International Journal of Applied Research 2024; 10(10): 195-198

International Journal of Applied Research

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor (RJIF): 8.4
IJAR 2024; 10(10): 195-198
www.allresearchjournal.com
Received: 16-09-2024
Accepted: 22-10-2024

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Banking sector in India: A study on the performance evaluation of the banking sector with special reference to post-liberalisation era

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Abstract
The banking sector in India has contributed significantly to the country's economic growth and development. It has facilitated investment, trade, and commerce, and has also helped to mobilize savings and channel them towards productive sectors of the economy. The sector has also played a critical role in financial inclusion by providing banking services to the unbanked and underbanked population of the country. The banking sector has a 16% contribution to the Indian GDP. According to the Reserve Bank of India, "a bank is a financial institution that accepts deposits from the public and creates credit". Banks in India offer a range of financial services, including deposit-taking, lending, and investment services, to individuals, businesses, and governments.
This study offers a new and accurate analysis of the influence of budgetary development on the performance of Indian commercial banks. The analysis aims to evaluate the behaviour and determinants affecting the costs and profitability of bank intermediation over a certain timeframe. The research is based on discretionary data and evaluates both public and private sector banks in India.
Empirical findings indicate that heightened competition during financial development correlates with diminished intermediation costs and enhanced efficiency of Indian banks. Only financially savvy, customer-focused, innovation-oriented, and capital-strong banks that comply with prudential standards can successfully attract investors and borrowers in the current competitive landscape. The individual banks must exhibit a robust commitment, while the regulator should guarantee that the prudential regulations maintain the requisite stability and financial integrity of banks without compromising their appropriate incentives.

Keywords: GDP, economic growth, profitability, population, financial services

1. Introduction
The financial system is integral to a country's economic growth and serves as the engine that drives progress. The success or failure of banks directly impacts all industries within a nation. Banks provide crucial financing to businesses across sectors, serving as a barometer for the state of the economy. Developing countries prioritize strengthening their banking sector to achieve economic expansion and poverty reduction goals. Scholarly research has consistently shown that improving financial institutions significantly contributes to economic growth. Financial institutions act as intermediaries, connecting savers and investors to provide essential funding to businesses. The banking and insurance industry accounts for 6% of India's GDP, with the overall service sector contributing around 52%. The service industry's share of GDP has been steadily increasing, and India's financial services industry is predicted to rank among the world's most enormous by 2025. India's monetary system relies heavily on its banking sector, which serves the country's financial, societal, political, and topographical needs. Indigenous financiers in the 18th century met the financial demands of the business community in India, laying the groundwork for the modern banking system.

2. Literature Review
Babu, K. V. S. N. J. (2012) [4] evaluate the “performance of urban Cooperative Banks” that were not able to meet clients’ extending credit needs or more recent requests for loans in the personal finance sector. The researchers suggested that an expansion of urban Cooperative Banks should be promoted in the name of healthy competition. A few undesirables shouldn't stop a major banking organization from growing.

Soyeliya, U. L. (2013) [5] The research relied upon a few profitable Cooperative Banks in Delhi, India, and analyse the operation with secondary data and the lending policies with primary data (questionnaire) it uses for its clients was being done. The client had borrowed money from the banks in multiple ways. The researchers recommended that the bank upgrade to the newest banking technologies, such as ATMs, the internet and online banking, credit cards, etc., to compete with private sector banks.

Suresh, S., & Thirumagal, P. G. (2014) [6] contrast the financial results of the state Cooperative Banks in Tamil Nadu and Karnataka. It also predicts how KSCB and TNSC would perform in the future. According to the analysis, TNSC is inferior to the Karnataka State Cooperative Bank.

Barwal, N., & Kumar, K. (2015) [7] compare how well the Himachal Pradesh State Co-operative Bank Ltd. and the Kangra Central Co-operative Bank Ltd performed on several metrics. The study's final finding is that both banks' profitability was a concern. As a result, both institutions must Check their running costs; they need to find alternative sources of money because their non-interest income is quite low. To increase their earnings.

