CHAPTER VIII

SUMMARY, FINDINGS, SUGGESTIONS AND CONCLUSION

Major responsibility of stimulating and sustaining economic growth of a country lies on its integrated financial infrastructure. Best utilization of the financial resources is the key to success of a Nation. Government with the help of its powerful financial system plays an active role in channeling the movement of funds from the savers to investors. There are many financial intermediaries among which commercial banking sector acts as a nervous system of the economic activity.

Till now banking sector continues to be the major funding agency between the fund seekers and holders. Deposits are accumulated from Public and channel to its borrowers who may be a household, investor, trader, agriculturist, exporter and the like. In order to ensure that there is no discrimination in money supply, banks have been nationalized.

Post era of nationalization has witnessed rapid expansion in volume of transactions as well as number of branches. Their major role in credit market has been significant in fostering economic growth. The commercial banks in India have been acting as a tool of monetary policy too. But the Public Sector Banks which had a monopoly earlier have started facing problems of deteriorating performance. After several studies by various committees, RBI and Government of India have opened up the banking sector to private sector and to a limited extent the foreign banks also. This has resulted in higher
competition among them. Globalization process also further intensified the competition.

A continuous and rapid change in financial services market has raised a doubt whether the traditional banks can survive or not. The question of survival has necessitated them to change their process of serving their customers. Emergence of Private Sector Banks with equal competency also has forced the Public Sector Banks to adopt customer focused strategy. Private Sector Banks have progressed well with Technology upgradation, new product and services, extended business services and the like.

All the new initiatives have helped the banks to improve their efficiency and performance. With the prevailing tough competition among the Public Sector Banks, Private Sector Banks and Foreign Banks, every bank has had to be aware of their operating efficiency and employing an effective operating strategy. Improved efficiency alone would help the banks to survive and succeed in their role for economic growth.

If at all any government wants to achieve economic and industrial growth, the survival and growth of its banking industry is crucial. When the government opens up the banking business to private and foreign players with the intention of creating competitive climate, it is very much essential to ensure that the competition is healthy and impacts positive results on achieving economic growth of a country.
In this context, the researcher has studied the following factors:

- The level of efficiency at which the Public and Private Sector Banks operate.
- To estimate the level of improvement in the Public and Private Sector Banks.
- To identify the input and output factors those contribute for the efficiency improvement.

Out of 23 Public Sector Banks and 11 Private Sector Banks, 9 banks for each sector have been chosen based on the following criteria:

1. The financial information of the bank is adequate enough for analysis during the study period.
2. The banks under study have been established for more than ten years.

Only secondary data were used for the present study. To analyse the efficiency level of sample banks Ratio Analysis, Trend Analysis and Data Envelopment Analysis have been used. Appropriate diagrams and charts were also used to analyse the data. Reference period for the present study is from the year 2001-02 to 2010-11.

**Major Findings of the Study**

The Analysis of the data has yielded the following findings:

The cumulative sector average of Net Profit per Branch for Private Sector Banks was Rs.53.35 lakhs whereas for Public Sector Banks was just Rs.45.17 lakhs.
The Cumulative sector average of Expenses per Branch for Private Sector Banks was Rs.564 lakhs whereas for Public Sector Banks was just Rs.297 almost half of the Private Sector Banks’ level.

The cumulative sector average of Deposits per Branch for the Private Sector Banks was Rs.62.27 lakhs. For Public Sector banks it was only Rs.40.35 lakhs.

In terms of Advances per Branch, the cumulative sector average for Private Sector Banks was Rs.47.70 lakhs. It was only Rs.27.21 lakhs for Public Sector Banks.

The cumulative sector average of Business per Branch, naturally a combination of both Deposits and Loans and Advances per branch, was Rs.97.02 lakhs for Private Sector Banks but in the case of Public Sector Banks it was just Rs.65.02 lakhs only.

In terms of NPA per Branch, the cumulative sector average for Private Sector Banks was almost double with Rs.82.71 lakhs. For Public Sector Banks the same was just Rs.41.66 lakhs.

Analysis of Per Branch results further reveal that the per Branch ratios of Net Profit to Business, Expenses to Business, Net Profit to Assets, Expenses to Assets and NPA to Loans and Advances for Public Sector Banks were better than all that of Private Sector Banks. However, the ratio of Deposits converted to Loans and Advances at Branch level of Private Sector Banks stood better than Public Sector Banks.
The cumulative sector average ratios of Operating Expenses to Total Assets for Private and Public Sector Banks were 1.70 and 1.85 respectively. Lesser the expenses ratio better is the efficiency. So Public Sector Banks depicted better efficiency over Private Sector Banks.

