CHAPTER VII
Summary of Findings and Conclusions

Evolution and Development of Indian Banking Sector

Initial phase (1720 to 1947)

The Indian banking sector has been evolving continuously. The initial phase (up to 1947) was a difficult period for the banking sector. A large number of banks sprang up as there were no entry norms for banks. The Swadeshi Movement witnessed the emergence of many Indian banks, most of which continue to operate even today. During both the war period (World War I and II) many banks failed. Though RBI was established in the year 1935, it had limited control over banks and lack of an appropriate framework posed a problem for the effective regulation of small banks. The banking scenario that prevailed in the early independence phase faced three main issues. First, bank failures had raised the concerns regarding the soundness and stability of the banking system. Second, there was large concentration of resources from deposits mobilization in a few hands of business families or groups. Banks raised funds and lent them largely to their controlling entities. Third, agriculture was neglected insofar as bank credit was concerned.

Pre-Nationalization phase (1948 to 1968)

On the eve of independence, the banking system was concentrated primarily in the urban and metropolitan areas. Efforts, therefore, were made to spread banking to rural and unbanked areas, especially through the State Bank of India and through the branch licensing policy. However, the pattern of bank
branches in rural and urban areas remained broadly the same. Although the Indian banking system had made considerable progress in the 1950s and the 1960s, the benefits of this did not percolate down to the general public in terms of access to credit. This was primarily due to the nexus between banks and industrial houses that cornered bulk of bank credit, leaving very little for agriculture and small industries. In this period, various objectives such as enhancing the deposit rates, while keeping the cost of credit for productive activities at a reasonably low level led to a complex structure of interest rates and other micro controls. This Phase was characterized by several social controls over the banking sector.

**Post - Nationalization-Phase (1969 to 1990)**

The main instrument used to achieve the objectives of social control was to nationalize the major banks in the country and priority sector lending. These initiatives had a positive impact in terms of spread of the bank-branch network across the country, which in turn, accelerated the process of resource mobilization. Large branch expansion also resulted in increase in deposits and credit of the banking system, especially in rural areas. The share of credit to agriculture in total bank credit increased from 2.2 per cent in 1967 to 15.8 per cent in June 1989. However, these achievements extracted a price in terms of health of banking institutions. Banks did not pay adequate attention to their profitability, asset quality and soundness. The increase in credit to the priority sector led to the reduction of credit to the other sectors. On the other hand, in order to meet the priority sector targets, credit appraisal standards were lowered. The high statutory pre-emptions eroded the profitability of the banking sector. Lack of enough competition resulted in decline in productivity and efficiency of the system. At the end of this phase, banks were saddled with large non-performing assets. Banks’ capital position turned weak and
they lacked the profit motive. During this period, the deposit and lending rate structure became very complex. By the early 1980s, the banking sector had transformed from a largely private owned system to the one dominated by the public sector. In the mid-1980s, some efforts were made to liberalize and improve the profitability, health and soundness of the banking sector. This phase also saw some diversification in banking activities.

**Liberalized/Reforms Phase (1991 onwards)**

The most significant phase in the evolution of banking was the phase of financial sector reforms that began in 1991-92, which had two sub-phases (1991-92 to 1997-98; and 1998-99 and beyond).

The main issues faced in the first sub-phase (1991-92 to 1997-98) were the weak health of the banking sector, low profitability, weak capital base and lack of adequate competition. The reforms in the initial phase, thus, focused on strengthening the commercial banking sector by applying prudential norms, providing operational flexibility and functional autonomy and strengthening the supervisory practices. To infuse competition in the banking sector, several measures were initiated, such as allowing the entry of private banks into the system. A major achievement of this phase was significant improvement in the profitability of the banking sector. Some improvement was also observed in the asset quality, capital position and competitive conditions, although there was still a significant scope for further improvement. However, banks in this phase developed risk aversion as a result of which credit expansions slowed down in general and to the agriculture sector in particular.
The focus in the second sub-phase (1998-99 and beyond) was on further strengthening of the prudential norms in line with the international best practices, improving credit delivery, strengthening corporate governance practices, promoting financial inclusion, strengthening the urban co-operative banking sector and improving the customer service. While strengthening the prudential norms, it was necessary to ensure that risk aversion, which had surfaced in the previous sub-phase, did not aggravate. Focused attention, therefore, was paid to put in place appropriate institutional measures to enable banks to recover their NPLs. The impact of these measures was encouraging as banks were able to bring down their non-performing assets sharply. This was the most important achievement of this phase. As the asset quality began to improve, banks also started expanding their credit portfolio. Capital position of banks also improved significantly. Competition intensified during this phase as was reflected in the narrowing down of margins. Despite this, however, banks slightly improved their profitability among others, due to increased volumes and improvement in asset quality. Two concerns arose with regard to corporate governance practices followed by banks. These related to concentrated ownership and quality of management that controlled the banks. The corporate governance practices were, therefore, strengthened. Another major achievement in this phase was the sharp increase in the flow of credit to the agriculture and SME sectors. With a view to bringing a larger segment of excluded population within the banking fold, banks were advised to introduce a facility of ‘no frills’ account. About 13 million ‘no frills’ accounts were opened in a short span of two years. The confidence in the urban co-operative banking segment was eroded in the early 2000s following a run on a multi-state co-operative bank. In order to restore the confidence and overcome the problem of dual control over urban co-operative banks, a mechanism of the TAFCUBs was put in place, which helped restore the
confidence in the urban cooperative banking segment. This phase also witnessed some significant changes in the use of technology by banks. Increased use of technology combined with some other specific initiatives helped improve the customer service by banks.

