CHAPTER 10
CONCLUSIONS AND SUGGESTIONS

The present study aimed at analysing the performance of commercial banks in respect of efficiency, productivity and profitability of banks as an impact of liberalisation policy in the banking sector, on the public sector banks and the old private sector banks. It was important that their performance in the post-reform period should be compared with that of the beginning of reform period, so that the effects of the financial sector reforms could be observed.

As far as the period of analysis is concerned, it was divided into two parts. In the case of first period two years’ average of 1989-90 and 1990-91 (defined as 1990-91) is taken to represent the beginning of banking sector reforms, whereas the post-reform period is considered in the second period where again the average of 2002-03 and 2003-04 (defined as 2003-04) is taken. At the same time in the case of Capital Adequacy Ratio and Non Performing Assets ratios first period is the average of 1995-96 and 1996-97 (defined as 1996-97) because the data of NPA and CAR of the public and the old private sector banks was available from 1995-96 while second period is the average of 2002-03 and 2003-04. In order to analyse the impact of liberalisation on the performance of commercial banks, all the twenty-seven public sector banks were included in the present study. But out of the twenty old private sector banks in 2003-04, only seventeen were included in this study, because these seventeen banks were also working in 1989-90 and 1990-91.

The important ratios on the basis of which the performance of scheduled commercial banks is analysed are: Return on Assets, Return on Equity, Equity Multiplier, Net Interest Margin, Profit Margin, Efficiency Ratio, Overhead
Efficiency Ratio, Interest Expense Ratio, Non-Interest Expense Ratio, Non-Interest Margin, Asset Utilisation, Net NPAs ratio and CAR. With the help of these ratios efficiency, productivity and profitability of banks have been studied. In order to analyse the performance of different banks particular indicator is taken as one of the aspects of the performance of a bank such as efficiency, productivity and profitability. In order to know the exact position of a bank in the group, ranking has been done in terms of every indicator of the performance of a bank. At the end an overall ranking of public and old private sector banks has been presented.

10.1 Public Sector Banks

The average Return on Assets (ROA) ratio of the public sector banks group improved to 0.011 in 2003-04 over 0.001 in 1990-91.

The average Return on Equity (ROE) ratio of the public sector banks group improved to 0.209 from 0.101 in the same period.

The average Net Interest Margin (NIM) ratio of the public sector banks group improved from 0.019 to 0.030 during the study period.

The average Non-Interest Margin (Non-IM) ratio of the public sector banks group improved from -0.018 in 1990-91 to -0.003 in 2003-04.

The average Equity Multiplier (EM) ratio of the public sector bank group improved from 58.24 to 20.04 in the same period.

The average Efficiency Ratio (ER) of the public sector banks group improved from 0.934 in 1990-91 to 0.462 in 2003-04.
Overhead Efficiency Ratio (OER) of the public sector bank group improved to 0.860 in 2003-04 over 0.311 in 1990-91.

Interest Expense Ratio (IER) of the public sector banks group improved from 0.676 in 1990-91 to 0.497 in 2003-04.

Non Interest Expense Ratio (Non-IER) of the public sector banks group improved from 0.302 in 1990-91 to 0.231 in 2003-04.

Profit Margin (PM) ratio of the public sector banks group improved significantly from 0.020 to 0.110 in the same period.

Asset Utilisation (AU) ratio of the public sector banks group improved from 0.085 to 0.098 during the study period.

Thus the available evidence proves the hypothesis that the profitability, efficiency and productivity performance of the public sector banks improved in the post-reforms period compared to the beginning of banking sector reforms.

10.2 Old Private Sector Banks

The average ROA ratio of the old private sector banks group improved to 0.011 in 2003-04 over 0.002 in 1990-91.

The average ROE ratio for the old private sector banks group also improved to 0.195 from 0.173 in the same period.

But the average NIM ratio of the old private sector banks group deteriorated marginally to 0.025 from 0.026 during the study period.
Non-Interest margin ratio improved to 0.000 from -0.023 for the old private sector bank group in the same period.

Equity Multiplier ratio for the old private sector banks group improved to 18.48 in 2003-04 from 75.99 in 1990-91.

Efficiency Ratio improved from 0.917 to 0.457 for the old private sector banks group during the same period.

Overhead Efficiency Ratio improved for the old private sector banks group from 0.287 to 0.995 during the study period.

Interest Expense Ratio improved marginally from 0.597 in 1990-91 to 0.534 in 2003-04 for the old private sector banks group.

Non-Interest Expense Ratio for the old private sector banks group improved from 0.368 to 0.214 in the same period.

Profit Margin ratio improved from 0.035 to 0.115 for the old private sector banks group during both years i.e. 1990-91 and 2003-04.

Asset Utilisation improved from 0.086 to 0.100 for the old private sector banks group during the study period.

Thus the available evidence proves the hypothesis that the profitability, efficiency and productivity performance of the old private sector banks improved in the post-reforms period compared to the beginning of banking sector reforms.
10.3 Public Sector vs Old Private Sector Banks

A comparison of the ratios taken into account here shows that though the performance of the public sector banks has improved on almost all counts, the performance of the old private sector banks has been better at the time of initiating the reforms as well as in post-reforms period.

Thus the available evidence does not support the hypothesis that the performance of the public sector banks group had been more impressive with regard to profitability, efficiency and productivity compared to the old private sector banks group.

10.4 Large vs Small banks

10.4 (a) Public Sector Banks

It has been found that the small size banks have performed better than the large size banks in the beginning of as well as in the post-reforms period. The small size banks performed better than the large size banks on the basis of majority of the indicators taken into account.

Thus, the results indicate that the large size banks need not always treated as better performers than the small ones.

10.4 (b) Old Private Sector Banks

The performance of old private sector banks reveals a mixed result. In 1990-91, the small size banks among the old private sector banks performed
better than the large size banks while in 2003-04, the large size banks performed better than the small size banks.

Thus the available evidence does not prove the hypothesis that the large size banks have performed better than the small size banks except large size old private sector banks group in 2003-04 during the study period in the public as well as the old private sector banks group.

Thus, in brief, the analysis of the performance of commercial banks as an impact of liberalisation reveals that there is an overall improvement in profitability, efficiency and productivity of banks during the study period.

10.5 Suggestions

1. The study of the various performance indicators reveals that a large number of public sector banks as well as the old private sector banks are quite far away from the best performing banks on those indicators. The best performing banks should be treated as the guide models in order to improve the performance.

2. Our impression is that the public sector banks have a lot of scope to improve their performance. Concerted efforts must be made by these banks to continue the speed of improvement.

3. The study has indicated that large banks do not necessarily perform better than the small banks. Therefore, it is not necessary to enhance the size of banks through mergers in order to improve its performance.