SHOULD RBI GIVE LICENSE TO THE ENTRY OF PRIVATE SECTOR BANKS? - AN INDIAN EXPERIENCE

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Abstract

From the past several years, the Indian Banking Industry has become a web of different type of banks and bank groups in which there is facing fierce competition among themselves. This new competitive environment forced the bank groups to not only retain their share in the market, but to raise it at the new peaks. From the performance evaluation of these bank groups, RBI has decided to give license to new private banks in the Indian Banking Industry. This paper examines RBI decision to implement this new policy change. After the evaluation of the results it is found that old and new private sector banks are really doing well from the past several years. Public sector banks are performing only satisfactorily and nothing great can be said about them. As far as the foreign banks are concerned, they are facing drastic deterioration in their overall profitability and thus fighting hard for their place.

Keywords: *Indian Banking Structure; Performance Evaluation; Implications and Issues of Future Research.*

Introduction

The Indian Banking System is a web of various kind of bank groups like Public Sector Banks, Private Sector banks- Old Private Sector Banks and New Private Sector Banks, Foreign banks, RRBs, Cooperative banks etc. As of March 31, 2010, the Indian banking system comprised 27 public sector banks, 7 new private sector banks, 15 old private sector banks, 34 foreign banks, 86 Regional Rural Banks (RRBs), 4 Local Area Banks (LABs), 1,721 urban co- operative banks, 31 state co-operative banks and 371 district central co-operative banks. The average population coverage by a commercial bank branch in urban areas improved from 12,300 as on June 30, 2005 to 9,400 as on June 30, 2010 and in rural

and semi urban areas from 17,200 as on June 30, 2005 to 15,900 as on June 30, 2010. The all India weighted average during the same period improved from 15,500 to 13,400.

Though the Indian financial system has made impressive strides in resource mobilization, geographical and functional reach, financial viability, profitability and competitiveness, vast segments of the population, especially the underprivileged sections of the society, have still no access to formal banking services. The Reserve Bank is therefore considering providing licenses to a limited number of new banks working under the private players especially the industrial and business houses.

The Reserve Bank of India, on 11 August 2010, put out a discussion paper2 on 'Entry of New Banks in the Private Sector' for public debate and discussion, and promised that the final policy would take note of the comments that it received. This in itself is a new approach to transparency in policy making and is perhaps the first time that the RBI has opened itself up to public comments before framing a policy.

For the first time, there is a discussion on whether industrial and business houses can be allowed to promote banks. The argument perhaps stems from the poor experience in allowing individuals to promote banks and the need to enlarge the number of banks that are functioning outside the private sector. 10 new banks were set up in the private sector after the 1993 guidelines and 2 new banks after the 2001 revised guidelines. Out of these, four were promoted by financial institutions, one each by conversion of co-operative bank and NBFC into commercial banks, and the remaining six by individual banking professionals and an established media house. Out of the four banks promoted by individuals in 1993, only one has survived with muted growth. One bank has been compulsorily merged with a nationalized bank due to erosion of net worth on account of large capital market exposure. The other two banks have voluntarily amalgamated with other private sector banks over a period of 10 to 13 years due to the decisions of the majority shareholders arising out of poor governance and lack of financial strength.

Out of the remaining six banks that were licensed in 1993, one bank promoted by a media group has voluntarily amalgamated itself with another private sector bank within five years of operations and four banks promoted by financial institutions have either merged with the parent or rebranded and achieved growth over a period of time. The bank that was converted from a Cooperative bank has taken some time in aligning itself to the commercial banking and is endeavoring to stabilize itself. The two banks licensed in the second phase have been functioning for less than 10 years and their transition from the settling stage has been fairly smooth. The experience of the Reserve Bank over these 17 years has been that banks promoted by individuals, though banking professionals, either failed or merged with other banks or had muted growth.

The RBI paper argues that industrial houses in India have demonstrated managerial and technical capabilities, adequate capital and experience. They therefore offer a suitable source of capital and expertise for the establishment and management of new banks. There is also a suggestion that NBFCs, those engaged in leasing and other forms of financing, could also be allowed to convert into banks subject to the regulatory restrictions of the RBI.