Performance Scheduled Commercial Banks in India (1991-92 to 2008-09)

1. Trends in Deposits

The trends in terms of deposits of Scheduled Commercial banks depicts that nationalized banks mobilized highest deposits, which is almost 50 per cent of the total deposits of industry average. This is followed by SBI group. As compared to their counterparts the public sector banks outperformed in terms of deposit mobilization. This can be attributed to larger branch networks.

2. Trends in Advances

Deposits if kept idle may become dead assets for the banks; hence these deposits should be channelized for the purpose of investment for earning income. The trend growth rate of advances is higher than the deposits during the study period. It implies that the deposits have been mobilized adequately. Again the public sector banks outperformed their counterparts owing to the privilege of their ownership.

3. Trends in Business

Though the industry demonstrated a steady increase from 1991-92 to 2004-05, the business accelerated significantly thereafter, the growth may be
attributed to the emergence of large development and financial institution (IDBI) into commercial banking and may be due to technological changes in the banking scenario.

4. **Trends in Income**

The trend in the income reveals, public sector banks generated highest income as compared to their counterparts, however they reported lowest trend growth rate. The new private sector banks outperformed the public sector banks groups owing to their diverse business activities and also the capacity to generate income through high interest rates.

5. **Trends in Interest Income**

Public sector banks and new private sector banks on an average generated highest interest income while old private sector banks followed by foreign banks generated the lowest interest income during the study period. In terms of trend growth rate, new private sector banks secured the highest growth rate whereas State bank group, followed by foreign bank and nationalized banks recorded the lowest. As basic entities, Private sector banks (23.3 per cent) registered higher growth rate than the Public sector banks (12.2 per cent) and foreign banks (11.8 per cent)

6. **Trends in Non-interest income**

Amongst the bank groups nationalized banks followed by SBI group on an average generated highest non-interest income, while old private sector banks and foreign banks generated the least during the study period. As entities, public sector banks and private sector banks generated Rs.15, 861 crore and Rs.5, 039 crore respectively. Group wise analysis based on the trend growth
rate reveals that new private sector banks followed by foreign banks recorded the highest growth rate while SBI group and nationalized banks recorded the lowest. The corresponding growth rate for public and private sector banks as entities is 13.9 per cent and 28.1 per cent. The tremendous increase in growth of private sector banks is a result of the contribution of new private sector banks.

7. Trends in Profits

Profits of SBI grew consistently with slight fluctuations during the initial years of reforms, while nationalized banks incurred losses in the year 1993, 1994 and 1996; however they showed steady increase thereafter. Amongst different groups followed by nationalized banks and new private sector banks, generated highest profits while old private sector banks, the lowest during the study period. An inter group analysis on the basis of trend growth rate divulges that new private sector banks followed by nationalized banks secured the highest growth rate whereas old private sector banks and foreign banks, registered the least. As entities, the trend growth rate of private sector banks (28.5 per cent) is higher than the public sector (22.0 per cent) and foreign banks (17.2 per cent).

8. Trends in Expenditure

Amongst the bank groups, nationalized banks followed by SBI group and new private sector banks on an average incurred highest expenditure, while old
private sector banks and foreign banks incurred the lowest during the study period. An analysis of the different groups based on the trend growth rate reveals that new private sector banks (32.9 per cent), followed by old private sector banks (13.3 per cent) registered highest trend growth rate, whereas SBI group as well as nationalized banks (11.2 per cent each) registered the lowest and are below the industry average, implying that public sector banks performed well by registering lowest trend growth rate on this indicator.

9. Trends in Operating Expenses

Nationalized banks, followed by SBI group and new private sector banks on an average generated highest operating expenditure, while old private sector banks followed by foreign banks generated the lowest on this parameter. Amongst the bank groups, new private sector banks reported a phenomenal trend growth rate of 36.5 per cent followed by foreign banks (15.9 per cent). As basic entities, Private sector banks (24.3 per cent) registered higher growth rate than foreign banks (15.9 per cent) and Public sector banks (10.2 per cent).

