

***PERFORMANCE OF COMMERCIAL BANKS IN INDIA***

**By Kasturi Ramesh Rawool**

**Abstract**

Commercial banks occupy a crucial role in the development efforts as well as act as a catalyst for economic growth. Banking reforms have brought sea changes in the banking space and public sector banks are no exception to this. The present paper attempts to study the performance of Indian banks from pre-independence to current year. The study is confined only to specific areas deposits, NPA, digital banking and external factors.

**Keywords**

Aggregate deposit, NPA, digital banking

### **Introduction**

The banking sector is the core segment of the Indian financial system which decides the progress of the country. Banks play an important role in the mobilization and allocation of resources in an economy. The major concern in the Indian financial sector has been the profitability of the commercial banking industry. The opening up of the banking sector for private players has put pressure on better performance of public sector banks. Several committees have emphasized the need to improve the performance of commercial banks. This study covers the working performance of entire commercial banks operating in the country. The period of the study is till April 2016.

### **Objectives**

The present study examined the performance of different commercial banks in India. 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.

### **Methodology**

The present study makes the use of secondary data. The relevant secondary data has been collected mainly through the data bases of RBI, various reports and other studies.

### **Topic in detail**

Since the establishment of first bank in pre independent period to till date many changes have taken place. The journey of Indian banking system can be segregated into three distinct phases.

1. Phase 1- pre independence period (from 1786 to 1947)
2. Phase 2- post- independence pre reforms (nationalization of Indian banks and up to 1991 prior to Indian banking sector reforms).
3. Phase 3- post nationalization (from 1991 to till date).

### **Pre-independence period**

The general bank of India was the first bank which came to existence in India in 1786. But the first fully Indian owned bank was the Allahabad bank which was established in 1865. In between 1913 and 1948 there were many small banks but the savings bank facility provided by the postal department was considered comparatively safer.

### **Post- independence pre reforms**

In 1948 the RBI was nationalised and it became an institution owned by the government of India. In 1949 the banking regulation act was enacted which gave RBI the power to regulate, control and inspect the banks in India. In 1969 the then PM Mrs Indira Gandhi nationalised 14 banks and in 1980 more 7 banks were nationalised. This step bought 80% of the banking segment in India under government ownership and deposits and advances took a huge jump.

### **Post nationalization**

Although nationalization of banks helped the monopoly granted to the public sector was misused. Due to lack of competition there was overall inefficiency and low productivity. So in the early 1990s the then Narasimha Rao government embarked on a policy of liberalization and gave licenses to a small number of private banks.

Banking during 2001 to 2011-

1. Public sector banks had announced voluntary retirement scheme due to surplus manpower.
2. The Securitization And Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) act 2002 was introduced to facilitate the realisation of dues without the intervention of courts or tribunals.
3. RBI issued comprehensive guidelines on Know Your Customer (KYC) norms in 2004.
4. In order to give support to the industrialists in times of financial distress, a Corporate Debt Restructuring Mechanism (CDRM) was developed in august 2001.
5. RBI advised the banks to open NO-FRILLS account with low or minimum balance to give access to the poor to the formal financial institution.

**Digital transformation in banking**

Today's demand of banking is: anytime anywhere banking. Digital transformation is far beyond just moving from traditional banking to a digital world. Digital banking is the present trend in banking using the internet and much more, based on SMAC (social, mobile, analytics and cloud), which puts customer first and cuts costs.

**Digital banking products and services offered by various outfits**

Sr. No	Type of bank	Name of the Bank	Digital banking products and services
1	Public sector	SBI	In-touch, Incube (start-up branch), Exclusif (wealth management), core banking, internet banking, SBI mingle
2	Wallet banking	paytm	Online mobile recharge, bill payment, net banking, mobile wallet, card payments
3	Payment bank	Tech Mahindra-Mobo money	A first of its kind "tap N pay", contactless digital payment solution (near field communication)

Financial inclusion is expected to make significant changes in the economy, specially the rural economy, which is expected to witness a revolution in availability of financial instruments mainly because of-

1. Pradhan mantra Jan Dhan Yojana
2. Gold monetization scheme
3. MUDRA

21.81cr bank accounts have been opened under PMJDY and hold 37617cr balance as of April 2016.

**Basel Accords**

The Basel committee is a committee of bank supervisors consisting of members from each of the G10 countries. The committee is a forum for discussion on the handling of specific supervisory problems.

