

# A Study Of New Private And Public Sector Banks In India

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## **ABSTRACT**

*Banks serve as the backbone to the financial sector, which facilitate the proper utilization of financial resources of a country. The banking sector is increasingly growing and it has witnessed a huge flow of investment. In addition to simply being involved in the financial intermediation activities, banks are operating in a rapidly innovating industry that urges them to create more specialized financial services to better satisfy the changing needs of their customers. One of the most popular methods used to measure banking performance is the CAMELS framework, developed in the early 1970's by federal regulators in the USA. In this paper, an attempt was made to study the performance of Public sector banks and their private sector counterparts based CAMEL framework. As per the study the performance of the PSB's is substantially better than their private sector*

*counterparts.*

## **KEY WORDS:** CAMEL

Framework, Private sector Banks and PSB's,

## **INTRODUCTION**

A sound financial system is indispensable for a healthy and vibrant economy. The banking sector constitutes a predominant component of the financial services industry. The performance of any economy to a large extent is dependent on the performance of the banking sector. The

banking sector's performance is seen as the replica of economic activities of the nation as a healthy banking system acts as the bedrock of social, economic and industrial growth of a nation. Banking institutions in our country have been assigned a significant

of the banking sector through a performance measurement system that provides an opportunity to assess the performance of Indian banks The present supervisory system in the banking sector is a substantial improvement over the earlier system in terms of frequency, coverage and focus as also the tool employed. Majority of the Basel Core Principles for effective banking

presentation of such analysis to provide for internal assessment of the health of banks. The analysis, which is made available to the RBI, forms a supplement to the system of off-site monitoring of banks. The prime objective of the CAMEL model of rating banking institutions is to catch up the comparative performance of various banks (Bodla and Verma, 2006). CAMEL is,

supervision have already been adhered to and the rest is at the stage of implementation.

Two supervisory rating models based on CAMELS (Capital Adequacy, Assets Quality, Management, Earning, Liquidity, Systems and Controls) and CACS (Capital Adequacy, Assets Quality, Compliance, Systems and Controls) factors for rating of Indian commercial Banks and Foreign Banks operate in India respectively, have been worked out on the lines recommended by the Padmanabhan Working Group (1995). These ratings would enable the RBI to identify the banks whose condition warrants special supervisory attention. Two decades have elapsed since the initiation of banking sector reforms in India. Over this period, the banking sector has experienced a paradigm shift. Hence, it is high time to make performance appraisal of this sector. Accordingly, a framework for the evaluation of the current strength of the system, and of operations and the performance of the banks has been provided by the Reserve Bank's measuring rod of 'CAMELS' which stands for capital adequacy, assets quality, management efficiency, earning quality, liquidity and internal control systems.

The main endeavor of CAMEL system is to detect problems before they manifest themselves. The RBI has instituted

basically, a ratio-based model for evaluating the performance of banks. It is a model for ranking/rating of the banks. In the present study an attempt is made to analyze the performance of Public and private sector banks in India using CAMEL framework.

### **LITERATURE REVIEW**

A popular framework used by regulators is the CAMELS framework, which uses some financial ratios to help evaluate a bank's performance (Yue, 1992). Several studies involve the use of ratios for bank's performance appraisal, including Beaver (1966), Altman (1968), Maishanu (2004), and Mous (2005). The following are some of the studies taken place in India relating to performance measurement of Indian commercial banks Swamy (2001) studied the factors affecting the position of banks in the overall banking industry and found that in many respects public sector banks fared much better than private sector banks and foreign banks. Pal and Malik (2007) examined the difference in financial characteristics of public, private and foreign sector banks based on profitability, liquidity, risk and efficiency. Sathye (2005) examined the effect of privatization of banks on performance and efficiency. Chowdhury (2011) deals with financial soundness in the Indian banking sector using the CAMEL model.

The CAMEL model is a widely and

analyzing the performance of banks. The present study applies the CAMEL framework to compare the performance of

public sector and private sector banks in India for a period of 6 years.