10. Trends in Establishment Expenses

Amongst the bank groups, the nationalized banks, on an average incurred the highest establishment expenses while old private sector banks incurred the least during the study period. A group-wise analysis based on the trend growth rate reveals that new private sector banks followed by foreign banks recorded the highest trend growth rate while old private sector banks followed by nationalized banks and SBI recorded the lowest on this dimension. As entities, private sector banks (19.4 per cent) registered higher trend growth rate than foreign banks (17.5 per cent) and public sector banks (10.4 per cent) implying that public sector banks performed better than its counter parts by registering lowest trend growth rate.
11. Trends in Spread

Amongst the bank groups, the nationalized banks followed by SBI group registered highest spread, while old private sector banks registered the least during the study period. Bank group wise analysis based on the trend growth rate reveals that new private sector banks (34.1 per cent) registered highest, while foreign banks (14.5 percent), and followed by nationalized banks (14.3 per cent) and old private sector banks (14.1 per cent) reported the lowest trend growth rate on this parameter during the study period. As basic entities, private sector banks group (24 per cent) registered higher trend growth as against it counterparts.

12. Trends in Working Funds

Amongst the bank groups, nationalized banks (Rs. 7,63,320 crore), followed by SBI group (Rs.4,39,894 crore) and new private sector banks(Rs.2,30,541 crore) on an average incurred highest working funds while old private sector banks(Rs.86,106 crore) and foreign banks(Rs. 1,31,791 crore) registered the lowest. The trend growth rate of different bank groups reveals that new private sector banks (32.7 per cent) have registered a phenomenal trend growth rate, while other bank groups reported a little less than the industry average. As basic entities the private sector banks registered a trend growth rate of 25.3 per cent, while foreign banks and public sector banks reported 15.1 per cent and 14.1 per cent trend growth rate respectively.

13. Trends in number of branches

Amongst the Public sector banks, nationalized banks have larger share in terms of number of branches (33, 019), followed by SBI group (13,608). The share of SBI group is 29.1 per cent, while that of nationalized banks is 70.6 per
cent and IDBI bank has a negligible share of 0.66 per cent. The share of old private sector banks (80.4 per cent) is more than new private sector banks (25.1 per cent) in the private sector banks category. In term of trend growth rate, new private sector banks (27.9 per cent) and IDBI bank (34.8 per cent) reported highest growth rate. This implies a phenomenal progress in terms of branch expansion in these categories. Old private sector banks (1 per cent) reported the least trend growth rate revealing a negligible branch expansion in this group of banks.

14. Trends in Staff Strength

Public sector banks as a whole reported a declining trend growth rate of -1.5 percent. The decline is more prominent in nationalized banks (-1.8 per cent) than that of SBI group (-1.2 per cent). Beginning from 1998 onwards Public sector banks have downsized through Voluntary Retirement scheme. Private sector banks as a whole registered a trend growth rate of 6.6 per cent while foreign banks reported a steady increase at a trend growth rate of 4.7 per cent during the study period. Amongst different bank groups, new private sector banks (34.1 per cent) registered highest trend growth rate while nationalized banks (-1.8 per cent) registered the least.

Performance of Commercial Banks

Branch Efficiency

1. Deposits per branch

As basic entities, the average deposits of foreign banks (Rs.333.26 crore) registered the highest, while public sector banks (Rs.21.11 crore) the lowest. In terms of trend growth rate, private sector banks outperformed the other
groups primarily due to the emergence of new private sector banks. There is significant variation in the $R^2$ value of various bank groups with respect to this indicator.

Within the public sector banks category COB (Rs. 26.7 crore) reported the highest deposits per branch while DB (Rs.13.0 crore) the lowest. In terms of trend growth rate DB (17.3 per cent) documented the highest, whereas IB (10.9 per cent the lowest. Within SBI group there is no significant variation in the $R^2$ value of different banks while among the nationalized banks, there exists considerable variation between IB bank and other banks in the group.

2. Advances per branch

Group-wise foreign banks (Rs.244.74 crore) secured highest advances per branch whereas public sector banks (Rs.12.81 crore) reported the lowest. In terms of trend growth rate, private sector banks (22.8 per cent) reported the highest and foreign banks (12.6 per cent) the lowest. There is considerable variation in the $R^2$ value of new private sector banks and other bank groups on this indicator.