Waraich, S., & Dhawan, A. (2016) [8] attempted a CAMEL Model-based evaluation of the "Financial performance of Jalandhar Central Cooperative Bank Ltd". Secondary data was obtained data from banks of cooperative societies in Punjab from the annual reports of banks period (2011–2014). Two statistical methods were used to analyse data with mean and standard deviation, The Jalandhar Central Cooperative Bank Ltd. was determined to be performing well across all five CAMEL Model parameters.

Tandon, M. S et al. (2017) [9] evaluate the performance of HPSCB and KCCB. The goal of the study was to use growth rates to assess bank performance by using indicators. analysis of HPSCB and KCCB in comparison shows that while the banks' performance differs significantly profitability. They perform similarly in terms of managerial performance. Ghosh, S., & Ansari, J. (2018) investigate the "relationship between the boards of Indian urban Cooperative Banks and their financial performance. Their study was based on cross-sectional data. They collected data in 2012 from 1263 banks, which showed that performance was unaffected by the size of the board after taking into account numerous considerations. Although the fact that larger boards generally were less effective due to issues with free-riding and lengthy decision-making processes among board members.

3. Objective

- To identify the need for liberalization of the Indian Banking System.
- To examine the development of economy after the introduction of banking sector reform.
- To evaluate the performance of Commercial banks in India during the post-liberalization period.

4. Methodology

The paper examines the impact of banking sector reforms in India in terms of economic development, performance of banks and efficiency in the post-reform era. This study hypothesized that banking reforms in India have a significant impact on the economic growth. The study employs secondary data that are mainly available in published annual reports of several banks, RBI bulletin, various reports on Indian banks, publications of Indian Bank Association, Indian Institute of Bankers, National Institute of Bank Management, various journals on related fields, etc.

5. Problem Statement

The current evaluation of banks' performance in India primarily relies on monetary metrics, which may not provide a comprehensive understanding of their proper financial health and prospects. Financial ratios are trailing indicators and do not account for the inherent risks in the modern banking business. There is a need for a performance assessment model that considers all aspects of banks' infrastructure and procedures.

6. Purpose of the Research

The globalization of banks and the evolving financial landscape necessitate an evaluation of banks based on their sustainability, global issues, competitive climate, and risk management. The assessment should be forward-looking, incorporating indicators that capture immediate and future financial benefits. Non-monetary indicators should also be included in the evaluation systems.

7. Performance of Indian Banking Sector

Table 1: Group Averages of Public and Private Sector Banks

No.	Bank Group / Indicators	1990-'91	2003-'04
1	**Return on Assets**		
	Public Sector Banks	0.001	0.011
	Private Sector Banks	0.002	0.011
2	**Return on Equity**		
	Public Sector Banks	0.101	0.209
	Private Sector Banks	0.173	0.195
3	**Net Interest Margin**		
	Public Sector Banks	0.019	0.030
	Private Sector Banks	0.027	0.026
4	**Interest Expense Ratio***		
	Public Sector Banks	0.676	0.497
	Private Sector Banks	0.597	0.535
5	**Non- Interest Expense Ratio***		
	Public Sector Banks	0.302	0.231
	Private Sector Banks	0.369	0.213
6	**Non-Interest Margin**		
	Public Sector Banks	-0.018	-0.003
	Private Sector Banks	-0.024	0.000
7	**Profit Margin**		
	Public Sector Banks	0.020	0.110
	Private Sector Banks	0.033	0.115
8	**Equity Multiplier***		
	Public Sector Banks	58.31	20.04
	Private Sector Banks	75.91	18.49
9	**Asset Utilisation**		
	Public Sector Banks	0.085	0.098
	Private Sector Banks	0.087	0.101
10	**Efficiency Ratio***		
	Public Sector Banks	0.934	0.462
	Private Sector Banks	0.917	0.457
11	**Overhead Efficiency Ratio**		
	Public Sector Banks	0.311	0.860
	Private Sector Banks	0.287	0.996

***Source*:** Based on secondary data computed by the author

Table 2: Net Non-Performing Assets of Commercial Banks

Bank Group	1996-'97	2003-'04
Public Sector Banks	9.69	3.69
Private Sector Banks	5.55	5.37

***Source*:** Based on secondary data computed by the author

Table 3: Capital Adequacy Ratio of Public and Private Sector Banks

Bank Group	1996-'97	2003-'04
Public Sector Banks	8.52	12.75
Private Sector Banks	9.86	14.05

