ANALYSIS OF PERFORMANCE OF INDIAN PUBLIC SECTOR BANKS: A LITERATURE REVIEW

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ABSTRACT

Public Sector Banks (PSBs) play a key role in driving economic development by facilitating financial intermediation, promoting capital formation and promoting financial inclusion. These institutions serve as intermediaries, bridging the gap between savers and borrowers and channeling funds from surplus units to those in need of financing for productive endeavors. Especially in emerging economies where private financial institutions may be less developed or cautious about lending to riskier sectors, PSBs play a key role. In the Indian context, VPSs have been instrumental in financing the development of infrastructure, agriculture and small and medium enterprises (SMEs), thereby driving economic growth and promoting expansion. The role of Public Sector Banks (PSBs) in India's economic development has been the subject of much debate and discussion. Hence this paper through a literature review does an analysis of the performance of the Indian PSBs.

Keywords: *Public Sector Banks, Indian Economy, Economic Development, Literature Review*

Introduction

In India, banks have played an important role in economic growth and development. Since the 1970s, Public Sector Banks (PSBs) have been at the forefront of mobilizing resources from remote rural areas as well as extending banking services to the remotest parts of the country. The burden of the social agenda has largely been carried by public social networks without any compensation. In order to maintain the credibility of VS, which accounts for almost 70 percent of banking activities in the country, the government is therefore authorized to regularly recapitalize VS. However, there is a need for research on developing suitable norms, detailed, to assess the performance of various banks operating in India without stifling the flow of credit to the productive sectors.

PSBs perform the following key functions:

1. Mobilization and Pooling of Savings: Financial systems mobilize savings from many different
individuals, overcome transaction costs and information asymmetry and invest in projects that bring high returns and thereby enable economic growth.
2. Creating ex-ante information about possible investments and capital allocation: Individuals face high costs for obtaining information about companies, managers, the market conditions and related issues where investment opportunities exist. Financial intermediaries reduce these information costs through specialization and savings thereby improving resource allocation.
3. Monitoring investments and applying corporate governance: As a provider of capital, financial intermediaries can effectively monitor and influence how firms use capital and resources more efficiently.
4. Facilitation of trading, diversification and risk management: Financial systems help mitigate the risks associated with individual firms, industries, countries, etc. by investing in a diversified portfolio of innovative projects. Financial systems also facilitate intertemporal risk sharing and intergenerational smoothing.
5. Facilitating the exchange of goods and services: The financial system facilitates transactions in the economy by providing a mechanism for making and receiving payments.

This paper through a literature review does an analysis of the performance of the Indian PSBs.

Literature review

1. Chaudhary and Sharma (2011) state that economic reforms in India began in the early 1990s, but their results are visible only now. Major changes in the functioning of banks in India took place only after liberalization, globalization and privatization. It has become very

mandatory to study and conduct a comparative analysis of the services of public sector banks and private sector banks. Increased competition, new information technology and thus falling processing costs, disruption of product and geographic boundaries and less restrictive government regulation have all played a major role for public sector banks in India to compete violently with private and foreign banks. this paper attempts to analyze how effectively public and private sector banks manage NPAs. Authors used statistical tools to project the trend.