Within the public sector banks, SBI (Rs.16.38 crore) registered the highest average advances per branch and UNBOI (Rs.6.56 crore) the lowest. SBOI (18.8 per cent) registered the highest trend growth rate and IB (10.7 per cent) the lowest. Within the SBI group, there is no significant variation among the banks in the group, while there is considerable variation between IB and other banks in the nationalized banks group.

3. Business per branch

As entities, foreign banks (Rs.578.01 crore) registered the highest business per branch, while public sector banks (Rs.33.92 crore) the lowest. In terms of
trend growth rate, private sector banks (21.4 per cent) reported the higher than its counter parts. The Regression analysis of the data reveals that there is considerable variation in the $R^2$ values of new private sector banks and other groups with respect to this ratio.

Amongst public sector banks, OBOC (Rs.43.05 crore) registered the highest per branch business while AB, UNBOI (Rs.20.78 crore) the lowest. With regard to trend growth rate SBOT (17.6 per cent) registered the highest and IB (10.9 per cent) the lowest. Within the SBI group, there is no significant variation among the banks however there exists slight variation amongst different banks in the nationalized banks group.

4. Income per branch

Group-wise Foreign banks (Rs.61.0 crore) registered the highest average income per branch whereas public sector banks (Rs.2.33 crore) the lowest. The trend growth rate of private sector banks is higher than its counter parts. There exists huge variation between new private sector banks and other bank groups with respect to this indicator.

Within the public sector banks category, SBI (Rs.3.20 crore) reported the highest while AB, CBOI (Rs.1.38 crore) the lowest. With regards to trend growth rate, SBOI (13.7 per cent) documented the highest while BOB 8.9 per cent) the lowest. The regression analysis of the statistical data reveals there is no significant variation amongst different banks within the SBI group. Amongst the nationalized banks, there exists considerable variation among P&SB and other banks in the nationalized banks group.

5. Profit per branch
As entities, foreign banks (Rs.7.98 crore) registered the highest profit per branch while public sector banks (Rs. 0.18 core) the lowest. Private sector banks (23.8 per cent) registered highest trend growth rate while foreign banks (13.0 per cent) the lowest. The regression analysis of the statistical data reveals that there is moderate to high fluctuation in the $R^2$ values of different bank groups.

Amongst the public sector banks category, COB (Rs.0.37 crore) reported highest profits per branch, while UNBOI (Rs.0.03 crore) the lowest. With regards to trend growth rate IOB (27.9 per cent) registered the highest and SBOS (14.5 per cent) the lowest. There exists moderate to high variation among the banks in the SBI group as well as nationalized bank group on this indicator,

6. **Expenditure per branch**

Bank group-wise foreign banks (Rs. 53.33 crore) incurred highest expenditure per branch while public sector banks (Rs.2.15 crore) the lowest. Foreign banks (7.8 per cent) outshined its counter parts by registering lowest trend growth rate. There exists considerable variation in the $R^2$ value among different bank groups on this indicator.

Within the public sector category, SBI (Rs.2.9 crore) incurred highest expenditure while AB (Rs.1.27 core) the lowest. IB (6.8 per cent) surpassed its counter parts by registering lowest trend growth rate. Regression analysis of the statistical data reveals that there is slight variation in the $R^2$ value of different banks in the SBI group and moderate variation in the nationalized banks group.
7. Operating expenses per branch

As basic entities, foreign banks (Rs. 17.65 crore) incurred highest operating expenses per branch while public sector banks (Rs.0.56 crore) the lowest. Public sector banks (11.1 per cent) outperformed its counter parts by registering lowest trend growth rate. Within the public sector category, SBI (Rs.0.79 crore) incurred highest expenditure while AB (Rs.0.32 core) the lowest. SB (7.6 per cent) surpassed its counter parts by registering lowest trend growth rate.

8. Establishment Expenses per branch

Bank group –wise foreign banks (Rs. 13.3 crore) incurred highest expenditure per branch while private sector banks (Rs.0.35 crore) the lowest. Public sector banks (9.0 per cent) outshined its counter parts by registering lowest trend growth rate. Within the public sector category, SBI (Rs.0.54 crore) incurred highest expenditure while AB (Rs.0.21 core) the lowest. CBOI (6.7 per cent) surpassed its counter parts by registering lowest trend growth rate.

9. Spread per branch

As entities foreign banks (Rs.21.9 crore) registered the highest spread per branch, while public sector banks (Rs.12.2 crore) the lowest. In terms of trend growth rate, private sector banks (20.4 per cent) reported the higher than its counter parts. Amongst public sector banks, SBI (Rs.0.96 crore) registered the highest spread per branch while AB (Rs.0.39 crore) the lowest. With regards to trend growth rate IB (17.3 per cent) registered the highest and SBOP (9.8 per cent) the lowest.