The RBI still appears cautious suggesting a slew of safeguards that:

- The credentials of the promoters should be carefully verified, including through the taxation and criminal investigation agencies.
- Industrial houses engaged in real estate activities either directly or indirectly should not be allowed to promote banks.

- The board should have a majority of independent directors and the chairman should be a part-time chairman.
- The business model should emphasize financial inclusion by clearly articulating a strategy and business plan to reach the clientele in the tier three to six centres (with population density of less than 50,000), and in the unbanked regions of the country either through branches or through branchless models.
- On minimum capital requirements, there are two options in the paper – either to go for a higher number of Rs 1,000 crore, or have an intermediate figure of between Rs 500 to Rs 1,000 crore (S$15-30 million).
- On foreign banks, the suggestion is that aggregate non-resident holding including NRI, FDI and FII in these banks could be capped to below 50 per cent and be locked at that level for an initial period of 10 years.

  For the first time, there is an implicit statement in the RBI discussion paper that public sector banks can do no more and that they cannot do much better than what they are doing, and therefore it is necessary to bring in private banking to serve the rural and semi-urban population. This in itself is a major policy statement, a change from three decades of reliance on the strengths of public banking.

Scheme of The Paper

The plan of research report has been framed under six sections:-
Section-I gives the introduction of the problem taken for study.
Section -II deals with review of related literature.
Section -III objectives, data base, statistical techniques and research methodology.
Section -IV deals with the analysis and interpretation of data.
Section-V deals with conclusions and implications of the study.
Section-VI deals with future areas of research.

Review of Related Literature

Kumar, S & Gulati R. (2010) examines whether the effect of ownership on the efficiency of Indian domestic banks is significant. The efficiency scores for public and private sector banks were computed using a deterministic, non-parametric and linear programming based frontier technique, which is popularly known as Data Envelopment Analysis (DEA). Using the cross-sectional data of the public and private sector banks, which operated in the financial years 2005-06 and 2006-07, the study finds that (1) De nova private sector banks dominate the formation of efficient frontier of Indian domestic banking industry; (2) The overall technical inefficiency stems primarily from managerial inefficiency (as reflected by pure technical inefficiency) rather than scale inefficiency; and (3) Though the efficiency differences between the public and private sector banks have been noted, these differences are statistically insignificant in most of the instances. On the whole, the study concludes that ownership does not matter in the Indian domestic banking industry.

Mittal, M. & Dhade, A. (2007) conducted a comparative study on profitability and productivity in Indian banks for the time period 1999-2000 to 2003-04. They reported that Indian Banks specially the Public Sector Banks and Old Private Sector Banks are lagging far behind their competitors in terms of both productivity and profitability with the exceptions of

the SBI and its associates. The other Public Sector Banks and Old Private Sector Banks need to go for the major transformation program for increase their productivity and profitability.

Vyas,R.K & Dhade,A.(2007) conducted a study mainly focuses on the State Bank of India (SBI), the premier bank in the Indian banking sector, as to what extent it has been affected by the entry of new private sector banks. The study applies the t-test for finding the significant difference in the performance of SBI before and after the entry of private sector banks, with the help of financial ratios selected as the parameters for ascertaining the changes in the business of SBI. The results indicate that the presence of new private sector banks does not pose any threat to SBI at the moment; however, the same cannot be said in the future. The SBI has a strong network as compared to these new banks, and its presence has been for more than hundreds of years in the region. These facts certainly have a major impact on the results of the study.

Mittal,R.K. & Dhingra,S.(2007) conducted a study on assessing the impact of computerization on productivity and profitability of Indian Banks for a period of 2003-04 and 2004-05 by using Data Envelopment Analysis (DEA). Results show that ICICI Bank is found to be efficient in all indicators. Nearly 70% of ICICI Banks transactions take place electronically, resulting in lower cost of transactions, high productivity and better profitability. The input and output parameters, which are clearly affected by computerization in the banks were considered for productivity and profitability analysis. The output of DEA, indicates that Private Banks are much better than Public Sector Banks in productivity and profitability indicators, Hence, of the many factors which could lead to improved performance of banks, increased IT investment is one of the vital contributing factors for enhanced performance.