**Basel I-** the Basel accord of 1988 focused almost entirely on credit risk

### Basel II-

It was based on three pillars:

1. Minimum capital requirements, which seek to refine the present measurement framework
2. Supervisory review of an institution's capital adequacy and internal assessment process.
3. Market discipline through effective disclosure to encourage safe and sound banking practices.

### Basel III-

1. Improving to banking sector's ability to absorb shocks arising from financial and economic stress.
2. Improve risk management and governance
3. Strengthen banks transparency and disclosures

### Deposits

Indian banks are facing a peculiar problem- deposit growth is at a five- decade low. The so called credit-to-deposit ratio has surged to 77.6% in March 2016, from 76.5% a year earlier, indicating that banks are lending a bigger portion of every Rs 100 taken as deposits. If the current trend continues, even government borrowings could get costlier.

### Non-performing assets

<b>RISE &amp; RISE OF STRESSED LOANS</b>			
The RBI's projections show the gross NPA of banking sector could go up to 8.5 % by March 2017			
in %	Net NPA	Gross NPA	Stressed assets*
March 2013	-	34	9.2
September 2013	2.3	4.2	10.2
March 2014	2.2	4.1	10
September 2014	2.5	4.5	10.7
March 2015	2.5	4.6	11.1
September 2015	2.8	5.1	11.3
March 2016	4.6	7.6	11.5

The stress in the banking sector, which mirrors in the corporate sector, has to be dealt with in order to revive credit growth  
— RAGHURAM RAJAN, RBI Governor

The bad loan crises that have gripped India Rs 95 trillion banking sector. NPA are loans and advances given by banks on which the borrower has ceased to pay interest and principle repayments. In recent years the gross NPA's of banks have increased from 2.3% of total loans in 2008 to 4.3% in 2015.

<b>Emerging stress</b>				
Bank	<b>SMA 1 (Loans overdue for 30-60 days), ₹ cr</b>		<b>SMA 2 (Loans overdue for 60-90 days), ₹ cr</b>	
	June 2015	Dec 2015	June 2015	Dec 2015
Allahabad Bank	11,041	22,019	6,662	8,536
Bank of India	13,040	19,134	36,311	27,894
Canara Bank	14,065	17,834	20,574	19,932
Central Bank of India	5,326	13,077	17,012	18,267
IDBI Bank	8,235	9,569	13,581	22,255
Punjab National Bank	14,208	315	24,169	24,824
United Bank of India	1,882	2,665	8,541	8,480
State Bank of India	29,526	21,714	45,976	60,228
<b>Total: 27 PSBs</b>	<b>2,29,955</b>	<b>2,55,486</b>	<b>2,60,666</b>	<b>2,67,068</b>
HDFC Bank	355	426	195	282
ICICI Bank	13,161	10,558	10,590	10,897
Axis Bank	14,893	11,048	6,722	9,549
IndusInd Bank	233	432	1,045	1,311
Kotak Mahindra Bank	3,086	4,346	1,433	1,289
Yes Bank	2,000	7,371	7,838	7,066
<b>Total: 21 private banks</b>	<b>42,382</b>	<b>49,520</b>	<b>38,431</b>	<b>49,689</b>
Total: public+pvt+ foreign	2,73,436	3,06,180	2,99,945	3,17,939

Source: Off-statement returns, as reported by banks, global operations (RBI)

As you can see troubled loans of 27 public sector banks stood at Rs 2.67 lakh crore. While SBI SMA-2 accounts stood at Rs 60,228cr. The worst hit bank was the Punjab national bank. Between private banks ICICI bank tops the list with 10897cr worth of SMA-2 loans, followed by Axis bank with 9,549Cr.

### Effects of Brexit

“There would be a decline in financial markets and India would see this impact along with other nations. But as trade strategies are reworked there could be potential advantages in the form of better market access for India to the EU and Britain” said SBI chairperson Arundhati bhattacharya.