10. Priority Sector Advances per branch
Amongst the public sector banks, SBOP (Rs.5.64 crore) registered the highest average priority sector advances per branch while UNBOI (Rs.2.23 crore) the lowest. In terms of trend growth rate SBOI (19.2 per cent) registered the highest whereas BOB (12.9 per cent) the lowest.

Employee Efficiency

1. Deposits per employee

As basic entities, the average deposits of foreign banks (Rs.333.26 crore) registered the highest while public sector banks (Rs.21.11 crore) the lowest. In terms of trend growth rate, private sector banks outperformed the other groups primarily due to the emergence of new private sector banks. Within the public sector banks category, COB (Rs. 26.7 crore) reported the highest deposits per branch while DB (Rs.13.0 crore) the lowest. In terms of trend growth rate DB (17.3 per cent) documented the highest, whereas IB (10.9 per cent) the lowest.

2. Advances per employee

Group-wise foreign banks (Rs.2.8 crore) secured highest advances per employee whereas public sector banks (Rs.0.8 crore) reported the lowest. In terms of trend growth rate, private sector banks (20.7 per cent) reported the highest and foreign banks (12.1 per cent) the lowest. Within the public sector banks, OBOC (Rs.1.21 crore) registered the highest average advances per employee and UNBOI (Rs.0.51 crore) the lowest. SB (21.7 per cent) registered the highest trend growth rate and DB (13.0 per cent) the lowest.

3. Business per employee
As entities foreign banks (Rs.6.57 crore) registered the highest business per employee, while public sector banks (Rs.2.19 crore) the lowest. In terms of trend growth rate private sector banks (19 per cent) reported the highest whereas foreign banks (10.2 per cent) the lowest. Amongst public sector banks, OBOC (Rs.3.27 crore) registered the highest per employee business while CBOI (Rs.1.50 crore) the lowest. With regard to trend growth rate, SB (19.3 per cent) registered the highest and IB (13.0 per cent) the lowest.

4. Income per employee

Group-wise Foreign banks (Rs.0.69 crore) registered the highest average income per employee, whereas public sector banks (Rs.0.15 crore) the lowest. Private sector banks (17.5 per cent) registered highest trend growth rate, whereas foreign banks (8.4 per cent) the lowest. Within the public sector banks category, PNB (Rs.0.26 crore) reported the highest average income per employee while CBOI, UCO, UNBOI (Rs.0.11 crore), the lowest. With regards to trend growth rate, VB (17.0 per cent) documented the highest while IB (12.0 per cent) the lowest.

5. Profit per employee

As entities, foreign banks (Rs.0.089 crore) registered the highest profit per employee while public sector banks (Rs. 0.012 crore) the lowest. Private sector banks (21.9 per cent) registered highest trend growth rate while foreign banks (12.2 per cent) the lowest. Amongst the public sector banks category, OBOC (Rs.2.7 lakh), reported highest profits per employee while UNBOI (Rs.0.31 lakh), the lowest. With regards to trend growth rate IOB (36.6 per cent) registered the highest and SBOS (16.8 per cent) the lowest.

6. Expenditure per employee
Bank group-wise foreign banks (Rs. 0.61 crore) incurred highest expenditure per employee while public sector banks (Rs.0.13 crore) the lowest. Foreign banks (7.4 per cent) outshined its counter parts by registering lowest trend growth rate. Within the public sector banks OBOC (0.19 crore) incurred highest expenditure while CBOI, UNBOI (Rs.0.10 crore) the lowest. IB (9.1 per cent) performed better than other banks by registering lowest trend growth rate.

7. Establishment expenses per employee

Bank group – wise foreign banks (Rs. 0.06 crore) incurred higher establishment expenses per employee than its counterparts. Private sector banks (10.8 per cent) outshined its counter parts by registering lowest trend growth rate. Within the public sector category, with an exception of P&SB (0.03 crore) all other banks incurred an average amount of Rs.0.02 crore each. In terms of trend growth rate SBOS (7.7 per cent) performed well on this indicator by registering lowest trend growth rate.

8. Spread per employee

As entities, foreign banks (Rs.0.25 crore) outperformed private (Rs.0.06 crore) and public sector banks Rs.0.04 crore). In terms of trend growth rate, nationalized banks (15.6 per cent) and old Private sector banks (15.0 per cent) reported highest trend growth rate while new private sector banks (-0.3 per cent) and foreign banks (9.9 per cent) the lowest. Amongst public sector banks, COB and IOB (0.6 crore) registered the highest spread per employee. With regard to trend growth rate, ANB (17.3 per cent) registered the highest, and SBOS (12.4 per cent) the lowest.
9. **Working funds per employee**

As entities, foreign banks (Rs.6.66 crore) registered the highest working funds per employee, while public sector banks (Rs. 1.60 crore) the lowest. With regard to trend growth rate nationalized and old private sector banks (15.7 per cent) registered highest, while new private sector banks (-1.3 per cent) the lowest.

