A COMPARATIVE STUDY OF PERFORMANCE OF PUBLIC SECTOR, NEW PRIVATE SECTOR AND OLD PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

The banks play a gargantuan role as an effective catalytic agent of socio-economic change in the country. During the last 16 years, the policy makers have adopted a cautious approach for introducing reform measures in the Indian banking sector. The banking system should be sound and healthy to generate confidence among its shareholders, investors and public at large. Hence it becomes important to continuously study the performance of banks. This paper analyzes the performance of Indian banks classified under public sector banks, new private sector banks and old private sector banks using CAMEL approach. The study has been done for a period of six years starting from year ending March 31, 2006 to year ending March 31, 2011. A method of evaluating performance based on means of CAMEL parameters is proposed and an upper limit is defined based on mean and standard deviation. Various financial ratios used for this purpose have been discussed and their relevance highlighted. An in-depth analysis has been carried out and the banks are rated on the above parameters and ratings are assigned for each year. Finally a composite rating is obtained and banks are ranked. A parameter Max $\alpha_{per}$ is computed for each sector of banks based on the sectoral mean and standard deviation. All values of $\alpha$ greater than this Max $\alpha_{per}$ will indicate poor performance of bank and tendency of bank to fail. The study concludes that Indian banking sector
is not as sound as it should be and new private sector banks fared better than the public sector and old private sector banks.

**KEYWORDS**: performance evaluation, public sector banks, new private sector banks, old private sector banks, CAMEL.