Performance of commercial banks in India: A comparative study of public (SBI) and private (J&K Bank) sector banks

Anjali Sharma *

(Research Scholar, Department of Economics, University of Jammu)

ABSTRACT

Banking sector plays a pertinent role in the development of the country as it the backbone of the economy. Therefore, the two important aspects of the banking sector in India i.e. productivity and efficiency has assumed primal importance due to intense competition, greater customer demands and changing banking reforms. This study attempts to measure the comparative analysis of the performance of commercial banks. For this study, public sector banks (SBI) and old private sector banks (J&K Bank) have been used. In the service sector, it is difficult to quantify the output because it is intangible and production of services cannot transform the resources it can only move them. Hence different proxy variable are used for measuring productivity of banking sector. Categorisation of the banking sector in India was undertaken on the basis of employees productivity , branch productivity, returns on asset and equity. Overall, the analysis supports the conclusion that public sector banks are on average most efficient and old private sector banks are lacking behind instead of the consistent performance. In different aspects such as size, the smaller banks are globally efficient, but the fact is large banks are locally efficient.
It means that efficiency and productivity are interrelated. It is true that productivity is not the sole factor but it is an important factor which influence to efficiency. The key to increase productivity is increase efficiency. At the end paper recommends some suggestions in order to tackle the challenges faced by the banks particularly old private sector banks in India.
(Keywords – productivity, efficiency, commercial banks)

Introduction

The reforms in banking sector in India were represented by the report of the Committee on financial system, popularly known as Narasimham Committee. This committee, which give in its report in 1991, came up with various measures to improve the efficiency and health of banking sector by making it more competitive and vibrant (Ahluwalia, 2002). It has large impact on the productivity, profitability and efficiency of the banks (Mohan, 2005). Now more than enough time has elapsed after banking sector reforms, hence its high time to evaluate that how the new banking policy have affected the banking operations of the different banks. As many economists confirmed that there existis a relationship between banking and economic development. (Sharma B P, 1974) Banks are the backbone of the economy of the country because they play significant role in the effort to attain stable prices, high level of employment and sound economic growth. The progression of banking can be outlined back to the early times of the human history. The history of banking starts from the early civilisation with the first prototype bank of ancient world which is made grain loans to farmers and merchants who carried goods between cities. This began around 2000 BC in Babylon and Assyria; there are records of loans made by priest of the temple. In the ancient times people deposited their money and valuables at temples as they were the safest place available at that time. The course of storing precious metals at secure places and lending money was extended in ancient Rome. Consequently the notion of banking has arrived. (Sri, Jubair. T, 2011)

(Dhar, 2007) India is a capital scarce country; commercial banks are more effective way to generate the credit flow of money market and plays important role in promoting capital formation in controlling speculation in maintaining a balance between requirements and availabilities and in direct physical resources into desired channels. Commercial Banks plays an active role in the economic development of the country. (Saini-Sindhu, 2014) Economic history provides support for the fact that financial development makes a fundamental contribution to growth. Financial development helped in the promotion of industrialisation in developed countries by facilitating the mobilisation of capital for large investments. (Rakesh Mohan, 2005) In another study by Rajan and Zingales 1995, establish a positive relationship between financial development and growth at industry level.(Mistry and Savani, 2015) In Indian Financial system, Commercial banks mobilize and disburse financial resources. They have all pervasive roles in the growth of a developing country like India. The role of Banking in moving the economic development of a country quickly that has been increasingly recognised following the nationalisation of 14 major banks in July 1969 and 6 major banks in April 1980. With the passage of time the concept of banking has experienced significant change. Banks are no longer viewed as mere lending institutions. They are to serve the society in much bigger way with a socio-economic development oriented outlook. (Thomas Zacharias, June 1995)

Objectives

1. To measure the performance of public (SBI) and private (J&K Bank) sector banks.
2. Comparison between the productivity and efficiency of these two public (SBI) and private (J&K Bank) sector banks.