**Business Performance**

1. **Return on Assets**

Foreign banks (1.11 per cent) followed by new private sector banks (1.01 per cent) made highest returns during the study period, while Nationalized banks made the least on this ratio, however the trend growth rate portrays a different picture. New private sector (-3 per cent) banks and foreign Banks (1.1 per cent) reported the lowest, while nationalized banks the highest 10.5 per cent).

Amongst public sector banks, COB (1.19 crore) registered the highest returns while IB (-0.52) the lowest. With regard to trend growth rate IOB (21.0 per cent) followed by IB (18.6 per cent) registered the highest and SBOS (1.9 per cent) the lowest.

2. **Credit –Deposit Ratio (CDR)**

Group wise the Credit Deposit Ratio of Foreign Banks (70.49 per cent) and Private Sector banks (60.85) is highest while that of public sector banks is 55.85 which is below the norm as prescribed by RBI. New private sector banks (3.2 per cent) reported highest on trend growth rate while old private sector
banks (1.4 per cent) the lowest. Regression analysis of the data reveals that there are huge disparities in the R square value of all the bank groups with respect to C-D ratio.

Amongst public sector banks, SBOI (61.92 per cent) followed by SBOT (61.24 per cent) and SBOM (60.78 per cent) registered the highest CD ratio, while UNBOI 38.7) the lowest. With regard to trend growth rate, COB (4.1 per cent) registered the highest and IB (-0.2 per cent) the lowest.

3. Establishment expenses to total expenses

Bank group-wise comparison reveals that State bank group (18.39 per cent), followed by nationalized banks (18.02 per cent) registered highest establishment expenses/total expenses ratio and are above the industry benchmark, while new private sector banks (5.39 per cent) and foreign banks (9.73 per cent) the lowest. As basic entities/ the percentage of establishment expenses to total expenses is high in the case of public sector banks (18.01 per cent) and low in case of foreign banks (9.73 per cent), implying high labor cost in public sector banks. With regard to trend growth rate, private sector banks (-4.5 per cent) and public sector banks (-1.1 per cent) have shown significant improvement on this ratio by registering lowest trend growth rate.

Amongst public sector banks, SBOM (24.54 per cent) registered the highest establishment expenses to total expenses, while OBOC (11.20) followed COB (12.06 per cent) the lowest. With regards to trend growth rate IOB (-7.8 per cent) performed well by registering lowest while IB (2.8 per cent) the highest.
4. **Interest income as a percentage to total income**

During the entire period new private sector banks reported on lowest interest income, while nationalized banks the highest. An analysis of bank groups based on the trend growth rate reveals that State bank group, old private sector banks (-0.2 per cent each) registered highest ratio, while foreign banks (-1.30 per cent) and new private sector banks (-1 per cent) the lowest. The regression analysis of the data reveals that there exists wide fluctuation in the R square value amongst different bank groups.

Amongst public sector banks, SBOP (88.16 per cent) registered highest on this ratio, while COB (80.7 per cent) the lowest. With regard to trend growth rate IOB (0.1 per cent) reported the highest while DB (-0.6 per cent) the lowest.

5. **Non interest incomes as Percentage to total income**

A bank group wise analysis based on the average ratio reveals that foreign bank (23.80 per cent), followed by new private sector banks (19.58 per cent) reported the highest ratio, while nationalized banks (12.56 per cent) reported the lowest.

In terms of trend growth rate foreign banks (4.8 per cent) registered the highest while old private sector banks and SBI group (1 per cent each) the lowest.

The regression analysis of the data reveals wide fluctuations in the $R^2$ value amongst different bank groups.
Amongst public sector banks, SBBJ (15.86 per cent) registered highest on this ratio, while UBOI (9.61 per cent) the lowest. With regards to trend growth rate SBOB & UNBOI (3.9 per cent) reported the highest, while IOB (-0.9 per cent) the lowest. The regression analysis of the data reveals there exists moderate to high variation among different banks in the Public sector bank group.

6. **Spread as a percentage to working funds**

A bank group wise analysis based on the average ratio reveals that foreign bank (3.75 per cent),) reported the highest, while new private sector banks (2.34 per cent) reported the lowest. The trend growth analysis of different bank groups reveals that new private sector banks (1.4 per cent), registered the highest while and old private sector banks (-0.9 per cent) registered the lowest on this ratio. The regression analysis of the data reveals wide fluctuations in the $R^2$ value amongst different bank groups.