With regard to the ratio of Total Expenses to Total Assets, the cumulative sector average for Private Sector Banks was 6.81 whereas the ratio was only 6.52 for Public Sector Banks. This indicates that Public Sector Banks were more efficient than Private Sector Banks.

In terms of Net Profit to Total Assets (Return on Assets), the cumulative sector average for Public and Private Sector Banks were 0.93 and 0.65 respectively. It is obvious that the Public Sector Banks were better efficient than Private Sector Banks with regard to Return on Assets ratio.

The cumulative sector average ratio of Net Profit to Total Advances for Private and Public Sector Banks were 1.42 and 2.21 respectively, indicating that the Public Sector Banks were more efficient than Private Sector Banks.

In respect of Total Advances to Total Assets, the cumulative sector average ratio for Private Sector Banks was 55.52 percent. For Public Sector Banks it was only 50.05. It is clear that the Private Sector Banks converted more of their assets into advances to earn an income, exhibiting more efficiency over Public Sector Banks.

The cumulative sector average ratio of Earning Assets to Total Assets for Private Sector Banks was just 80.91 and for Public Sector Bank it was
78.14, indicating that the Private Sector Banks created more earning assets and proved more efficiency over Public Sector Banks.

In terms of cumulative sector average ratios of Own Capital to Total Assets for Private Sector Banks were 6.86; the same ratio for Public Sector Banks was only 5.05. This illustrates that the Private Sector banks were with larger base of Capital Adequacy and more secured were the Creditors of the bank. Public Sector Banks were playing with more trading on equity and exhibiting high risk. So Private Sector Banks were efficient in managing their capital base.

The cumulative sector average ratio of Debt to Equity for Private and Public Sector Banks were 13.49 and 17.30 respectively. It is obvious that Public Sector Banks raised more borrowed funds when compared to Private Sector Banks which indicates that Public Sector Banks were more efficient than Private Sector Banks due to the fact that the customer’s confidence and the benefit of trading on equity was more on Public Sector Banks.

In terms of NPA to Total Advances, the cumulative sector average for Public Sector Banks was only 2.31 whereas the same ratio for Private Sector Banks was 2.73 which were more than that of Public Sector Banks. This highlights the efficiency of Public Sector Banks as superior to Private Sector Banks.

The cumulative sector average ratio of Return on Equity that is the ratio of Net Income to Owner’s Capital for Private and Public Sector Banks were 9.69 and 17.56 respectively. The Public Sector Banks earned more return from
their Equity when compared to that of Private Sector Banks. It is a clear indication that Public Sector Bankswere more efficient than Private Sector Banks.

In respect of Deposit per Employee, the cumulative sector average for Private and Public Sector Banks were Rs.365 thousands and Rs.323 thousands respectively. Employees of Private Sector Banks proved to be better efficient than the employees of Public Sector Banks.

In terms of Advances per Employee, the cumulative sector average for Private Sector Banks was Rs.269.47 lakhs and for Public Sector Banks, it was Rs.218.99 lakhs. It is explicit that the employees of Private Sector Banks proved their efficiency by creating more advances than the employees of Public Sector Banks.

The cumulative sector average Expenses per employee for Private and Public Sector Banks were Rs.31.55 lakhs and Rs.23.59 lakhs respectively. By spending lesser expenses per employee Public Sector Banks achieved better efficiency over Private Sector Banks.

In terms of Income per Employee, the cumulative sector average for Public Sector Banks was Rs.31.11 lakhs whereas it was Rs.42.91 lakhs for Private Sector Banks. Even though the expenses per employee of Private Sector Banks were more, their Income per Employee surpassed the income per employee of Public Sector Banks. This highlighted the better efficiency of Private Sector Banks over Public Sector Banks.
Any how the cumulative sector average of Personnel Cost per employee for the Public Sector Banks was Rs.4.06 lakhs. For Private Sector Banks, it was just Rs.3.55 lakhs, an evidence of better efficiency in favour of Private Sector Banks.

The cumulative sector average of Profit per Employee for both Private and Public Sector Banks were the same with Rs.367 thousands, indicating equal efficiency in terms of Profit per Employee.

In respect of Non-Performing Assets per employee, the cumulative sector average for Public Sector Banks was only Rs.293.60 thousands. For Private Sector Banks it was Rs.502.2 lakhs which indicates that the Private Sector Banks were less efficient than Public Sector Banks.

