rate Interest income and Other income of different bank groups”.

Percentage change in growth rate of Interest expenses and Operating expenses of scheduled banks during the period 2011-2015 is shown in below Table 4

Table 4

BANKS	INTERST EXPENSES	OPERATING EXPENSES
PUBLIC SECTOR BANKS		
NATIONALISED BANKS	58	49
STATE BANK GROUP	53	46
OTHER PUBLIC SECTOR BANKS(IDBI)	60	65
PRIVATE SECTOR BANKS		
15 OLD PRIVATE SECTOR BANKS	54	50
7 NEW PRIVATE SECTOR BANKS	41	47
FOREIGN BANKS IN INDIA	40	41

From the table 4 is is interpreted that the growth rate of Interest income is highest in case of IDBI followed by Nationalised Banks and growth rate of other expenses is highest in case of IDBI followed by Old private Sector Banks.

Null hypothesis: There is no significant difference in percentage change in growth rate Interest expenses and Operating expenses of different bank groups.

Alternate hypothesis: There is significant difference in percentage change in growth rate Interest expenses and Operating expenses of different bank groups.

t-Test: Two-Sample Assuming Equal Variances

	<i>INTERST EXPENSES</i>	<i>OPERATING EXPENSES</i>
Mean	51	49.66666667
Variance	72.8	66.26666667
Observations	6	6
Pooled Variance	69.53333333	
Hypothesized Mean Difference	1	
Df	10	
t Stat	0.069237734	
t Critical two-tail	2.228138842	

Interpretation

As the calculated value i.e. t stat is 0.069237734 which is less than the tabulated value i.e. t Critical two-tail 2.228138842. This means that the null hypothesis is accepted i.e. “There is no significant difference in percentage change in growth rate Interest expenses and Operating expenses of different bank groups”.

Percentage change in Operating profit and Net profit of scheduled banks during the period 2011-2015 is shown in below Table 5

Table 5

BANKS	OPERATING PROFIT	NET RPROFIT
PUBLIC SECTOR BANKS		
NATIONALISED BANKS	56	45
STATE BANK GROUP	57	25
OTHER PUBLIC SECTOR BANKS(IDBI)	78	56
PRIVATE SECTOR BANKS		
15 OLD PRIVATE SECTOR BANKS	49	52
7 NEW PRIVATE SECTOR BANKS	61	64
FOREIGN BANKS IN INDIA	48	46

From the table 5 is interpreted that the growth rate of operating profit is highest in case of IDBI followed by New Private Sector Banks and growth rate of net profit is highest in case of New Private Sector Banks followed by IDBI.

Null hypothesis: There is no significant difference in percentage change in growth rate of Operating profit and Net profit of different bank groups. **Alternate hypothesis:** There is significant difference in percentage change in growth rate of Operating profit and Net profit of different bank groups.

t-Test: Two-Sample Assuming Equal Variances

	<i>OPERATING PROFIT</i>	<i>NET RPROFIT</i>
Mean	58.16666667	48
Variance	118.9666667	175.6
Observations	6	6
Pooled Variance	147.2833333	
Hypothesized Mean Difference	1	
Df	10	
t Stat	1.308263618	
t Critical two-tail	2.228138842	

Interpretation :As the calculated value i.e. t stat is 1.308263618 which is less than the tabulated value i.e. t Critical two-tail 2.228138842. This means that the null hypothesis is accepted i.e. “There is no significant difference in percentage change in growth rate of Operating profit and Net profit of different banks.

Research findings and conclusions:

Interpretation Table 1

As the P-value is 0.194069661 which is the significance value on the basis of which null hypothesis which is “There is no significant difference in growth rate of different type of assets of different bank groups” is accepted and alternate hypothesis is rejected.

Interpretation Table 2

As the calculated value i.e. t stat is 0.761940363 which is less than the tabulated value i.e. t Critical two-tail 2.228138842. This means that the null hypothesis is accepted i.e. “There is no significant difference in percentage change in growth rate of Gross NPA and Net NPA of different bank groups”.

Interpretation Table 3

As the calculated value i.e. t stat is 2.919096908 which is more than the tabulated value i.e. t Critical two-tail 2.228138842. This means that the alternate hypothesis is accepted i.e. “There

is significant difference in percentage change in growth rate Interest income and Other income of different bank groups”.

Interpretation Table 4

As the calculated value i.e. t stat is 0.069237734 which is less than the tabulated value i.e. t Critical two-tail 2.228138842. This means that the null hypothesis is accepted i.e. “There is no significant difference in percentage change in growth rate Interest expenses and Operating expenses of different bank groups”.

Interpretation Table 5

As the calculated value i.e. t stat is 1.308263618 which is less than the tabulated value i.e. t Critical two-tail 2.228138842. This means that the null hypothesis is accepted i.e. “There is no significant difference in percentage change in growth rate of Operating profit and Net profit of different bank groups”.

CONCLUSIONS the analysis of the data of different banks it is learned that public sector banks have grown at a very fast and significant rate. On the other hand private sector banks have made banking very fast and smooth with use of new technology and by offering quick services and foreign sector banks have helped and guided multinational transactions between different nations and also helped in regulation of foreign exchange in the country.

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