Amongst public sector banks SBOP (3.39 per cent) registered the highest, while IB (1.87) the lowest. In terms of trend growth rate SBOP (-5.1 per cent) registered the lowest, while IB (6.5 per cent) the highest. The regression analysis of the data reveals that there is no consistency in the R square value of various banks in the group.

7. **Priority Sector advances as percentage to total advances**

A bank wise analysis based on mean value reveals that SBOI (40.20 per cent registered highest on this indicator while SBOM (35.81 per cent) the lowest. In terms of trend growth rate, UCO (2.4 per cent) registered the highest trend growth rate while SBOS (-0.9 per cent) registered the lowest.

8. **Cost to Income**
A group wise analysis based on the mean value reveals that foreign banks (45.54 per cent) performed well by registering lowest while all other banks have registered a mean value above 50 per cent. While the trend growth rate of different groups are taken into consideration, nationalized banks (-3.50 per cent) performed well by registering lowest trend growth rate, while New private sector banks (2.4 per cent) secured the bottom position by registering the highest. As separate entities, Public sector banks reported lowest trend growth rate than private and foreign banks. The regression output reveals that there exists huge variation in $R^2$ value of various bank groups, implying no correlation among them.

9. **Operating Cost as percentage to Total Assets**

An analysis of the bank groups reveals that on an average new private sector banks (1.88 per cent), followed by old private sector banks (2.21 per cent) and nationalized banks (2.37 per cent) performed better than other groups by registering lowest ratio on this indicator during the entire period, *i.e.*, between 1991-92 and 2008-09. A comparison of cost to asset ratio across the bank groups shows that during the study period reveals that nationalized banks (-3.50 per cent), followed by State Bank group (-2.90 per cent) and old private sector banks (-2.7 per cent) secured the top three ranks by reporting lowest trend growth rate while foreign banks (0.5 per cent and new private sector banks (2.3 per cent) secured the bottom two ranks by reporting highest ratio on this indicator. The regression output reveals that there exists moderate to high variation in $R^2$ value of various bank groups with regard to this ratio.

10. **Business per Unit Labor Cost**

Bank-group wise analysis based on the mean value reveals that new private sector banks (238.99 per cent) followed by foreign banks (111.74 per cent)
and old private sector banks (102.96 per cent), on an average registered highest and are above the industry average. Whereas SBI group (76.06) followed by nationalized banks (85.84) registered the lowest per employee business and are below the industry average.

SBI group (4.9 per cent) followed by nationalized banks (4.8 per cent) and old private sector banks (4.7 per cent) registered highest trend growth rate whereas new private sector banks (-0.8 per cent) and Foreign banks (-2.6 per cent) the lowest. As entities the trend growth rate of public sector banks (4.9 per cent) and private sector banks (0.62 per cent) was higher than foreign banks. The Regression analysis of the statistical data reveals that there is considerable variation between the bank groups with respect to this indicator.

11. Net NPAs as percentage to Total Advances

A bank group wise comparison based on the mean value reflects that foreign banks (1.62 per cent) followed by new private sector banks (2.41 per cent) performed well by registering lowest ratio and are below the industry average, while nationalized banks (5.08 per cent) followed by old private sector banks (4.57 per cent) and SBI group (4.41 per cent) documented the lowest and are above the industry average.

Whereas the trend growth rate of different groups are taken into consideration, Nationalized banks (-23.8 per cent) followed by old private sector banks (-17.6 per cent) and SBI group -16.1 per cent) secured the top three positions by registering lowest trend growth rate, while New private sector banks (-4 per cent) followed by foreign banks (-5.5 per cent) secured the bottom two ranks by reporting the highest trend growth rate. As separate entities, Public sector banks reported lowest trend growth rate than private and foreign banks.
The regression output reveals that there exists huge variation in $R^2$ value of various bank groups, implying no correlation among them.

**Key Findings**

The following findings have surfaced from the study on commercial banks and public sector banks during the period 1991-92 to 2008-09.

1. The performance of Scheduled Commercial Banks at branch level reveals that deposits, advances, business, profits have increased at a faster rate during the period of the study. The increase is more significant on profits front, particularly in the second half of the study period. Among the different groups, foreign banks and new private sector banks reported a remarkable progress in the average business, income, spread and working funds but reported a slow trend growth as compared to SBI group and nationalized banks. However, foreign banks and new private sector banks reported high on the average expenditure, operating expenses, establishment expenses at branch level. This may be due to installation of latest technology, hiring of talented employees and setting up of branches in metropolitan cities which call for high maintenance charges.

