Comparison Of Financial Performance Analysis of Select Public and Private Sector Banks

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ABSTRACT

Aim: Banks play a vital role in growing the economy by promoting and producing savings, which are then directed to those in need. Financial institutions play an important role in the growth of businesses. As result, it is critical that the nation's economic growth grows. The Indian banking industry includes financial institutions from the public, private, international, and cooperative sectors. Banks must function successfully and consistently in order to benefit the country. The study intended to analyse the performance of both banks in both the private and public sectors. The top a total of five banks belonging to the public sector were selected using a judgemental sampling technique. The public sector banks include Bank of India, Canara Bank, Indian Bank, Indian Overseas Bank, and State Bank of India. **Problem:** India's financial services business helps the economy grow, pays for infrastructure projects, makes sure everyone has access to money, and keeps the economy stable. There are both public and private companies in the business, but public financial services (like banks and insurance companies) have historically been the most important. There are more competitors, technological improvements, and efficiency in the financial services industry since they are privately owned, but this has also made the problems of public sector institutions clearer. **Finding:** Largely owing to more NPAs, outdated systems, and ineffective resource management. Low asset quality limits PSB profitability. **Suggestion:** Greater NPLs could point to inadequate control of credit risk.

KEYWORDS: Public sector banks, Private sector banks, financial performance.

1. INTRODUCTION

In India, which was decided the Banking Regulations Act of 1949 defines a bank as a banking firm. According to Section 5(c), a banking firm is one that conducts banking transactions in India. Banking is defined in Section 5(b) as receiving public deposits for lending or investment, repayable on demand, and withdrawable via cheque, draft, or order. The banking sector contributes significantly to the smooth and effective operation of an economy's many operations. The Indian economy aims for progress with social justice. To attain this goal, the banking sector must be strengthened to satisfy expanding financial requirements. Banking systems now play a crucial role in driving economic growth, particularly in emerging nations. The banking industry's structure has a significant impact on its capacity to accumulate and mobilise savings for productive operations. Global banking institutions must be competitive and efficient to survive competition from local and global banks. Banks are under pressure to outperform the market due to technological advancements, increased client demand, new financial instruments, and changes in banking rules and policies. To survive, banks must prioritise resource

utilisation, including infrastructure, employees, technology, customer service channels, and comparisons (Mukherjee et al., 2002; Sathya, 2003; Debnath, R.M. & Shankar, R, 2008).

The Indian banking sector has undergone significant reforms, including the nationalisation of commercial banks (Malhotra R N, 1986). According to Amandeep (1991), banks now play a significant role in economic growth. Since 1991, liberalisation and economic reforms have made the Indian banking system more proactive and agile (Chellasamy P & Sumati N, 2004, for short). According to Janaki J (2001), liberalisation has put upward pressure on the Indian banking sector through both internal and foreign sources. Public sector financial institutions (PSBs) have less dependency on riskier assets due to rules (Ram Mohan TT, 2002), also known as and a focus on long-term financing for economic growth (Uppal RK, 2008). As a result, private sector banks provide unique banking experiences (Pathak, 2003). Gupta (2008) cites transparency and good governance as key guiding principles. The financial industry has become more worldwide due to deregulation, market integration, technology advancements, and effective human resource management (Kapoor Seema, 2007; Janaki J, 2001).

2.   REVIEW OF LITERATURE

Selvakumar, J. J. (2015) Service Quality in the banking industry is the most significant criterion and asset for assessing and delighting consumers, increasing their devotion and average retention rate. Reliability, certainty, and empathy have long been important factors in determining service quality. Prior research indicates that what customers think and expect are likely to differ between service industries. As a result, this research investigates the impact of service quality variables on customer satisfaction in India's public and private banking sectors. Customer satisfaction may be significantly raised by recognising the difference between perceived or actual service quality.

Upadhyay, S. M. (2016) The banking sector is an important part of the banking industry. The banking sector has a significant role in the overall success of an economy. The banking sector's performance is viewed as a reflection of the nation's strong economic activity. A country's social, economic, and industrial progress is built on the foundation of its banking system. This research focusses on the top two public and private sector banks by total assets. Economic reforms in several nations, including India, aim to improve bank efficiency and performance. This study aims to assess the relative success of Indian banks.

Paul, J., et.al (2016) To rising rivalry, quality of service has become a major academic research topic. This article compares the influence of several service quality characteristics on customer satisfaction in both commercial and governmental sectors. sector banks utilising an Indian sample. Private sector banks' overall satisfaction is positively correlated with product knowledge, reaction to need, query resolution, prompt assistance, quick access to the proper person, and attempts to decrease queueing time. Customer satisfaction has a negative correlation with assistance, attractiveness, and follow-up. In public sector banks, favourable associations are seen with product expertise and rapid service, whereas negative associations exist with appearance.