The cumulative sector average Business per Employee for Private and Public Sector Banks were Rs.5.65 crores and Rs.5.22 crores respectively. It shows that the Private Sector Banks were better efficient than Public Sector Banks.

Analysis of Per Employee ratios indicates that, with regard to PerEmployee ratios of Average Net Income to Business, Average Expenses to Business, NPA to Loans and Advances and Average Profit to Business, the Public Sector Banks recorded better efficiency when compared with Private Sector Banks. However, Ratio of Personnel Cost per employee level for Private Sector Banks was better than that of Public Sector Banks.

From the scale efficiency score, it was found that 24 Private Sector Banks were Bench Mark Units whereas only eleven Public Sector Banks
achieved as Bench Mark Units. It exhibits that Private Sector Banks were more efficient than the Public Sector Banks.

In terms of ‘Above Third Quartile’ category, there were 30 Private Sector Banks. But only 15, that is, half the strength of Private Sector Banks fell under this Quartile, which was also an indication that majority of Private Sector Banks scored better than Public Sector Banks.

While the ‘Above third quartile’ score was considered as highly efficient category, the category ‘Between Second and Third Quartile’ could be assessed as above average efficiency level. In this category also, number of Private Sector Banks were more than that of Public Sector Banks suggesting superiority in efficiency by Private Sector Banks over Public Sector Banks.

Similarly 32 Public Sector Banks fell under ‘Between First and Second Quartile’ category which could be pronounced as below average category. But only 13 Private Sector Banks were coming under this category. So in terms of ‘Below average’ efficiency Category, the presence of more Public Sector Banks indicate that Private Sector Banks were more efficient than Public Sector Banks.

In terms of Scale Efficiency, Cumulative Sector Average for Public and Private Sector Banks are 0.97174 and 0.96307 respectively. It indicates that on an Overall Scale Efficiency score, Public Sector Banks were more efficient than Private Sector Banks.
Graphical presentation through Figure 7.2 also highlights that Annual Sector average for Public Sector Banks had always been better than that of Private Sector Banks.

From Descriptive Statistical presentation, the Standard Deviation and Co-efficient of Variation for Public Sector Banks were smaller and almost half that of Private Sector Banks. It is also an indication that Public Sector Banks were better in efficiency over Private Sector Banks.

**Pure Technical Efficiency Score** exhibits that 45 Public Sector Banks achieved as Bench Mark Units whereas only 41 Private Sector Banks were of Bench Mark Units. In terms of ‘Above Third Quartile category’ which considered as high efficiency category, there were 45 Public Sector Banks but only 41 Private Sector Banks came under this category. This shows that Public Sector Banks were with better efficiency when compared to that of Private Sector Banks.

The category ‘Between Second and Third Quartile’ assessed as above average efficiency level included 3 Public Sector Banks 1 Private Sector Bank suggesting better efficiency Public Sector Banks over Private Sector Banks.

Similarly 26 Public Sector Banks fell under ‘Between First and Second Quartile’ category which could be pronounced as below average category. But only 19 Private Sector Banks were coming under this category. So in terms of below average efficiency category, the presence of more Public Sector Banks indicates that Private Sector Banks were more efficient than Public Sector Banks.
It is found that 29 Private Sector Banks and 16 Public Sector Banks had a score of ‘Within First Quartile Category’, indicating Public Sector Banks as more efficient than Private Sector Banks.

In respect of Pure Technical Efficiency, Cumulative Sector Average for Public and Private Sector Banks were 0.98752 and 0.97115 respectively. It is obvious that on an Overall Pure Technical Efficiency score, Public Sector Banks were more efficient than Private Sector Banks.

**Technical Efficiency Score** exhibits that 11 Public Sector Banks achieved as Bench Mark Units whereas 26 Private Sector Banks were of Bench Mark Units.

In terms of ‘Above Third Quartile category’ which considered as high efficiency category, there were 29 Private Sector Banks but only 16 Public Sector Banks came under this category. This shows that Private Sector Banks were with better efficiency when compared to that of Public Sector Banks.

The category ‘Between Second and Third Quartile’ assessed as above average efficiency level included 13 Private Sector Banks 31 Public Sector Bank suggesting better efficiency of Public Sector Banks over Private Sector Banks.

Similarly 20 Private Sector Banks fell under ‘Between First and Second Quartile’ category which could be pronounced as below average category. But 25 Public Sector Banks were coming under this category. So in terms of below average efficiency category, the presence of more Private Sector Banks
indicates that Private Sector Banks were more efficient than Public Sector Banks.