2. Kumar and Gulati (2010) evaluate the efficiency, effectiveness and performance of 27 Public Sector Banks (PSBs) operating in India using a two-stage performance evaluation model. Using cross-sectional data for the financial year 2006/2007, a data envelopment analysis technique was used to calculate efficiency and effectiveness scores for individual public broadcasters. An overall performance score was derived by multiplying the effectiveness and efficiency scores. Empirical results show that high efficiency does not mean high efficiency in the Indian PSB industry. A positive and strong correlation was noted between efficiency and performance measures. Further, on the efficiency front, State Bank of Travancore appears as the ideal benchmark, while State Bank of Bikaner and Jaipur and State Bank of Mysore appear as the ideal benchmarks on the efficiency front. The practical implication of the research findings is that in order to improve overall performance, Indian PSBs should pay more attention to their income generating capabilities (i.e. efficiency) compared to their ability to produce traditional outputs such as advances and investments (i.e. efficiency). This paper is perhaps the first to assess the performance of Indian banks by simultaneously considering efficiency and effectiveness aspects.
3. Kumar (2013) analyze the trends in cost efficiency and its components across Indian Public Sector Banks (PSBs) in the post-deregulation period from 1992/1993 to 2007/2008. The study also examines the issue of convergence of cost levels, technical and allocative efficiency of Indian PSBs. The empirical results suggest that deregulation has had a positive impact on the cost efficiency of the Indian public sector banking sector during the study period. Further, the technical efficiency of Indian PSBs followed an upward trend, while the allocation efficiency followed a decelerating path. We note that in Indian public sector banking, cost inefficiency is mainly due to technical inefficiency rather than allocative inefficiency. Convergence analysis reveals that inefficient PSBs not only catch up with laggards, but also outperform efficient ones, i.e., banks with a low level of cost efficiency at the beginning of the period grow faster than highly cost efficient banks. In summary, the study confirms the strong presence of σ- and β-convergence in the cost efficiency levels of the Indian public sector banking sector.
4. Aspal and Malhotra (2012) observe that the strength of any country's economy essentially depends on the strength and efficiency of the financial system, which in turn depends on a sound and solvent banking system. Banks need to be monitored more than any other type of economic unit. Regulators have recommended banking supervision through the CAMEL rating model to assess bank performance, which is better than earlier systems. The objective of this study is to measure the financial performance of Indian public sector banks excluding State Bank Group for the period 2006-11. The study found that Bank of Baroda ranked first with an overall composite rating of 6.05 due to its better performance in liquidity and asset quality, closely followed by Andhra Bank with an overall composite rating of 6.15 due to its strength in management effectiveness. Capital adequacy and asset quality. United Bank of India holds the bottom position with an overall composite rating of 14.60 due to management inefficiencies, poor assets and earnings quality. The study recommends that United Bank of India improve its management efficiency, assets and earnings quality. Similarly, Bank of Maharashtra

should take necessary steps to improve its liquidity position and management efficiency.

5. Singh et al. (2016) measure the intellectual capital performance of Indian banks and establish the relationship between intellectual capital and return on assets (ROA). The paper also compared the intellectual capital performance of public and private sector banks. This study is based on secondary data from India's 20 largest banks. Ten banks were selected from each public and private sector based on paid-up share capital. The analysis was done using intellectual value added coefficient, coefficient of variation, exponential growth rate, trend analysis, Yule coefficient, correlation coefficient, F-test and t-test. The study revealed that the private sectors performed relatively better in terms of overall information coefficient (IC) generation. However, ROA was still below the international benchmark of > 1 percent. The main cause of lower IC and reduced ROA is the disproportionate increase in capital employed and escalation of non-performing assets in the Indian banking sector. The study focused on managers and identified the causes of lower performance. It suggested a number of strategies to improve the overall IC score, which is closely related to bank profitability. This is the first study to conduct a comparative analysis of intellectual capital performance in public sector and private sector banks in India in addition to the traditional style of measuring sector performance. The study further used new statistical tools such as Yule's coefficient of association to determine the association between performance variables.
6. Kumar and Dhingra (2016) examine the efficiency of public sector banks in India. Public sector banks were selected for the study purposefully considering the fact that even in the third decade of liberalization, the dominance of public sector banks is still evident in terms of market share, impact on the economy, number of branches, general perception of people and overall contribution to the financial system. There are currently 26 public sector banks in India including six State Bank of India and its associate banks. In this paper, the efficiency of public sector banks has been investigated through data envelopment analysis using CCR and BCC models. The study uses an output mediation approach. The study is based on three inputs namely; number of branches, deposits and operating costs and two outputs see loans and borrowings and non-interest income. The results of the study indicate that in total only two banks are relatively efficient based on the CCR model, i.e. total technical efficiency, and nine banks are efficient according to the BCC (pure technical efficiency) model. It was further found that the reason behind the inefficiency of public sector banks in India in 2012-2013 is inefficiency of scale.
7. Shukla (2016) analyze the performance of banking in India based on the set financial parameters. Using purposive sampling technique, 46 scheduled commercial banks were surveyed and the annual commercial standard banking database was examined to collect relevant information. Both public and private sector banks were included in the sample and analyzed based on four parameters (size, growth, profitability and health) divided into 11 financial performance indicators. The findings highlighted that public and private sector banks did not differ much in terms of size and growth parameters. However, significant differences were found in terms of profitability and business reliability, indicating strong growth prospects for private sector banks. The study represented a pioneering and fundamental attempt to provide a number of implications for policy makers, emerging researchers and practitioners.
8. Kumar (2008), based on cross-sectional data for 27 banks, sought to examine the relationship between technical efficiency (TE) and profitability in the Indian public sector banking sector. The Data Envelopment Analysis (DEA) technique was used to calculate the TE score for each bank in 2005. The average TE level for the industry was found to be 88.5 percent. This