Kumar, S. (2007) conducted a study based on cross-sectional data for 27 banks. This study explores the relationship between technical efficiency and profitability in Indian Public Sector Banking industry. The technique of Data Envelopment Analysis has been utilized to compute the TE-score for each bank in the year 2005. The mean level by TE for the industry is found to be 88.5 percent. This implies that Public Sector Banks can produce 1.13 times as much output from the same inputs if they operate at efficiency frontier. In 20 inefficient banks, the technical inefficiency ranges from 2.6 percent to 36.8 percent. Also the banks belonging to SBI group out perform the banks belonging to the 'Nationalized Banks Groups' in terms of operating efficiencies.

Sharma, R.D., Kaur, G. & Sharma, J. (2007) analyzed the service sector is witnessing fast growth, along with intense competition among service providers. It is in this context that the study seeks to identify the core dimensions of consumer banking service that delight the customers. The study reveals that despite of introducing market oriented bank products, customer delight is yet to be achieved. Moreover public sector banks are lagging behind the private sector banks in their efforts to attain customer delight. Thus, delight depends on the level of awareness and it is the expectations formed on the basis of awareness that makes a difference. This instrument was pre-tested on the small sample of 50 respondents in Sarita Vihar colony in New Delhi. With the variability in responses from the sample drawn from the population of approximately 5000 households, sample size for the main study thus came out to be approximately 300 respondents. For data collection the respondents were selected with

the help of a bridged list of random numbers. Customers delight is contemporary topic for the industry and academinicians.

Bhat (2005) using SERVQUAL scale, studied the service quality of Indian banks and service quality variation across demographic variables. The study was conducted in four north Indian states of Jammu & Kashmir, Punjab, Haryana and Delhi restricted to five banks such as State Bank of India (SBI), Punjab National Bank (PNB), Jammu & Kashmir Bank (J&K Bank), CITI Bank (CB) and Standard Chartered Grindlays Bank (SCGB). The results suggest that foreign banks are relatively close to the expectations of their customers in comparison with Indian banks. The study confirmed that poor service quality among Indian banks is mostly owing to deficiency in tangibility and responsiveness. The analysis of service quality across income variable shows that service quality of Indian banks as perceived by their respective customers varies with their level of income, though not proportionately, viz a viz less variations across income segments as perceived by clients of foreign banks. The reason could be that proportion of transactions done through ATMs is higher across clients of foreign banks compared with Indian banks, and ATM machines do not differentiate customers. The analysis of service quality as perceived by different age groups reveals that service quality of banks is comparatively better among higher age groups, whereas reverse is the case among lower age groups. Service is perceived to be better at states where competition is higher and banks provide better quality service to business group customers in comparison with service group customers, as they are small in numbers but have higher income level.

Sathye (2005) studied the impact of privatization on banks performance and efficiency for the period 1998-2002 and found that partially Privatized Banks have performed betters than fully Public Sector Banks and they are catching up with the banks in the Private Sector.

Sharma & Mehta (2004) made a comparative study of quality perceptions on four banks in India – State Bank of India, Corporation Bank (both government-owned banks), UTI Bank (NPSB) and J&K Bank (OPSB) using SERVQUAL model. The result indicated that there is a difference in the service quality perception of customers in the public sector and private sector banks. On tangibility dimensions, UTI Bank topped the list followed by Corporation bank, SBI and J&K Bank. Public Sector Undertaking Banks were ranked better when compared with private sector banks on reliability. On the dimensions of responsiveness (employees' capability to respond to customers), the ranking was that corporation bank leading the list followed by UTI, SBI and J&K Bank. On empathy dimensions (Bank's understanding of customer needs), Corporation bank lead the ranking followed by UTI, SBI and J&K Bank. PSU banks were found to be ahead of private sector bank on assurance dimension of service quality.

Business standard Banking Annual Survey (2003) provided in their annual report of comparing PSBS, Private Sector Banks and Foreign Banks that Indian banks showed a 52.3% growth in the net profit in the year 2002-03. Public sector banks outperformed the other category of banks bagging six of the top 10 slots. Only one Foreign Bank could make it to the top. The remaining three slots were occupied by the Private Banks.

Pitre (2003) conducted a study for measuring banks efficiency in relation to productivity versus profitability issue and reports while assessing productivity in terms of Business Per Employee and Per Office that Foreign Banks are far better than the Nationalized and other

Scheduled. Commercial Banks, but in terms of the number of Account Per Employee they are at the bottom of the list.