Research Methodology

This study is based on secondary data collected from various volumes of banking statistics published by Reserve Bank of India (RBI) and highlights of Indian Banking associations. It covers a period of five years 2012-13 to 2016-17. Data from Reserve Bank of India is among the most authentic source for data regarding banking sector. For the analysis of data Ratio Analysis has been used for which the variable studied are total deposits and advances, non operating income and expenses, number of employees, number of branches, establishment expenses etc. The data on total staff and number of branches was collected from IBA Bulletin. The study proposes to base its conclusion on employee and branch based averages. The methodology includes calculation of three per employee and three per branch ratios so as to reflect the inherent operational differences of the two selected commercial banks. The study analyses the published five-year data from 2012-13 to 2016-17 for the commercial banks, i.e. Public Sector Bank (SBI) and Private Sector Bank (J&K bank).

DATA ANALYSIS TOOL

Productivity has been measured in terms of outputs (advance, business, and deposits) per inputs (employee/ branch).

The ratios used for measuring productivity and efficiency is:-

1. ***Employee productivity***

   Human resources are one of the most important assets of an organisation. The productivity of any organisation depends on how productive the human resource is.

   a.) **Deposit per employee (DPE)** = Total Deposits ÷ No. of Employees
   This ratio reveals the deposit-collection capacity of an employee. Higher the deposit per employee ratio higher will be productivity per employee.

   b.) **Advance per employee (APE)** = Total Advance ÷ No. of Employees
   This ratio reveals the contacts and convincing skills of the employee to disburse and invest the amount deposited. This only ultimately results in the interest earning capacity of a particular bank.

   c.) **Business per employee (BPE)** = Total Business ÷ No. of Employees
   Deposit collection and the advance disbursement are the two basic activities of any given bank. The productivity of any bank in fact relates to the creation and delivery of capital. Here creation

means deposits and delivery means advances. Both together are the net measure of productivity. If this ratio is higher, the employee of the bank is better and the productivity of the bank is more.

2. ***Branch productivity***

a.) **Deposit per Branch (DPB)** = Total Deposits ÷ No. of branches
Higher the deposit per branch, better the system of collection and vice-versa. It reflects the organizational effectiveness of the bank.

b.) **Advance per Branch (APB)** = Total Advance ÷ No. of branches
The loan policies as well as interest rates etc of a particular bank also affect advances. This ratio reflects this aspect of the bank. Higher the advances per branch, better the advance policies and hence the productivity.

c.) **Business per Branch (BPB)** = Total Business ÷ No. of branches
Advances and deposits of a branch together reflect the overall banking system and its productivity. It is this ratio which in fact compares the productive efficiency of two banks. Higher the ratio depicts better and more productive the bank.

3. ***Return on Assets (ROA)*** = Net Profit after Tax ÷ Assets
Return on Assets is a measure to know how the bank can earn returns on its investment/ assets. In other words it shows how efficiently a company can convert the money used to purchase assets into net income or profits. There is a direct relationship between ROA and better management.

4. ***Return on Equity (ROE))*** = Net Profit after Tax ÷ Equity Capital
Return on Equity is a measure that shows how well the owners are doing on their investment. It is a measure of efficiency, higher the ROE depicts the company is increasing its ability to enhance more profits without any requirement for more capital. It is also known as "Return on Net Worth".

5. ***Net Income Margin (NIM)*** = (Interest Income – Interest Expense) ÷ Assets
Net Income Margin is also known as "net yield on interest-earning assets". A positive NIM states that investment strategy leads to more interest than cost. In case there is negative NIM it clearly states that the investment strategy costs more than it earns. It is a performance measure that examines how successful a firm's investment decisions are compared to its debt situations

Data Analysis and Findings

1.) Employees productivity

The columns of the following table represent the 1. Deposit per employee, 2. Advances per employee and 3. Business per employee of the selected banks.

Banks	State Bank of India			J&K Bank		
Variables Years	1. DPE	2. APE	3. BPE	1. DPE	2. APE	3. BPE
2012-2013	5.26	4.58	9.43	5.67	4.17	11.02
2013-2014	6.28	5.60	11.88	7.40	4.95	12.35
2014-2015	7.58	6.24	13.82	7.08	4.80	11.89
2015-2016	8.33	7.04	15.37	6.84	4.94	11.79
2016-2017	9.75	7.49	17.25	7.22	4.96	12.20

Mean	7.44	6.19	13.55	6.84	4.76	11.84
Standard deviation	1.74	1.15	3.03	0.68	0.33	0.51
Coefficient of variation	23.38	18.57	22.36	9.94	6.93	4.30

Source: Annual Reports of RBI, SBI and J&K Bank.