2. With regard to business efficiency, SCBs reported a consistent improvement both on average and trend growth rate on Return on assets, Credit –Deposit Ratio and the increase is more prominent from 2005 onwards. Establishment expenses to total expenses, Spread as percentage to working funds, Cost to income ratio, Operating cost to total assets and Net non-performing assets to total advances showed commendable improvement by reporting lower trend growth rate. Among the different groups, foreign banks and new private sector banks reported high on non interest income to total income as compared to nationalized and SBI group. On Operating cost to total assets front, SBI group
and nationalized banks performed better than foreign and private banks. SBI group and nationalized banks reported positive trend growth on business to unit labor cost while new private sector banks and foreign banks reported negative trend growth rate implying that public sector banks are better than their counterparts on this ratio. With regards to cost to income ratio, foreign banks outperformed the other groups. In terms of Net non-performing assets to total advances, nationalized banks reported a momentous improvement than other groups.

3. Performance efficiency of SBI group at branch level reveals that on an average deposits, advances, business, income, profits and priority sector advances increased both in terms of mean value and trend growth rate; however it is more significant on profits front. Amongst the group, SBI, SBOP, SBOH and SBOI showed substantial improvement on business, profits, income front. However, they also reported high on operating expenses, establishment expenses front. SBOT and SBOP showed substantial improvement on spread, priority sector advances as compared to other banks in the group. A similar trend is observed at the employee level. A key observation is that the group as a whole generated more profits per employee for the volume of business made by them. The trend growth rate of business is 16.3 per cent, while that of profits turned out to be 24.1 per cent. The tremendous increase is due to remarkable progress in this front from, 2002 onwards.

4. Performance of SBI group in terms of business efficiency reveals that Return on assets, Credit –Deposit ratio, non-interest income to total income and Priority Sector advances to total advances increased during the period of study and reported a positive trend growth rate depicting better performance in this field. The group reported a negative trend growth rate of -1 per cent on Establishment expenses to total expenses front, particularly due to declining
ratio towards the end of the study period. Amongst the banks, SBOP performed well on ROA, Spread as percentage to working funds, interest income to total income, establishment expenses to total expenses, while SBOI on Priority sector front in terms of mean value. On the trend growth perspective, SBOM performed well on ROA, CDR, SBBJ on non-interest income to total income and SBI on Priority sector front. During this period SBOS has performed poorly on several efficiency indicators and indicated an alarming threat for its endurance. Owing to these, the bank merged with SBI in the year 2008.

5. Performance efficiency of SBI group at branch level reveals that on an average profits and priority sector advances increased both in terms of mean value and trend growth rate; however it is more significant on profits front. Amongst the group, SBI, SBOP, SBOH and SBOI showed substantial improvement on business, profits, income front. However they also reported high on operating expenses, establishment expenses front. SBOT and SBOP showed substantial improvement on spread, priority sector advances as compared to other banks in the group. A similar trend is observed at the employee level. A key observation is that the group as a whole generated more profits per employee for the volume of business made by them. The trend growth rate of business is 16.3 per cent, while that of profits turned out to be 24.1 per cent. The tremendous increase in due to remarkable progress in this front fro 2002 onwards.

6. Performance of nationalized banks in terms of branch efficiency reveals that the trend growth rate of business, income, profits priority sector advances showed significant improvement and it is more prominent in case of profits. Amongst the banks BOI, BOB, CB, COB, OBOC, on an average revealed high volume of business and profits but showed moderate trend growth rate, while
banks like IB, IOB, BOM, DB, P&SB, and UCO were low on volume of business and profits but high on trend growth rate. It appears that these banks have responded to the process of reforms to some extent. The employee efficiency is slightly higher than the branch efficiency.

7. The business efficiency of nationalized banks reveals that BOM, IB, P&SB, UCO and UNBOI registered negative returns during the period of study. This is primarily because almost three fourth of nationalized banks showed negative return during the early 4-5 years of reforms period. Only COB and IBOC are above one per cent. Most of the banks registered negative trend growth rate on establishment expenses to total expenses and it is more significant in the case of IOB indicating that the extent of human resources used has been reduced. UNBOI reported highest trend growth rate on spread to working funds. Only BOI (59.18 per cent) is nearest to the industry norm in terms of Priority sector advances to total advances. The percentage of non-interest income to total income is highest in case of COB (14.55 per cent) during the period of study.

Conclusions:

The performance of the banking sector improved during the period of study. However, most of the gains resulted from the period 1997-98 onwards. The rise in productivity emanated primarily from technical progress (innovation), robust HR and business strategies. Public sector banks have made commendable progress by bringing down the percentage of Net non-performing assets to total advances and also by increasing the business per unit labor cost. Also progress has been achieved on ‘Cost to income’ front during the last three to four years of the study. Although one can observe the changes in the overall efficiency, some banks are still lagging behind in
catching up the enhanced technological capability, innovative practices and consumer aspirations into the system.

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