Mohan R. (2002) covers a recent period, 1996-97 to 1999-2000 and found that over these years the profitability of the Public Sector Banks did improve in comparison to the Private and Foreign Banks, but they have lagged behind in their ability to attract deposits at favorable interest rates and have been slow in technology gradation and improving staffing and employment practices, which may have negative implication on their longer-term profitability.

Sarkar et al (1999) found that the Foreign Banks were more profitable and efficient than Indian banks and amongst the Indian banks Private Banks were superior to the Public Sector Banks. They also conclude that the non-traded Private Sector Banks are not significantly different from the Public Sector Banks with respect to profitability and efficiency, a result consistent with the property right hypothesis.

Research Gap

With the emergence of New Private Sector banks and Foreign Banks, Public Sector Banks are facing a cut throat competition. Though they are doing their hard in order to make them survive in this era, but lack of government support by making such a policies to welcome the entry of more New private players in the Indian banking Industry and giving statements in their report that public sector banks can do no more and that they cannot do much better than what they are doing, will surely discourage them from making their efforts. There are not many research works documented on the impact of the entry of Private Sector banks on the Public Sector Banks in India. This work intends to bridge this gap to some extent.

Objectives

i. To study and analyze the performance of all bank groups with reference of selected parameters from 2006-10.
ii. To study and compare the relative impact of the Private Sector Banks-Old Private Sector Banks & New Private Sector Banks and Foreign banks on the performance of Public Sector Banks in India.
iii. To suggest some policy suggestions to RBI regarding the entry of New Private Players in the Indian Banking Industry.

Data Base

Secondary data had been used in the present study.

i. Report on Trend and Progress of Banking in India, RBI Publications, Mumbai 2005-06 to 2009-10.

Statistical Techniques

For the analysis of data arithmetic mean and percentage statistical techniques were used. Percentage increase was calculated by using the following formula:

$$\frac{Current\ Year}{Base\ Year} \text{ X } 100$$

Research Methodology

Research Design

A descriptive conclusion research design was used for the present study. A comparative study has been conducted about the performance of various bank groups in terms of different selected parameters.

Sample Design

The present study is concerned with Indian Banking Industry in whole and it is further divided into four bank groups to compare their performance in terms of selected parameters.

i. SBI & its associates and Nationalized Banks known as Public Sector Banks- G-I
ii. Old Private Sector Banks- G-II
iii. New Private Sector Banks-G-III
iv. Foreign Banks-G-IV

Time Period

Time period for the present study will be taken from 2005-06 to 2009-10. This time period is deliberately taken because several type of changes are occurring in the banking sector like failure of a lot of banks in the developed countries, change on the policy rates by the government on a continuous basis, merger of New Private Sector Banks in Inter and Intra group etc. All these changes affect the relative performance of the bank groups differently.

Parameters of the Study

In the present study, the analysis and comparison of the performance of various bank groups is done with reference to the following parameters:

1. Business per Employee of All Scheduled Commercial Banks.
2. Profit per Employee of All Scheduled Commercial Banks.
3. Deposits of All the Scheduled Commercial Banks.
4. Advances of All Scheduled Commercial Banks.
5. Investment of All Scheduled Commercial Banks.
6. Assets of All Scheduled Commercial Banks.
7. Interest Income of All Scheduled Commercial Banks.
8. Non-Interest Income of All Scheduled Commercial Banks.
9. Total Income of All Scheduled Commercial Banks.

10. Operating Profits of All Scheduled Commercial Banks.
11. Provisions & Contingencies of All Scheduled Commercial Banks.
12. Net Profits of All Scheduled Commercial Banks.
13. Gross NPA of All Scheduled Commercial banks.
14. Net NPA of All Scheduled Commercial banks.

Findings and Discussion

The major findings of this research and the analysis of data is shown the following tables:

Table 1 Average Business per Employee Of All Scheduled Commercial Banks

(In Lacs Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	414.00	496.83	627.00	779.67	904.26	1.18	1
Old Private Sector Banks	367.65	410.06	511.20	586.2	657.71	0.79	2
New Private Sector Banks	686.53	677.90	707.33	744.00	870.88	0.27	4
Foreign Banks	995.59	1037.53	1278.88	1432.52	1412.53	0.42	3

Source: Report on Trend and Progress of Banking in India, 2005-10

Table 1 is showing Business per Employee of all the Scheduled Commercial Banks. It is quite clear that all the Scheduled Commercial Banks shows an increase in their Business per Employee. But among all the banking groups Public Sector Banks shows highest percentage increase in their Business per Employee i.e. 1.18pc. New Private Sector Banks shows least percentage increase in their business per Employee. Old Private Sector Banks also shows a 0.79pc. Increase in their Business per Employee which can be said well enough.

