CHAPTER I
INTRODUCTION

India’s financial services industry is dominated by the banking sector that contributes significantly to the revenue of this industry. The banking structure in India can be broadly be classified into Public sector, private sector and Foreign Sector. The Nationalised banks continue to dominate the Indian Banking arena, in terms of the extent of money transaction, spread branches and serve as an useful institution for revenue generation. Importance of banks in accelerating the economic development of our country has been increasingly recognized with the nationalization of fourteen major commercial banks in 1969 and six more banks in 1980. This led to rapid expansion in branches with growth in deposits and advances.

The banking sector in India is passing through a period of structural change under the combined impact of financial sector reforms, internal competition, changes in regulation, new technology, global competitive pressures, and fast evolving strategic objectives of banks and their existing and potential competitors.

The change has occurred in the order of objectives of Banking. Traditionally, earning more interest income was the primary aim and providing services to earn non-interest income was subsidiary. But now emphasis has been changed to earn more non-interest income by providing
quality and efficient services. Earning interest income has become secondary due to drastic reduction in interest rates and severe competition from 8 new private banks and 40 foreign banks. Earlier payment of interest by the banks was the main source income to depositors. But now the customers expect the efficient and quality services from bank. The challenge to public sector banks is to retain customers and face competition with new banks. The available alternative is to continue cost effective measures and use of information technologies for survival, expansion and to protect bottomlines.

Under these situations of banks, the researcher felt the need for study of comparative cost and profitability of Indian Banks.

1. Need for the study:

All Nationalised Banks including S.B.I. are expected to play a nodal role in India Banking scenario. But these banks are not free from operational and financial maladies, inspite of their voluminous growth. Therefore the need was felt by the researcher to go into the details of its operational efficiency and financial profitability so as to identify the causative factors for hurdles in growth.

2. Statement of the problem:

Profit is the root cause for the growth and expansion of any bank. It is the result of bank efficiency and effectiveness in functional areas like deposit mobilization, credit management, recovery management, reduction in
operational costs, reduction in cost of obtaining deposits, etc. Viewed from this angle profit is both the cause for and effect of banks performance. A detailed investigation of the factors responsible for declining trend in operational profitability and efficiency, would throw light on black spots in the banks performance, which, in turn, would be useful for designing suitable operational and financial strategies for corrective action. Hence, the topic of the present research.

"COST EFFECTIVENESS AND PROFITABILITY IN COMMERCIAL BANKS:
A CASE STUDY OF STATE BANK OF INDIA".

3. Objectives of the study:

i. To examine the trends in operating profitability.

ii. To analyse the determinants of a) Interest revenue b) Interest cost and c) Operating cost.

iii. To appraise the operational efficiency.

iv. To study the measures undertaken for improving profit.

v. To present the growth and landmark developments in India banking industry.

vi. To offer suggestions on the basis of findings.
4. Research Methodology:

i. **Period of the Study**: The period of study has been confined to 14 years i.e. 1st April 1992 to 31st March 05. During this period the Indian banking industry has come across three different phases, namely.

   a) The period of initiation of banking sector reforms i.e., 1992-93 to 2004-05.

   b) The period of rapid growth from 1994-95 to 2004-05.

   c) Period of second round of reforms (Narasimhan Committee Recommendation-II) with year 2000-01 as a turnaround year.

ii. **Types of data**: Primary data as well as secondary data have been used for research. Direct interview with the bank officials and reference to annual publication financial statements, other reports were used to collect the data required for the study.

iii. **Sources of Data**: Personal enquiry with the bank managers of various banks, Annual Financial Statements, publications in Journals, interview with customers are the sources of data collection.

iv. **Tools of Collection**: Comparative Statistical Tables, Schedules, Diagrams Questionnaires are the Tools of data collections.

v. **Tools of Analysis**: Collected data have been analysed through the calculation of Mean, Standard Deviation, Correlation, Trends in the
changes of cost and profit of banks from year to year, Diagrams and Charts are the tools of Analysis.

5. Research Design:

The study is organized into following Six Chapters.

The FIRST Chapter deals with introduction to described the need and objectives of the study of the selected topic.

The SECOND Chapter is to Review the Literature regarding previous research conducted by others to avoid duplication of study on the selected topic.

The THIRD Chapter is dedicated to study the evolution and growth of commercial banks in India in the changing economic scenario.

The FOURTH Chapter Analyses return on investments of Banks.

The FIFTH Chapter Analyses spread and Burden of Banks with comparative statements.

In the LAST Chapter the main findings and suggestions have been incorporated on the study.