CHAPTER-3

RESEARCH METHODOLOGY

3.1 STATEMENT OF PROBLEM

A Sound Banking System is essential for the future growth of any Financial System. The Financial Sector Reforms were implemented in our country during 1991-92 with an objective to improve the efficiency of the Banking System, effective conduct of monetary policy and creating conducive environment to enable integration of Indian Financial System with that of Global System.

Banks by using deposits for advancing loans and making investments brings income in return. A credit going to industry or the service sector will fetch high earnings and if it goes to priority sector then it will not, because loans to such sector are on concession basis. The share of priority sector advances to total advances is also an important determinant of profitability. The cost involved in priority sector lending is more because of various returns and formalities to be fulfilled. Lack of security, over-dues and litigations further add to the cost. An investment in non-performing assets also adversely affects profitability of the bank.

The IT revolution has had a great impact on the Indian banking system. The use of computers has led to the introduction of online banking in India. The use of computers in the banking sector in India has increased manifold after the economic liberalisation of 1991 as the country's banking sector has been exposed to the world's market. Indian banks were finding it difficult to compete with the international banks in terms of customer service, without the use of information technology.

In the year 1992, prior to the introduction of financial sector development, the government sector were present in each and every sphere of economic action, played a principal role towards the requirements of development.

The rule for an administered interest rate has been resulted in financial intermediation of low-quality and high-cost, and the pre-emption of a huge amount of bank deposits result in the form of reserves. The existence of the interest rates structure that has been found difficult and it is taking place from the concerns of both
social and economic, regarding the supply of acknowledgment credit towards definite sectors which resulted in cross subsidization, where the larger rates stimulating to non-concessional borrowers were involved. On deposits and lending, through specified regulatory instructions, the administered interest rates system was distinguished which in further leads to interest rates in large quantity.

Therefore, among the commercial banks’ lending rates and deposits rates the spreads have been increased, and in the credit risk the administered lending rates does not make any issue. During the banking system operations, the lack of prudential norms, accountability, and transparency also results in the expanding of non-performing assets trouble. The bank’s functional autonomy and operational independence has been confined by the inflexibility in management structures and licensing of branches which has increased the overhead costs on the expenditure front.

During the period, the financial environment by means of underdeveloped and segmented financial markets was distinguished. Therefore, this has resulted in the incompetent allocation of scarce resources and distortion of interest rates. In relation to exposure norms, provisioning, asset classification, income recognition, and capital adequacy, the execution of prudential norms has been found. The economy of world has also observed most important variations like ‘corresponding with the movement towards financial services and global iteration’, even though these reforms were employed.

For the purpose of present reform process, on banking sector a government-appointed committee has provided the blueprint, against such conditions.

During the reform period, the noteworthy and critical reforms in the financial system have incorporated the following:

- Permitting the banks to select their lending rates and deposit, by liberalizing the interest rate rule.
- Establishing micro-prudential measures like income recognition, provisioning norms for loans, accounting norms, capital adequacy requirements, asset classification, and exposure norms.
- Authorizing higher disclosure to make sure of larger transparency in the balance sheets.
• Introducing competition by allowing the establishment of new foreign banks and also permitting more liberal entry of foreign banks.

• Assuming a consultative method so as to originate policy through measures that are being ushered by the participants of market to supply lead time useful to the market players in order to create required adjustments.

• Reducing the statutory reserve necessities for statutory liquidity ratio (SLR) and for cash reserve ratio (CRR).

• Expanding the public sector banks’ ownership in order to increase their capital up to 49 percent from the market by means of public issue.

The present study aims to analyse the financial performance of Indian Banking Sector, in general, since introduction of reforms. Several Private Sector Banks commenced operations during the said period, which further accelerated channelizing the savings of the investors more efficiently and effectively. A comparative analysis of PSBs as well as PBs will definitely help in evaluating the overall performance of Indian Banking System.

3.2 JUSTIFICATION OF THE STUDY

After analyzing the Literature Review, we found that very limited work has been done on the topic entitled “Performance Evaluation of Commercial Banks in India”. The already done work has been focused on the single parameter of measuring the performance i.e. either by focusing on efficiency or by considering profitability. The present study aims to focus on the five broad parameters of measuring the performance: Volume and Size, Efficiency, Profitability, Assets Quality and Soundness to evaluate the performance in a better way. In addition to this the present study examines the performance in phased manner of the reform period i.e. first phase of reforms (1991-1998) and second phase of reforms (1998 onwards till 2012) and also compares the performance of public and private sector banks.

The result of this study will immensely help the Management of Banks in order to:

1. Strategize policy measures for enhancing their competitiveness and opportunities and also to make them operate in a market-led competitive environment.
2. To shift the focus from process-based management to risk-based management, cost reduction, introduction of innovative new products, especially fee-based services to further improve the profitability.