Singh, V. R. (2016) The Indian banking system is experiencing significant issues with non-performing assets (NPAs). The rise of non-performing assets has a direct influence on bank profitability. Non-performing assets are a big risk for scheduled financial institutions in India. The Following recommendations from the Narasimham and Verma committees, banks have made efforts to address the issue of legacy NPAs on their balance sheets. There has been a lack of comprehensive examination of the most effective solution to the problem. The appropriate policies for tackling this issue are not widely agreed upon. Non-performing assets (NPAs) represent bank performance. A substantial amount of non-performing assets (NPAs) indicates a significant risk of loan defaults, negatively impacting bank profitability and net-worth and reducing asset value. Non-performing assets (NPAs) have a negative impact on bank liquidity, profitability, asset quality, and viability. Non-performing assets (NPAs) have a significant impact on both banks and the economy. The large number of non-performing assets (NPAs) in Indian banks reflects the industry's overall health. Improving the financial soundness of the banking sector requires reducing non-performing assets (NPAs). This research examines the state and trends of

non-performing assets (NPAs) in Indian scheduled commercial banks. Factors causing non-performing assets (NPAs), its impact on scheduled commercial bank deposits in India, and methods for recovering NPAS.

Hisar, H. (2017) This study analyses the financial stability of 13 commercial and 23 government-owned banks in the country between 2007 and 2016. The findings were analysed using the Banko meter Model. Capital resources ratio, equity asset ratio, capital sufficiency ratio, the Banko meter model considers the non-performing borrowings to loans ratio, cost-to-income ratio, and loan-to-asset ratio. Empirical studies indicate that both private and public sector banking are financially healthy. Both the ICICI Bank and the Reserve Bank of India, respectively, are financially robust banks. The Indian Commercial Bank and the Reserve Bank of India both have the highest capital asset ratios. The two banks Kotak Mahindra Bank and Indian Bank have the highest equity asset ratios. Yes Bank and Bank of Baroda have the highest capital adequacy ratios. ICICI Bank and Banks of Baroda have the lowest non-performing loan to loan ratio. The cost-to-income ratio for both commercial and governmental banks exceeds 40%, indicating inefficiency. The loan-to-asset ratio for City Union Bank, State Bank of Mysore on State the Bank of Bikaner & Jaipur, Andhra Bank of Hyderabad, and Syndicate Bank exceeds 65%, indicating poor financial performance.

3.   OBJECTIVE OF THE STUDY

Objective of the study

1. To assess the financial results of both private and public sector banks in India.

4.   IMPORTANCE OF THE STUDY

The reach of the private sector, along with digital developments, has expanded financial inclusion in cities and semi-urban areas. Comparing these sectors helps assess their efficacy in attaining India's financial inclusion objectives. Public financial institutions, which are government-owned, are frequently entrusted with fostering financial inclusion. Their analysis of performance can show how successfully they are spreading financial facilities to rural areas, communities with low incomes, and underserved people.

Table 1: Numbering of Functioning Offices of Public and Private Sector Banks

Numbering of Functioning of Banks							
	31.3.2018	31.3.2019	31.3.2020	31.3.2021	31.3.2022	31.3.2023	30.6.2024
Public Sector Banks	93,115	92,531	92,877	92,519	90,207	90,491	91,080
Private Sector Banks	31,564	33,186	35,694	36,686	38,779	42,288	45,777
Total	1,24,679	1,25,717	1,28,571	1,29,205	1,28,986	1,32,779	1,36,857

Source: https://financialservices.gov.in/beta/en/analytics-banking

This table 1 indicates the number of operational offices of public and private sector banks as of June 30, 2024, with 91,080 operations in the public banking sector and 45,777 operations in the private sector. This is a significant change from 2018, when the number of public banking offices was 93,115 and the number of private banking offices was 31,564.

Table 2: Total Deposits in Public and Private Sector Banks

Total Deposits							
	31.3.2018	31.3.2019	31.3.2020	31.3.2021	31.3.2022	31.3.2023	30.6.2024
Public Sector Banks	82,62,322	84,86,215	90,48,420	99,00,766	1,07,17,362	1,17,09,581	1,28,96,766

Private Sector Banks	30,13,688	37,70,013	41,59,044	48,19,469	54,64,181	62,99,332	75,61,502
Total	**1,12,76,010**	**1,22,56,228**	**1,32,07,464**	**1,32,07,464**	**1,61,81,543**	**1,80,08,913**	**2,04,58,268**

Source: https://financialservices.gov.in/beta/en/analytics-banking

This table 2 This table illustrates the total deposits held by public and private sector banks as of the 30th of June 24. Banks in the public sector have a total of 1,28,96,766 employees, while private sector banks have 75,61,502 employees. Because the overall value of deposits continues to rise from 2018 to 2024, with the beginning amount for public banks going from 82,62,322 to 1,28,96,766 and the starting amount for private banks going from 30,13,688 to 75,61,502 of deposits.