Table 2 Average Profit per Employee of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	2.56	3.11	3.91	3.69	4.35	0.69	3

Old Private Sector Banks	1.62	1.78	4.39	5.00	3.80	1.35	1
New Private Sector Banks	4.45	4.35	4.95	5.43	7.75	0.74	2
Foreign Banks	2.65	2.61	4.36	3.88	2.03	-0.23	4

Source: Same as in Table 1

Table 2 shows Profit per Employee in various bank groups. It is clear that all bank groups except the Foreign Banks show an increase in their Profit per Employee. Among all these bank groups Old Private Sector Banks shows maximum percentage increase in their profit per employee i.e. 1.35pc. The Foreign Sector Banks were the only banks in which there is a decrease in their profit per employee i.e. -0.23pc.

Table 3 Average Deposits of All The Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**% Increase**	**Rank**
Public Sector Banks	60091.89	73859.22	90883.96	115286.96	136733.29	1.28	1
Old Private Sector Banks	6855.36	7276.26	8717.32	13284.93	15326.46	1.23	3
New Private Sector Banks	37250.00	51717.25	63680.50	76729.28	84700.57	1.27	2
Foreign Banks	3922.24	5198.27	6737.79	7135.90	7672.69	0.95	4

Source: Same as in Table 1

Table 3 shows Average Deposits of all the Scheduled Commercial Banks. All the bank groups show an increase in their average deposits, but the Public Sector Banks topped the position with a 1.28pc increase in their average deposits. While Foreign Banks were lagging behind among all the bank groups with only 0.95pc. Increase in their average deposits. The performance of the New Private Sector Banks can also be said very well because they are just close to the performance of the Public Sector Banks with a 1.27pc. Increase in their average deposits during the study period.

Table 4 Average Advances of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**% Increase**	**Rank**
Public Sector	40973.63	53338.74	66574.26	83709.48	100141.14	1.44	1

Banks							
Old Private Sector Banks	4361.47	4888.79	5877.37	8567.47	10275.73	1.35	3
New Private Sector Banks	28750.63	40233.13	50841.63	63832.00	68336.85	1.37	2
Foreign Banks	3364.20	4356.50	5584.48	5513.83	5266.45	0.56	4

Source: Same as in Table 1

Table 4 shows Average Advances of the four bank groups. Public Sector Banks again at the top with 1.44pc increase in their advances. New Private Sector Banks are at the second position with 1.37pc. Increase in their average advances. Again Foreign Banks lagged behind with only 0.56pc increase in their average deposits. The performance of Old Private Sector Banks can also be said well as they are very close to the performance of New Private Sector banks with a 1.25pc. Increase in their average deposits.

Table 5 Average Investment Of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**% Increase**	**Rank**
Public Sector Banks	23465.07	24624.26	29593.67	37506.15	44667.51	0.90	4
Old Private Sector Banks	2377.89	2297.21	2827.21	4821.07	5566.60	1.34	2
New Private Sector Banks	16914.25	21376	28062.25	33448.43	38659.71	1.28	3
Foreign Banks	1806.33	2464.53	3416.97	4345.13	5138.25	1.84	1

Source: Same as in Table 1

Table 5 shows Average Investment of the four bank groups. Here Foreign Banks got the first place with 1.84pc increase in their average investment. It should be noted that the Public Sector banks shows least increase in their average investment. They are only able to increase their investment to 0.90pc in the five years. The performance of Old Private Sector banks and New Private Sector Banks is quite similar with 1.37pc. And 1.28pc increase in their average investments respectively.