3.3 OBJECTIVES OF THE STUDY

The present study examined the performance of different commercial banks in India. This study also tried to find out that which segments of banks prove inefficiently on the basis of different parameters being used. The specific objectives of the study are:-

1. To understand the key reforms introduced in the banking sector.
2. To study the impact of reforms on the financial performance of banks.
3. To study the financial performance of public and private sector banks.
4. To make a comparative financial performance analysis between public and private sector banks.

3.4 HYPOTHESIS

As stated above the objective of the present study is to measure the performance of different segments of banks in the country with the help of Ratio Analysis and to measure the relative changes in the performance of the different segments of the banks. Basis on the above objectives the following hypotheses have been set:

Ho1. There is no significant impact of reforms on the financial performance of the Public and Private Sector Banks;

Ho2. There is no significance correlation between Volume and size and Profitability (ROA) of the Public and Private Sector Banks.

Ho3. There is no significance correlation between Efficiency (Branch level and Employee Level) and profitability (ROA) of the Public and Private Sector Banks.

3.5 RESEARCH METHODOLOGY

The present study is a descriptive research. Mainly we have used secondary data from different sources. The study has been conducted by using specific financial
ratios to study the comparative analysis of the PSBs and Private Sector Bank. The specific ratios are helpful in evaluating the efficiency of Banks, which not only indicate the past trend but would predict the likely performance in future as well. Those ratios have been classified into five Performance indicators viz., Volume, and Size, Efficiency, Profitability, Asset Quality and Soundness, Growth Trend and Several Specific Performance Ratios, assisted and explained in Appendix-1, have been studied in depth to evaluate the financial performance of Indian Banks (PSBs And PBs). The findings of study would be of assistance to the management of the Banks for planning their financial strategies for attaining the set financial performance objectives and in exploring further opportunities.

Apart from the above, following statistical tools have been used to analyse the relevant data for testing Hypothesis framed for the study:

- **Mann-Whitney U Test**
- **Karl Pearson Correlation Coefficient**

**The Mann-Whitney U Test** is used to compare difference between two independent groups when the dependent variable is either ordinal or interval/ratio, but not normally distributed. It is a non parametric test that compares the mean values of the two samples. The Mann-Whitney Test can be used to evaluate two different data populations, such as performance results from two separate production lines, or customer survey responses taken before and after a process improvement has been implemented.

**Karl Pearson Correlation Coefficient** between two variables is defined as the covariance of the two variables divided by the product of their Standard Deviations. It is a statistical measure of linear relationship between two variables in a sample and used as an estimate of the correlation in the whole population. It not only gives an idea about the co variation about the two series but also indicates the direction of relationship. It ranges from +1 to -1. The zero indicates no linear relationship between variables.

### 3.6 SCOPE/ AREA OF THE STUDY

For the purpose of assessment of performance of banks, the Reserve Bank of India categories them as public sector banks, private sector banks and foreign banks.
The proposed study tries to evaluate the performance of all the public sector and private sector banks operating in India for a period of Twenty Two years (April 1991 to March 2012).

Presently there are total 86 Schedule Commercial Banks in India. These Banks are grouped by RBI as follows:

**Table 3.1 : Bank Groups**

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India (SBI)</td>
<td>01</td>
</tr>
<tr>
<td>SBI Associates</td>
<td>05</td>
</tr>
<tr>
<td>SBI Group(G-1)</td>
<td>06</td>
</tr>
<tr>
<td>Nationalized Banks(G-2)</td>
<td>19</td>
</tr>
<tr>
<td>Other Public Sector Bank(IDBI Bank Ltd.)</td>
<td>01</td>
</tr>
<tr>
<td>Public Sector Banks(PSBs)</td>
<td>26</td>
</tr>
<tr>
<td>Old Private Sector Banks(G-3)</td>
<td>13</td>
</tr>
<tr>
<td>New Private Sector Banks(G-4)</td>
<td>07</td>
</tr>
<tr>
<td>Private Sector Banks(PBs)</td>
<td>20</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>40</td>
</tr>
<tr>
<td>Schedule Commercial Banks</td>
<td>86</td>
</tr>
</tbody>
</table>

**Source**: A profile of Banks 2011-12; RBI Publications.

This study has been done taking different Groups i.e., PSBs G-1 and G-2, PBs G-3 and G4. Groups containing all the 26 Public and 20 Private Sector Banks mentioned above. The period of study is divided into two Phases: First phase for period 1991-92 to 1998 (Narasimham Committee-1) and the Second Phase for the period 1998-99 onwards (Narasimham Committee-2) till 2011-12.

### 3.7 SELECTION OF BANKS

The present study has evaluated the performance of all the 26 Public and 20 Private Sector Banks operating in India.

### 3.8 SAMPLING TECHNIQUES

1. **Sampling Units**: We have conducted the study on all public sector and all private sector banks.
2. **Sample Size:** The sample size for the study is both the Banking Groups (G-1+G-2) and (G-3 + G4) comprising all the 26 Public Sector Banks and 20 Private Sector Banks as mentioned above.