Findings

On the basis of the mean of business per employee public sector bank i.e. State Bank of India is more productive than private sector bank i.e. The Jammu and Kashmir Bank over the period of time. The mean value of SBI is 13.55 where as J&K Bank stand at 11.84. The highest consistency (low value of coefficient of variation) in business per employee productivity was found in J&K Bank. The coefficient of variation is 22.36 percent and 4.30 percent in SBI and J&K Bank respectively.On the basis of mean value of deposits per employee it was found that State Bank of India is creating more deposits than J&K Bank. The mean values are 7.44 and 6.84 in SBI and J&K Bank respectively. The highest consistency (low value of coefficient of variation) was found in Jammu and Kashmir Bank over the period of time. The value of coefficient of variation is 23.38 percent and 9.94 percent in SBI and J&K Bank respectively. On the basis of mean value of advances per employee it was found that State Bank of India is generating more advances than J&K Bank. The mean values for SBI and J&K Bank are 6.19 and 4.76. The lowest consistency (high value of coefficient of variation) is found in SBI. The value of coefficient of variation is 18.57 percent in SBI and 6.93 percent in J&K Bank.

Therefore, the overall employee's productivity is high in State Bank of India in comparison with J&K Bank. But J&K Bank is more consistent in Deposits, Advances, and Business over these five years.

2.) Branch Productivity

The columns of the following table represent the 1. Deposit per employee, 2. Advances per employee and 3. Business per employee of the selected two banks.

Banks	**State Bank of India**			**J&K Bank**		
Variables Years	1. DPB	2. APB	3. BPB	1. DPB	2. APB	3. BPB
2012-2013	77.28	67.18	144.46	93.75	57.22	150.97
2013-2014	87.86	78.46	166.33	89.23	59.69	148.93
2014-2015	96.59	79.59	176.13	80.09	54.30	134.39
2015-2016	103.11	87.20	190.32	80.96	58.56	139.53
2016-2017	119.05	91.50	210.58	83.77	57.60	141.36

Mean	96.77	80.78	177.76	85.56	57.47	143.36
Standard deviation	15.77	9.32	24.56	5.80	2.01	6.84
Coefficient of variation	16.29	11.53	14.01	6.77	3.49	4.77

Source: Annual Reports of RBI, SBI and J&K Bank.

Findings

On the basis of mean value of the business per branch of the selected commercial banks, it was found that branches of State Bank of India are much more productive than The Jammu and Kashmir Bank. The mean values are 177.56 and 143.36 in SBI and J&K Bank respectively. The consistency level was more in J&K Bank as the value of coefficient of variation is low as the value are 14.01 percent and 4.77 percent in SBI and J&K Bank respectively over the period of time. On the basis of mean of Deposits per branch of SBI and J&K Bank it was observed that branches SBI are more productive than J&K Bank. The mean values are 96.77 and 85.56 for SBI and J&K Bank respectively. But the SBI is less consistent in Deposits as the coefficient of variation is high in SBI than J&K Bank as the value of coefficient of variation are 16.29 percent and 6.77 percent in SBI and J&K Bank respectively. On the basis of mean value Advances per branch it was found that the SBI branches are much more productive than J&K Bank. The mean value for advance per branch of SBI is 80.78 and for J&K Bank its 57.47. As far as consistency is concerned again J&K Bank is more consistent than SBI as coefficient of variation is low. The value of coefficient of variation is 11.53 percent and 3.49 percent for SBI and J&K Bank respectively.
Therefore, Branches of SBI (public sector bank) are much more productive than J&K Bank (private sector bank). But the overall consistency is more in J&K Bank.

3.) Return of Assets, Return on Equity and Net Interest Margin

The columns of the following table represent the 1. Return on Asset, 2. Return on Equity and 3. Net Interest Margin of the selected two banks.

Banks	**State Bank of India**			**J&K Bank**		
Variables Years	1. Return on Assets	2. Return on Equity	3. Net interest Margin	1. Return on Assets	2. Return on Equity	3. Net interest Margin
2012-2013	0.97	15.94	3.34	1.70	23.56	3.97
13-2014	0.65	10.49	3.17	1.74	22.34	4.16
2014-2015	0.68	11.17	3.16	0.70	8.60	3.81
2015-2016	0.46	7.74	2.96	0.57	6.64	3.85

2016-2017	0.41	7.25	2.84	(2.04)	(28.47)	3.28
Mean	0.63	10.51	3.09	0.53	6.53	3.81
Standard deviation	0.22	3.47	0.19	1.53	21.03	0.29
Coefficient of variation	34.92	33.01	6.15	288.67	322.05	7.61

Source: Annual Reports of RBI, SBI and J&K Bank.