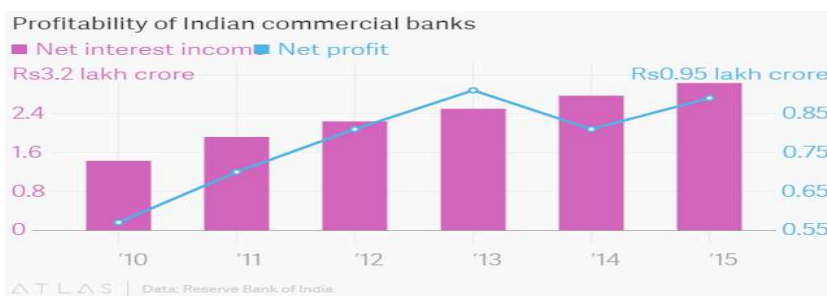
### Analysis

The performance of banks may be attributed to

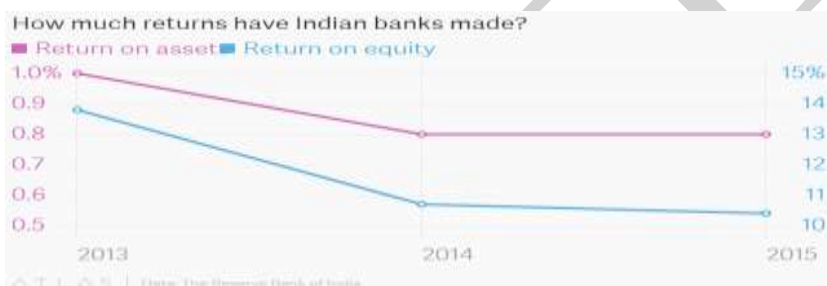
1. Implementation of SARFAESI act 2002
2. Setting up of credit information bureaus
3. Internal improvements such as upgrade of technology infrastructure
4. Implementation of Basel III

Important indicators (till March 2015)

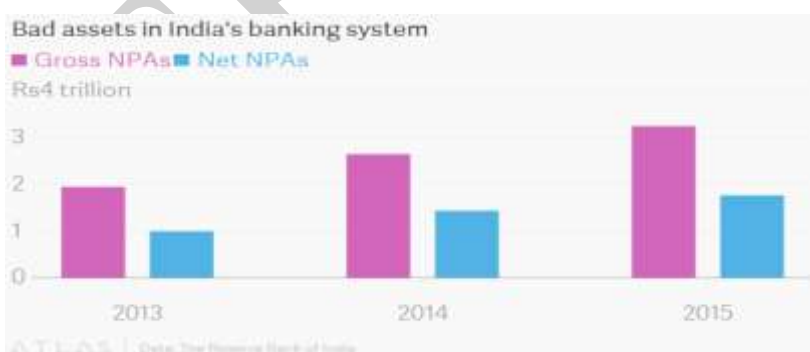
Income is rising, but profits sputtering



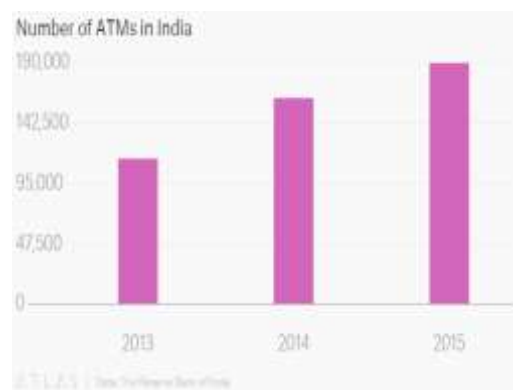
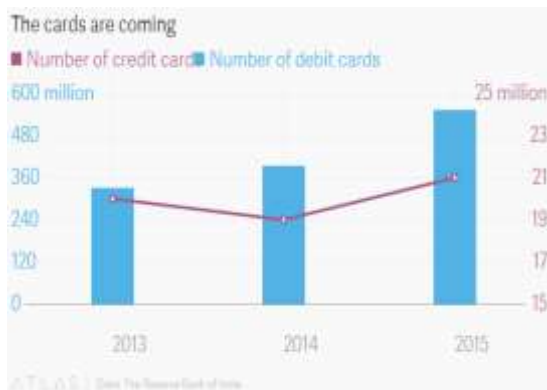
Meanwhile, returns have flattened...



And NPAs have risen



But some good news cashless economy is on the rise



### Conclusion

With growing NPA loans it will be a challenge for the banking sector to come out of it. We need to take lessons from foreign lands on how to resolve bad loan crises. Given the focus on inclusive growth banks are also expected to broaden. Stressing that the cleaner balance sheets will lead to future loan growth for banks, former RBI chief Raghuram Rajan said that a “deep surgery” is must for the clean-up that would require an ‘anaesthetic’ in the form of recognising NPAs on their books.

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### Bio

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