3. **Sampling Method:** Since all the 26 Public and 20 Private Sector Banks among both the Bank Groups i.e., Public Sector Banks and Private Sector Banks were taken up for doing this research work, so no sampling method was required.

3.9 **DATA COLLECTION AND ANALYSIS**

The current study has evaluated the performance of the Banking Groups (G-1+G-2) and (G-3 +G4) comprising all the 26 Public Sector Banks and 20 Private Sector Banks separately, which include the following:

1. **Volume and Size**
   i. No. of Employees
   ii. No. of Branches
   iii. Aggregate Deposits
   iv. Aggregate Advance
   v. Total Business
   vi. Market Share of Group of Banks in Total Business

2. **Efficiency**
   i. Branch Level Efficiency
      a) Business per Branch
      b) Profit per Branch
   ii. Employee Level Efficiency
      a) Business Per Employee
      b) Profit Per Employee
   iii. Operating Profit to Total Assets
   iv. Operating Expenses to Total Assets
3. **Profitability**
   
i. Return on Assets (ROR)
   
ii. Return on Equity (ROE)
   
iii. Net Interest Margin (NIM)
   
iv. Other Income to Total Income
   
v. Credit-Deposit Ratio

4. **Assets Quality**
   
i. Gross NPA to Gross Advances
   
ii. Net NPAs to Net Advances

5. **Soundness**
   
i. Capital Adequacy Ratio (CRAR)
   
ii. Distribution of Banks by CRAR

### 3.9 PERIOD OF STUDY

The period under this study is covered from 1991-2012.

### 3.10 SOURCES OF DATA

i. The study has been based on the secondary data published by the various institutions and organizations concerned with commercial banks.

ii. The publications of the Reserve Bank of India.
   
   A) Report on Trend and Progress of Banking in India (Annual).
   
   B) Banking Statistics Report on Currency and Finance (Annual),
   
   C) RBI Bulletins (Monthly) etc.
   
   D) Hand Book of Statistics on Indian Economy
   
   E) A Profile of Banks of different years
   
   F) Database on Indian Economy

iii. Publication of Indian Banking Association, Mumbai.
   
   A) Data published by the Indian Banks’ Association in monthly bulletins;
B) Indian Banking at a Glance

C) Performance Highlight of Public Sector-Various Issues

D) Performance Highlight of Private Sector-Various Issues

iv. Economic Survey of Government of India,

v. IBA Bulletins (Monthly and Special Issue)

vi. Business News Papers and Bulletins

vii. Publications of leading Institutes in India and World.

viii. International Journal/National Journals

ix. Websites:

A. www.rbi.org.in

B. www.iba.org.in

C. www.banknetindia.com

3.12 LIMITATIONS OF THE STUDY

1. All the economic and scientific studies are generally faced with several limitations and the current study is no exception to the phenomenon.

2. The basic objective of the study suffered to some extent due to inadequacy of time series data from relevant sources. There has also been problem of sufficient homogeneous data from different sources. Therefore, the averages have been used on certain occasions.

3. Besides what has been discussed here, since it is Ph.D. Report, The researcher did face certain problems related to resources like time and money.

3.13 SCHEME OF THE STUDY

The study comprises of eight chapters. The First Chapter is an introductory one which describes the theme of the study including Indian Banking system, Role of Banks in the growth of Indian Economy, reforms and present scenario of banks.
**Second Chapter** extensively covers the review of Literature for the studies that were earlier conducted in India and abroad by different researchers.

**Third Chapter** explains the need and relevance for this study, objective of the study and Hypothesis framed thereon, Research Methodology adopted, Utility of the Study and limitation of the study.

**Fourth Chapter** analyses the Financial Performance of Public Sector Banks, Group wise, SBI and Associate (G-1) and Nationalised Banks (G-2) through some well-defined and acceptable performance indicators, e.g., Volume and size of Banks, Efficiency, Profitability, Asset Quality and Soundness.

**Fifth Chapter** discusses the Financial Performance of Private Sector Banks, comprising old Pvt. Banks (G-3) and new generation Pvt. Bank (G-4) in term of above referred performance indicators.

**Sixth Chapter** makes analysis of Comparative Financial Performance of Public Sector and Private Sector Banks, followed by testing of Hypothesis through various statistical tools like Mann Whitney Test, Karl –Pearson Correlation Coefficient.

The last **Seventh Chapter** provides Findings, Suggestions and Conclusion emanated from the study for further improvement in performance of the Banks on an on-going basis.

### 3.14 REFERENCES:

- The Financial Express, (Survey - 2002), 'India's Best Banks',
- 'Bank quest' December - 2002
- 'Best Banks 20012’ Business India, (December-2012)
- www.rbi.org.in