Table 3: Capital To Risk Weighted Assets Ratio (CRAR), Net Profit and Government Of India's Shareholding Of Public Sector Banks (PSBS)

CRAR and PSBS							
		(As on 31.3.2024)			(As on 30.6.2024)		
Sl. No	Bank	CRAR (%)	Net Profit (in Rs. Crore)	GoI Shareholding (%)	CRAR (%)	Net Profit (in Rs. Crore)	GoI Shareholding (%)
	Bank of India	16.96	6,381	73.38%	16.18	1,703	73.38%
	Canara Bank	16.28	14,554	62.93%	16.38	3,905	62.93%
	Indian Bank	16.44	8,062.94	73.84%	16.47	2,403	73.84%
	Indian Overseas Bank	17.24	2,656.00	96.38%	17.82	633	96.38%
	State Bank of India	14.28	61,076	56.92%	13.86	17,035	56.92%

Source: https://financialservices.gov.in/beta/en/analytics-banking

This table 3 provides an illustration of the capital to risk weighted assets ratio (CRAR), net profit, and the shareholding of the government of India in public sector banks (PSBS). As of the 30th of June, 2014. the CRAR (percentage) of Bank of India is 16.18 percent, Canara Bank is 16.38 percent, Indian Bank is 16.47 percent, Indian Overseas Bank is 17.82 percent, and State Bank of India is 13.86 percent.

5.   STATEMENT OF THE PROBLEM

The financial services industry in India drives economic growth, supports infrastructure projects, promotes financial inclusion, and ensures economic stability. The industry includes public and private enterprises, with public financial services (banks, insurers) historically dominating. Privately owned financial services have increased rivals, advances in technology, and efficiency, but they have also highlighted public sector institutions' difficulties. Public sector banking and finance contribute significantly to India's economy, yet inefficiencies, high NPAs, sluggish digital adoption, and governance challenges continue. Private financial institutions are seen as nimbler, customer-focused, and innovative. The private sector has performed well in handling risks, profitability, and technological adoption, but its strengths and shortcomings in India's growing financial ecosystem are understudied. This study analyses selected Indian public sector financial services' operational effectiveness, financial health, customer happiness, and technological flexibility. The research will also compare the private and public sectors of banking and financial services in order to comprehend their success factors and areas for improvement in revenue, management of risks, financial access, and service delivery. The study seeks to fill this knowledge gap by examining how both private and government financial institutions may better support India's developing economy, promote financial equality, and meet consumer demands while balancing profitability and social responsibility.

6.   FINDING

The government's financial services, particularly the banks of the public sector (PSBs), are often less profitable than their private sector equivalents. This is mostly due to greater levels of assets that are

not performing (NPAs), obsolete systems, and inefficient resource management. Many PSBs remain to suffer with low quality of assets, limiting their profitability. While some bankers' financial health has improved as a result of government recapitalisation measures, nonperforming assets continue to pose a substantial concern.

7.   SUGGESTION

- Asset quality in the context of banks is their lending policies and degree of risk associated with their assets:
- Look at the percentage of non-performing loans (NPLs) for a given period that haven not been paid back. Greater NPLs could point to inadequate control of credit risk.
- Banks sometimes set up reserves specifically for poor loans. The suitability of these clauses can indicate the degree of risk expectation inside a bank.
- Loan Loss Reserves to Gross Loans: This indicates the set-back for possible loan default. More cautious lending results from a larger ratio.

8.   CONCLUSION

The performance study of selected government-owned financial services in India, as compared to private sector financial services, reveals important contrasts, strengths, and opportunities for development in both sectors. Public sector banking institutions have historically played an important role in India's economic growth, notably in encouraging access to finance, financing public welfare services, and providing services to rural and neglected communities. However, obstacles like as high non-performing assets (NPAs), poor use of technology, operational inefficiency, and governance concerns continue to impede their success and competitiveness. Private sector financial services, on the other hand, have shown improved profitability, more operational efficiency, and a greater emphasis on customer-centric services. This comparison demonstrates that, while both the public and privately owned sectors play important roles in India's financial environment, they both provide unique contributions and problems. Public sector banks can gain from improved business effectiveness and technology adoption, whilst private banks can help to increase financial inclusion by increasing their access to rural and underserved communities. Furthermore, ongoing changes in management of risks, governance, and relations with consumers will strengthen the two sectors and increase their capacity to meet the diversified goals of the Indian economy. Finally, an integrated and balanced approach that capitalises on the complementary assets of both private and public financial services can contribute to India's stronger, more inclusive, and profitable financial ecosystem, thereby driving long-term growth in the economy and improving the population's financial well-being.

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