Table 6 Average Assets of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	74624.96	90376.52	111934.70	139508.00	164486.33	1.20	3
Old Private Sector Banks	7881.52	8450.63	10239.74	15466.73	17931.80	1.27	2
New Private Sector Banks	52707.38	73105.25	93199.25	113637.71	125975.85	1.39	1
Foreign Banks	6874.41	9461.80	12595.02	14904.97	13133.74	0.91	4

Source: Same as in Table 1

Table 6 shows Average Assets of various bank groups. It is clear that New Private Sector Banks are more successful in increasing their average assets to 1.39pc. Old Private Sector banks are also close to them with 1.27pc. Increase in their average assets. Here again Foreign Banks are lagging behind with only 0.91pc increase in their average assets.

Table 7 Average Interest Income of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	5106.44	6080.93	7926.85	10126.96	11351.44	1.22	3
Old Private Sector Banks	545.26	603.89	773.37	1252.2	1371.00	1.51	2
New Private Sector Banks	3106.38	4761.5	7054.38	9469.00	8901.42	1.86	1
Foreign Banks	423.82	618.06	842.13	1010.73	824.71	0.94	4

Source: Same as in Table 1

Table 7 is showing the Average Interest Income earned by various bank groups. New Private Sector banks increase their average interest income to 1.86pc. Old Private Sector and Public Sector Banks also increase their average interest income to 1.51pc. And 1.22pc. Respectively. But Foreign Banks are far behind them by only increasing their average interest income by only 0.94pc.

Table 8 Average Non-Interest Income of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	811.29	877.19	1182.07	1562.22	1792.11	1.20	3
Old Private Sector Banks	64.21	82.53	110.74	185.93	205.60	2.20	1
New Private Sector Banks	851.00	1343.13	1845.63	2165.71	2442.14	1.86	2
Foreign Banks	185.22	242.89	364.07	496.37	310.98	0.67	4

Source: Same as in Table 1

Table 8 shows Average Non-interest Income earned by various bank groups. In this old Private Sector Banks topped the position with 2.20pc increase in their average Non-Interest Income. New Private Sector Banks and Public Sector Banks are at 2nd and 3rd position with a 1.86pc and 1.20pc increase in their Non-interest Income respectively. Again Foreign Banks are not successful in it with only 0.67pc increase in their Average Non-Interest Income.

Table 9 Average Income of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	5917.73	6958.12	9108.92	11689.18	13143.55	1.22	3
Old Private Sector Banks	609.47	686.42	884.11	1438.13	1576.60	1.58	2
New Private Sector Banks	3957.38	6104.63	8900.01	11634.71	11343.57	1.86	1
Foreign Banks	609.04	860.95	1206.20	1507.10	1101.28	0.80	4

Source: Same as in Table 1

Table 9 shows the Average Income earned by the four bank groups. Here New Private Sector Banks are more successful in increasing their average income with a 1.86pc. Old Private Sector Banks and Public Sector banks are at 2nd and 3rd position with 1.58pc and 1.22pc increase in their average income. Again Foreign Banks are at the lowest position with only 0.80pc. Increase in their average income during the study period.

Table 10 Average Operating Profits of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005- 06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	1406.19	1579.81	1868.19	2480.44	2850.03	1.02	4
Old Private Sector Banks	118.89	159.00	189.74	319.93	323.86	1.72	2
New Private Sector Banks	938.88	1335.25	1954.00	2782.86	3473.57	2.69	1
Foreign Banks	229.60	331.71	482.58	669.93	493.74	1.15	3

Source: Same as in Table 1

Table 10 shows Average Operating profits earned by the four bank groups. New Private Sector Banks earned the highest percentage average operating profits increase i.e. 2.69pc. Public Sector Banks show least percentage increase in their average operating profits i.e. 1.02pc. As far as the performance of Old Private Sector Banks is concerned, it can be said quite well with a 1.72pc. Increase in their average operating profits during the study period.

Table 11 Average Provisions & Contingencies Of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	784.56	824.33	865.22	1206.59	1395.92	0.77	4
Old Private Sector Banks	72.74	99.95	85.63	159.33	169.66	1.33	3
New Private Sector Banks	425.25	667.38	1010.88	1574.57	1930.85	3.54	1
Foreign Banks	123.79	173.60	254.55	419.60	372.91	2.01	2

Source: Same as Table 1

Table 11 shows Average Provisions and Contingencies of all Scheduled Commercial banks. New Private Sector banks show grater increase in their Average Provisions and Contingencies with 3.54pc. Increase. Foreign banks again are behind them at the 2nd position with 2.01pc increase in their Average Provisions and Contingencies. Public Sector Banks show only 0.77pc increase in their Average Provisions and Contingencies which was least among the four banking groups.