### **METHODOLOGY**

To look at the financial soundness and infer about convergence of the commercial banks operating in India we use a very simplified approach using internationally accepted CAMEL rating parameters. CAMELS are an acronym for six measures (capital adequacy, asset quality, management soundness, earnings, liquidity, and sensitivity to market risk). In this analysis the six indicators which reflect the soundness of the institution framework are considered.

The basic objective of the study is to analyze and compare the performance of Public and Private sector banks in India using CAMEL framework. The study is based on the primary hypothesis that public sector banks are performing better than private sector banks in the country. Sixteen public sector and same number of private sector banks are selected for the study. The study is for a period of 6 years 2007-08 to 2012-13. The study does not cover foreign banks operating in India. The study is purely based on the secondary source of data sourced from annual reports of the respective banks and RBI reports. Once soundness across banks is determined using the CAMEL model. Inferences can be drawn regarding convergence across these banks based on the model.

## **ANALYSIS OF RESULTS AND FINDINGS**

The analysis of mean ranking of public and private sector banks for a period of six years based on various

### ***A. Ranking According to CAR:-***

The Friedman test for the ranking of banks according to the different CAMEL parameters for CAR (table 1) was significant ( $X^2 = 163.319$ ,  $p = 0.000$ ). The Mann-Whitney test for the difference in ranks between public and private sector banks was not significant ( $U = 124.0$ ,  $p = 0.0620$ ). Thus, there was no significant difference in Capital Adequacy rankings between public sector and private sector banks. Among public sector banks Corporation Bank was ranked highest Rank and Dena Bank ranked lowest, whereas among private sector banks, AB Bank was highest ranked and Catholic Syrian Bank Ltd lowest ranked.

### ***B. Ranking According to Debt Equity Ratio:-***

The Friedman test for the ranking of banks according to the different CAMEL parameters for D/E ratio (table 1) was significant ( $X^2 = 212.081$ ,  $p = 0.000$ ). The Mann-Whitney test for the difference in ranks between public and private sector banks was significant ( $U = 119.5$ ,  $p = 0.0425$ ). Thus, public sector banks had significantly higher mean rank than private sector banks. Among public sector banks, State Bank of India was ranked higher and Oriental Bank of Commerce was ranked lowest, whereas among private sector banks, ICICI Bank was highest ranked and AB Bank Ltd was lowest rank.

### ***C. Ranking According to Net NPA to Total Loans:-***

The Friedman test for the ranking of



banks according to the different CAMEL parameters for NNPA/TL ratio as shown in table 1 was significant ( $\chi^2= 175.267$ ,  $p = 0.000$ ). The Mann-Whitney test for the difference in ranks between public and private sector banks was not significant ( $U = 154.5$ ,  $p = 0.2625$ ). Thus, there was no

Assets rankings between public sector and private sector banks. Among public sector banks, Andhra Bank was the best performer and Dena Bank was the worst performer, whereas among private sector banks, HDFC Bank was the best performer and Lakshmi Vilas Bank the worst performer.

#### ***D. Ranking According to Profit per Employee:-***

The Friedman test for the ranking of banks according to the different CAMEL parameters for profit per employee (table 1) was significant ( $X^2 = 177.307$ ,  $p = 0.000$ ). The Mann-Whitney test for the difference in ranks between public and private sector banks was not significant ( $U = 165.5$ ,  $p = 0.3780$ ). Thus, there was no significant difference in Profit per Employee rankings between public sector and private sector banks. Among public sector banks Corporation Bank was ranked highest and Central Bank of India ranked lowest, whereas for private sector banks, AB Bank was highest ranked and Catholic Syrian Bank Ltd lowest ranked.