Findings

On the basis of mean of returns on assets (ROA) it was found that the return on assets in State Bank of India (public sector bank) was 0.63 that is more than Jammu and Kashmir Bank (private sector bank) by 0.10. The State Bank of India was more consistent in returns on assets than J&K Bank over the period of time as the value of coefficient was more in J&K Bank. As the coefficient of variation of SBI was 34.92 percent and for J&K Bank it was 288.67 percent. On the basis of mean value of returns on equity (ROE) it was found that the return on equity in Jammu and Kashmir Bank (private sector bank) was more than State Bank of India (public sector bank). The mean values of SBI and J&K Bank was 10.51 and 6.53 respectively. The State Bank of India was more consistent in returns on equity (ROE) than J&K Bank over the period of time. The value of coefficient in J&K Bank is 322.05 percent and in SBI its 33.01 percent. The mean value of Net interest margin (NIM) was found more in private sector bank (J&K Bank) than public sector bank (SBI). It was 3.09 in SBI and 3.81 in J&K Bank for the period 2012-13 to 2016-17. The higher consistency (i.e. low value of coefficient of variation) was found in State Bank of India. The coefficient of variation was more in J&K Bank i.e. 7.61 percent and in SBI it was 6.15.

Suggestions

1.) For improving overall employees' productivity following should be taken care of:
   - ✓ All the employees should possess computer education and must be efficient in it.
   - ✓ A proper and skilful training should be imparted to the employees.
   - ✓ Timely workshops
   - ✓ Use of updated technology by the employees will help to enhance the overall productivity of the banks.

2.) In order to increase the branch productivity following should be introduced:
   - ✓ **DIGITAL VISION** - For better branch productivity a new vision on branch working is required. Branches of the future would be completely digital, paperless, with no back office, and with on the spot fulfilment. In today's modern era technology empowers people to think big, realise higher values of transparency and accountability. With digitalisation process of banking sector expansion of banking at global level has been larger. In 2015, digital payments contributed 8 of overall global retail payment and 18 to 24 is projected by 2020. But the scenario with J&K Bank is different. According to Annual Report of J&K Bank 2016-17 there are several challenges before bank
     a. Lack of digital literacy among rural population.
     b. Timely rollout of new products mandated by DFS like BHIM etc.
     c. Increasing the number of services and products offered through digital channels.
     d. Frequent internet outrage in the state of J&K particularly in Kashmir region.

Therefore in this fast evolving context like telecom and fin-tech companies, big players are fast moving towards the centre of financial business, J&K Bank must take a decisive leap with a deliberate and comprehensive digital strategy, at least in the state to sustain and further strengthen its business leadership.

- ✓ To increase branch productivity the banks should allow and encourage customer to use self –services machines like bulk note acceptors, passbook up gradation kiosk and check deposit machines. This leads to reduce branch traction footfalls by 30-40%, lower proportion of non-sales staff in the branches and customer can access the machines 24x7.
- ✓ Customer services are create new challenges, to cope up with, technology will be the key to reduce transaction costs, offering customized products and managing risks. This is compelling banks to provide internet banking facilities and increasingly customers are demanding fast, convenient and glitch free banking service.
- ✓ **CURBING FRAUD –** In today's era of digitalisation it became a necessity to strengthen the cyber security. It is the duty of commercial banks to provide with a proper cyber secure architecture, in order to make the digital transactions more reliable and secure. R. Subramanian Kumar (M.D and C.E.O of Indian Overseas Bank) suggested about Cyber Security in the digital platform. He said security is to be ensured at all the touch points of digital transactions. The complete eco-system is to be cyber-sanitised for all the transactions to be flawless.
- ✓ **Innovation in ATM usage-** As per World Bank, India has poor ATM penetration- there are only 11 ATMs for every 1 million people in India compared to 37 in China and 52 in Malaysia. In this regard, solar ATMs could reduce set up cost by 50 percent and also cater to power scarce rural areas.

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