Table 12 Average Net Profits of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	621.87	755.48	1002.93	1273.85	1454.11	1.33	3
Old Private Sector Banks	46.11	59.05	104.11	160.60	154.13	2.34	1
New Private Sector Banks	623.13	808.13	943.00	1208.43	1542.71	1.47	2
Foreign Banks	105.81	158.11	228.03	250.33	143.43	0.35	4

Source: Same as in Table 1

Table 12 shows Average Net profits earned by the four bank groups. Old Private Sector Banks show the greater percentage increase in their Average Net Profits i.e.2.34pc. No other bank group is even close to the Old Private Sector banks. New Private Sector Banks are 2nd in this regard with 1.47pc. Increase in their Average Net Profits. Surprisingly, Foreign Sector banks are at the last position with only 0.35pc. Increase in their Average Net Profits.

Table 13 Average Gross NPA of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	1531.78	1443.26	1503.52	1666.33	2219.51	0.44	2
Old Private Sector Banks	196.84	156.26	134.58	204.80	241.46	0.22	1
New Private Sector Banks	506.5	785.88	1303.25	1979.14	2002.57	2.95	4
Foreign Banks	66.47	78.03	99.20	207.89	256.45	2.85	3

Source: Same as in Table 1

Table 13 shows the Average Gross NPA of all scheduled commercial banks. Old Private Sector Banks are at the 1st position in this regard with only a 0.22pc. increase in their average gross NPA. Public Sector Banks are just behind them with a 0.44pc. increase in their Average Gross NPA. But Foreign and New Private Sector Banks are not able to control their Gross Non-Performing Assets as there is a great amount of increase in their Gross Non-Performing Assets i.e. 2.85pc. And 2.95pc. Respectively.

Table 14 Average Net NPA of All Scheduled Commercial Banks

(In Crore Rs.)

Bank Group	2005-06	2006-07	2007-08	2008-09	2009-10	% Increase	Rank
Public Sector Banks	539.41	567.59	660.59	783.51	1098.00	1.03	2
Old Private Sector Banks	71.95	46.89	38.95	77.26	84.73	0.17	1
New Private Sector Banks	224.5	392.13	613.38	893.28	747.86	2.33	3
Foreign Banks	27.85	31.97	43.42	107.03	106.27	2.81	4

Source: Same as in Table 1

Table 14 shows the Average Net NPA of all scheduled commercial banks. Old Private Sector Banks are at the 1st position in this regard with only a 0.17pc. increase in their Average Net NPA. Public Sector Banks are behind them with a 1.03pc. increase in their Average Net NPA. But New Private Sector Banks and Foreign Banks are not able to control their Net Non-Performing Assets as there is a great amount of increase in their Net Non-Performing Assets i.e. 2.33pc. And 2.81pc. Respectively.

Table Showing Ranking To All Bank Groups In Selected Parameters

Parameter	G-I	G-II	G-III	G-IV
Business per Employee	**1**	**2**	**4**	**3**
Profit per Employee	**3**	**1**	**2**	**4**
Deposits	**1**	**3**	**2**	**4**
Advances	**1**	**3**	**2**	**4**
Investment	**4**	**2**	**3**	**1**
Assets	**3**	**2**	**1**	**4**
Interest Income	**3**	**2**	**1**	**4**
Non-Interest Income	**3**	**1**	**2**	**4**

Income	**3**	**2**	**1**	**4**
Operating Profits	**4**	**2**	**1**	**3**
Provisions & Contingencies	**4**	**3**	**1**	**2**
Net Profits	**3**	**1**	**2**	**4**
Gross Non-performing Assets	**2**	**1**	**4**	**3**
Net Non-Performing Assets	**2**	**1**	**3**	**4**
Total 1st Rank Achieved	**3**	**5**	**5**	**1**