#### ***E. Ranking According to Returns on Assets:-***

The Friedman test for the ranking of banks according to the different CAMEL parameters for ROA as shown in table 1 was significant ( $X^2 = 205.054$ ,  $p = 0.000$ ). The Mann-Whitney test for the difference in ranks between public and private sector banks was not significant ( $U = 135.0$ ,  $p = 0.1125$ ). Thus, there was no significant difference in Return on Assets rankings between public sector and private sector

#### ***Assets to Total Assets:-***

The Friedman test for the ranking of banks according to the different CAMEL parameters for LA/TA as shown in table 1 was significant ( $X^2 = 141.673$ ,  $p = 0.000$ ). The Mann-Whitney test for the difference in ranks between public and private sector banks was not significant ( $U = 169.5$ ,  $p = 0.4240$ ). Thus, there was no significant difference in Liquid Assets to Total Assets rankings between public sector and private sector banks. Among public sector banks, Bank of Baroda was ranked higher and Indian bank ranked lowest, whereas among private sector banks, AB Bank was highest ranked and Kotak Mahindra Bank Ltd lowest ranked.

#### ***G. Overall Mean Ranks of Banks:-***

The Friedman test for the overall ranking of banks according to the different CAMEL parameters was significant ( $X^2 = 99.486$ ,  $p = 0.000$ ). The Mann-Whitney test for the difference in ranks between public and private sector banks was significant ( $U = 112.5$ ,  $p = 0.0300$ ). Thus, public sector banks had significantly higher mean rank than private sector banks.

#### ***H. According to Yearly Ranks:-***

When the banks' performance is compared across the years, a few banks were found to have performed consistently over the study period, a few banks improved their performance gradually over the study period, and the rest of the banks showed fluctuation in their performance over the study period as shown below.



banks. Among the public sector banks, Indian Bank was ranked highest and Central Bank of India ranked lowest, whereas among private sector banks, AB Bank was highest ranked and Dhanlaxmi Bank Ltd

**Gradual improvement:** Bank of Baroda, Dena Bank, Axis Bank, HDFC Bank, IndusInd Bank, ING Vysya Bank, Kotak Mahindra Bank and Ratnakar Bank.

**Inconsistent performance:** Bank of Maharashtra, Canara Bank, Central Bank of India, IDBI Bank, Indian Bank, Indian Overseas Bank, Punjab & Sind Bank, State Bank of India, Catholic Syrian Bank Ltd and City Union Bank

## CONCLUSION

When the banks' performance is compared across the CAMEL ratios, a few banks such as Bank of Maharashtra, Punjab & Sind Bank, Dena Bank, South Indian Bank, State Bank of India etc. were found to have poor rankings in more than 70% of ratios ranks comparisons.

It was found that private sector banks were better than public sector banks in utilizing the available resources such as asset and employees, which can be inferred from ratios such as Return on Asset, Business per Employee, Profit per Employee. Also, it was found that banks whose investment ratios in Government Securities were more tended to have less Gross Non Performing Assets and Net Non Performing Assets. Only a few banks have maintained the lower rate of Gross and Net Non Performing Assets. In the final ranking, only 67% of private sector banks have better ranks, whereas around

**Consistent performance:** Andhra Bank, Bank of India, Corporation Bank, Oriental Bank, Punjab National Bank, State Bank of Hyderabad, AB Bank, ICICI Bank, Karur concentrate on the better utilization of assets which will increase their profitability. Most private sector banks have poor performance in terms of earnings and asset quality. These can be improved by having better portfolio management. In fact, it was observed in the study that banks having a higher proportion of investment in government securities have lower rates of nonperforming assets. Also, better portfolio management is needed to increase the earnings, to reach an optimal balance between returns and risk. It was also observed in the study that public sector banks were not utilizing their resources optimally. The business per employee and profit per employee ratios in public sector banks are too low. Hence it is necessary for public sector banks improve the productivity/efficiency of employees, either by training or through incentives. There were some limitations inherent in the study. The study was completely done on the basis of ratios calculated from the balance sheets. It has not been possible to get sensitive real data on actual CAMEL ratings. It has not been possible to get a personal interview with the top management employees of the bank.

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90% of public sector banks have better ranking. This shows that overall, public sector banks are performing better than private sector banks.

### **RECOMMENDATIONS**

In order to sustain their competitiveness, banks must focus on their performance. The results of the study suggest that most of the banks are not utilizing their assets in the best possible way. Hence, banks need to

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