means that public sector banks can produce 1.13 times more output from the same inputs if they operate on the "efficiency frontier". For the 20 inefficient banks, the technical inefficiency ranges from 2.6 percent to 36.8 percent. Banks affiliated to "State Bank of India Group" also outperform banks belonging to "Nationalized Banks Group" in terms of operational efficiency. Analysis of the efficiency and profitability matrix based on efficiency and return on assets (ROA) scores reveals that 13 banks that fall into the "lucky" and "unlucky" quadrants have TE scores below the industry average. The process of using resources in these banks is characterized by the presence of significant wastage of resources. The "ace" quadrant contains 9 banks that are industry flagships in terms of efficiency and profitability. Both Andhra Bank and Corporation Bank appear to be ideal benchmarks for laggards in the efficiency and profitability dimensions of performance evaluation.

9. Sathye (2005) state that increasing the efficiency and performance of Public Sector Banks (PSBs) is a key objective of economic reforms in many countries including India. Private ownership is believed to help improve efficiency and performance. Accordingly, the Government of India started gradually diluting its equity in PSBs from the early 1990s. Has the partial privatization of Indian banks really helped to improve their efficiency and performance? International evidence on the impact of privatization is mixed. Although this issue is important in the Indian context, no study to the author's knowledge has addressed it so far. This study thus fills an important gap. The data required for the study was obtained from Performance Highlights of Banks, a publication of the Association of Indian Banks. The author could easily obtain publications for a period of five years — 1998-2002; his analysis is therefore limited to these five years. Banks' financial performance was measured using standard measures of financial performance such as return on assets. Bank efficiency was measured using accounting indicators, such as deposits per employee. Two main approaches are generally used to assess the impact of privatization on firm performance: Synchronous approach, in which the performance of state-owned firms is compared with firms that have been privatized or with firms that were already privately owned. A "historical" approach in which the ex-ante and ex-post privatization performance of the same enterprise is compared. Since data are available for only five years, the author uses a synchronous approach. As the data set is not large enough to allow the use of more robust multivariate statistical procedures, the use of the difference in means test is limited. This study reveals the following: The financial performance of partially privatized banks (measured by return on assets) and their performance (measured by three different indicators) were significantly higher than those of fully public banks. In the case of the quality of advances (measured by the ratio of non-performing assets to net advances), no significant difference was found in these two groups. Of course, there is no quick fix for this problem. It also seems that partially privatized banks are rapidly catching up with fully privatized banks as no significant difference in financial performance and efficiency was found between them. A comparison of privatization strategies in India with other countries found that India has adopted an IPO strategy like Poland. This strategy failed in Poland but seems to have succeeded in India. Gradual privatization and well-developed financial markets appear to have contributed to India's success.

10. Kaur (2012) posit that a well-organized banking system is considered a basic requirement for the economic development of an economy. Banks facilitate the flow of funds from areas of surplus to areas of deficit by offering people attractive savings and deposit programs that encourage them to save and deposit in the bank. When these savings of the people are effectively invested by the banks for productive purpose, the rate of capital formation increases and ultimately the national

income also increases. The purpose of the study is to examine the financial performance of public and private sector banks. The data used for the study was entirely secondary in nature. Study period from 2009–10 to 2010–11. The study found that the overall performance of public sector banks is better than that of private sector banks during the period under review.

Conclusion

In India, banking is an important segment of the tertiary sector. It functions as the backbone of our economic progress and prosperity. It plays a ubiquitous role as a catalyst in development. Indian banking has undergone a major transformation over the last three decades and has become more socially relevant and development oriented. The nationalization of fourteen large banks in 1969 and another six in 1980 marked a significant step towards this transformation. The financial sector reforms following the Narasimham Committee report further transformed our banking system. Banking in India is highly fragmented with 30 banking units contributing to nearly 50 percent of deposits and 60 percent of advances. Public Sector Commercial Banks (PSCBs) include the State Bank of India, its seven subsidiaries and nineteen other nationalized banks. These PSCBs in India continue to be major lenders in the economy due to their sheer size and pervasive networks that give them high deposit mobilization and control over 80 percent of banking business in India. The review reveals that the performance of the Indian Public Sector Banks has been a mixed bag. While they have performed generally well on the fronts of credit creation, supply of finance, credit expansion and such other fronts, their efficiency doesn't compare well especially if it is compared with the private sector banks. They need to take steps to improve efficiency and effectiveness.

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