It is found that 28 Private Sector Banks and 18 Public Sector Banks had a score of ‘Within First Quartile Category’, indicating Public Sector Banks as more efficient than Private Sector Banks.

In respect of Technical Efficiency, Cumulative Sector Average for Public and Private Sector Banks were 0.959744 and 0.93608 respectively. It is obvious that as per Overall Technical Efficiency score, Public Sector Banks were more efficient than Private Sector Banks.
Suggestions

As an effort of improving the efficiency of both Public Sector Banks and Private Sector Banks, following suggestions are provided:

1. The branch level efficiency of Public Sector Banks is quiet better with regard to Expenses, Operating Expenses and Total Expenses. Branch level Non-Performing Assets is also comparatively less. But various measures to improve Deposit Mobilisation, more but safe Lending of Advances and ultimately to improve Business per Branch are required.

2. The performance of Private Sector Banks with regard to Deposits per Branch, Advances per Branch and Business per Branch is better than that of Public Sector Banks. But by achieving business of Rs.97.02 Crores the Private Sector Banks earned a Net Profit of Rs.53.35 lakhs whereas the Public Sector Banks earned a Net Profit of Rs.45.17 lakhs for the business of 65.02 Crores per Branch. It is obvious that the proportion of Net Profit to Business per Branch of Private Sector Bank was far below than that of Public Sector Banks. Steps can be taken by the Private Sector Banks to increase the rate of utilization of Deposits raised from cheaper sources by investing in profitable loans and advances.

3. High Non-Performing Assets per Branch for Private Sector Banks is an alarming note that they have to find cautious approach of lending and assured collection of debts in time for which a multifaceted approach like careful assessment of Potential Borrowers, continuous monitoring and follow up of
customers, timely collection procedures through advance reminders and the like, is very much essential.

4. It is very much true that the earning assets such as Advances and Investments are comparatively more in the case of Private Sector Banks, but the analysis of Net Profit per Branch is far below that of Public Sector Banks. Private Sector Banks have to make all efforts to control Branch level Expenses.

5. The analysis shows an equal amount of Profit per Employee for both Public and Private Sector Banks but the Income (Gross level) for Public Sector Banks was only Rs.31.11 lakhs whereas the same for Private Sector Banks was Rs.42.91 lakhs indicating an excessive operating and non-operating expenses in the case of Private Sector Banks. Private Sector banks are expected to optimize the Asset Maintenance Cost, Depreciation and the like.

6. For any commercial organization, final accomplishment of success is judged by return on Equity (Profit on Own Capital). Private Sector Banks are very much lagging behind the Public Sector Banks in this regard. So Private Sector Banks have to take initiative in every avenue so that the overall efficiency which is reflected in Return on Equity is improved.

7. An analysis carried out brings to light that in spite of greater Deposit Mobilisation and increased lending activity, Private Sector Banks have been adversely affected by increased expenses and Non-Performing Assets. Hence Private Sector Banks have to take stringent measures to cut short NPA and also their expenses.
8. An analysis carried out through DEA highlights the scale efficiency, pure technical efficiency and finally the overall efficiency of public and private sector banks. Majority of the private sector banks achieved as benchmark units. But the overall efficiency score favoured public sector banks as efficient performers. This is because the private sector banks were at two extreme efficiency score level, that is, while many private sector banks assessed as benchmark units equally many banks were poor efficient also. But as a matter of consistency public sector banks surpassed the private sector banks. So Private Sector Banks have to find out the reasons that contributed these variations in efficiency and achieve consistency.

**Conclusion**

The Present Research mainly focused on the efficiency level of Public and Private Sector Banks in India. The analysis carried out revealed that the Public Sector Banks when compared with Private Sector Banks had shown a consistent efficiency on the basis of majority of efficiency indicators. The analysis also revealed that the Private Sector Banks had shown a creditable improvement in Personnel Cost and Technological up gradation. Private Sector Banks had provided the needed competition to Public Sector Banks to improve their performance. Such healthy competitions paved way for a better National Development.
**Scope of Future Research**

There have been numerous studies including the current research work focusing mainly on the performance and efficiency of Public and Private Sector Banks in India. Researcher prefers that the following areas to be considered for future research.

- Comparative Study on the efficiency of Commercial Banks between India and countries like Pakistan, China.

- Bench Mark Performance Standards among the branches of a Commercial Bank in India.

- ‘A Study on Non-Performing Assets’- In respect of the number of defaulters and the consequent loss to Public and Private Sector Banks.