Conclusions and Implications of the Study

Concluding Remarks

i. As far as the overall performance of the different bank groups is concerned, it is quite clear that that there is a tie between Old Private Sector Banks and New Private banks. They performed far better than Public Sector banks and Foreign Banks. So it seems that the RBIs step to give license to the private players in Indian banking industry is quite logical as these Private Banks are doing really well from the past several years. But as far as the performance of Public Sector Banks is concerned, they are also quite good in some areas and they can do well if they are given proper support by the banking authorities. Foreign Banks really disappoint with their performance as they are lagging far behind from their competitive banks in almost every parameter. So if they really have to survive in Indian Banking Industry, they have to improve their performance and gain the faith of their customers.

ii. As far as the performance of the Public Sector Banks is concerned, it is clear that though they are able to maximize their increase in business per employee, deposits and advances, but their performance in all the other areas is not so good. It is interesting to see that though they are at no. 1 as far as the business per employee is concerned, but their profit per employee is not so good. It means that the employees of the Public Sector Banks are not so efficient to increase their profitability. The influence of this is also shown on the operating profits, Provisions & Contingencies and on net profits as they are not showing not much percentage increase. Public Sector Banks are also not able to increase their assets, interest income, non-interest income, total income to a significant level. So, the statement given by RBI in his discussion paper that the Public Sector Banks can't do any more seems to be right in the light of the performance of the Public Sector Banks in the study period with reference to the selected parameters.

iii. As far as the performance of the Old Private Sector Banks is concerned, it is clear that they are performing quite well in almost all the parameters. They haven't got the last

rank on any of the parameter. There profit per employee, non-interest income, net profits increased much more than the other banking groups. They are more successful in reducing their gross and net non-performing assets as compared to the other banking groups. Their performance on business per employee, investment, assets, interest income, total income and operating profits is also good as they show quite satisfactory percentage increase in these parameters.

iv. As far as the performance of the New Private Sector Banks is concerned, it is clear that they are more successful in increasing their assets, interest income, total income, operating profits and Provisions & Contingencies to a great percentage. On the other parameters they also show satisfactory performance. Though their performance on their business per employee and on reducing their gross non-performing assets can't be said too well and they really have to do a lot of work in this area if they want to survive in this era of cut throat competition.

v. If we compare the performance of Old and New Private Sector Banks, it is clear that that in most of the parameters these two types of banking groups are very close to each other. They are just competing for the first or second place whether it is the case of profit per employee, assets, interest income, non-interest income, total income, operating profits, net profits etc. They are just doing their good for the Indian banking Industry.

vi. As far as the performance of the Foreign Banks in the Indian Banking Industry is concerned, they really disappoint. They are not showing any significant improvement in their performance during the study period on almost all the parameters. They are only succeeding in increasing their investments and on all the other parameters; they are at the last position as far as the percentage increase is concerned. For this it may be the global recession that could be the reason behind the poor performance of these banks. But if they really want their presence felt in the Indian banking Industry they have to work hard in their operations and make their place in this competitive world.

Conclusion

From the comparative analysis of the different banking groups, it is clear that though almost all the bank groups are able to increase their assets, profitability, income (interest and non-interest), advances, investments and deposits, but there is a strong need to improve the functioning of the Public Sector Banks, so that they can make their presence felt in the modern era of cut throat competition. RBI must frame its policies in such a way that these banks can grow and satisfy their customers as well as themselves. Foreign banks needs to quickly recover from their financial and other crisis and reorganize their functioning in order to maintain their position in the Indian Banking Industry.

Implications

The current study is mainly concerned with the analysis of comparative performance of the specific bank groups during the period of 2005-06 to 2009-10 that reflects the impact of new

competitive environment on the banks' performance in terms of various selected parameters. As the study reflects the number of banks that have improved or declined their performance in respect of all the selected parameters, so provides important analysis to judge the banks with poor performance which further help to make some policy measures to improve their performance. The study will be more beneficial for the RBI, for the bankers and policy makers to make some important decisions and to make policy measures to improve their performance. The study will be helpful to the academicians and researchers for further study in this respect.

Future Areas of research

i. Comparative study of individual banks for all selected parameters both for traditional banks and for e-banks.
ii. Comparative performance evaluation of each bank insensitive sectors.
iii. Performance evaluation of banks separately in domestic and abroad branches.
iv. Comparative performance of segment-wise rural, semi-urban and metropolitan branches of each bank.
v. Comparative study of these bank groups with respect to some other parameters can be done.

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