***Source*:** Based on secondary data computed by the author

8. Key findings

- An examination of Return on Assets proportion shows that the private area banks gathering, enlisted higher incentive than the public area banks bunch in the start of changes while it was equivalent for both the bank bunches in 2003-04.
- As far as Return on Equity proportion is concerned, it was higher for private area banks bunch than the public area banks bunch in kick the bucket starts of changes. Be that as it may, the Return on Equity proportion was the higher for public area banks bunch than the private area banks bunch in the post-change period.
- In the start of changes. Net Interest Margin was higher in the private area banks bunch than that of the public area banks gathering. However, in the post - change period NIM was the higher for the public area banks bunch than the private area banks gathering.
- The investigation shows that, both the general population and private area bank bunches accomplished serenely required Capital Adequacy Ratio for example 9 percent in 2003-04.
- The normal CAR of the public area banks gathering and the private area banks bunch showed a consistent rising pattern during the investigation time frame for example 1996-97 and 2003-04. The normal CAR of public area banks bunch was at 8.51 percent in the year 1996-97 and it rose to 12.74 percent in 2003-04. While the normal CAR of the private area banks bunch was 9.85 percent in 1996-97, which rose up to 14.05 percent in 2003-04.
- Equity Multiplier proportion was better for the public area banks bunch than the private area banks bunch in the start of change though it was better for the private area banks bunch than the public area banks bunch in the post - change period.
- The examination of net NPAs to net advances proportion shows that the private area banks bunch enlisted lower net NPAs proportion than those of the public area banks bunch in the year 1996-97. In any case, in the year 2003-04, the public area banks bunch enlisted lower net NPAs proportion than that of the private area banks gathering.
- Net NPAs to net advances proportion of pass on open area banks gathering, was at 9.69 percent in 1996-97, which descended essentially to 3.69 percent in 2003-04. Net NPAs to net advances proportion of the private area banks bunch had likewise descended possibly from 5.54 percent to 5.37 percent during a similar period.
- The private area banks bunch enrolled preferred Interest Expense Ratio over open area banks bunch in the start of changes. Notwithstanding, Interest Expense Ratio was better for the public area banks bunch than the private area banks bunch in the post - change period.
- Thus, the accessible proof demonstrates that the benefit, effectiveness and profitability execution of the private area banks improved in the post-changes period contrasted with bite the dust start of banking area changes.

9. Improvements in India's banking industry

In 1991, the Narasimham Committee's proposals for reforming the banking system were implemented. The Indian government made real market structural changes, necessitating corresponding banking sector reforms. The financial sector reforms of the first phase of the reform era occurred between 1992 and 1998, while the changes of the second phase occurred after 1998. Before 1991, when liberalization began, the Indian banking system was dominated by state-run institutions and subject to strict controls. Low financial base, low profitability, poor asset quality, a lack of competitors among banks, and similar problems plagued the banking system.

In April 1992, the Reserve Bank of India (RBI) introduced several prudential requirements concerning revenue recognition, asset categorization, and capital sufficiency to improve the banking sector. The most notable changes include capital adequacy ratio, asset categorization and provisioning, monetary policy liberalization, and lowering of statutory pre-emptions (RBA's SLR and CRR rates). Banks' ability to withstand financial shocks is evaluated by comparing their capital to their risk-weighted lending exposure. The lowest acceptable ratio, according to international regulations, is 8%. This ratio guarantees that the bank has sufficient capital to weather losses from nonperforming assets without going under.

The purpose of these regulations is to safeguard depositors' support and strengthen the economy as a whole. The term "asset segmentation" describes categorizing the assets of a banking institution or the loans extended by a bank according to the assessed risk of recovery. This ongoing procedure allows the bank to continually track the quality of its portfolio of loans and take corrective measures if necessary. Additionally, banks must set aside money to cover the cost of poor loans they issue. After banks were nationalized, competition in the banking industry dried up since RBI regulations forbade establishment of private banks.

10. Conclusion

The emergence of commercial banks has intensified competition and significantly enhanced the efficiency and profitability of public banks, making them comparable to private banks. The Indian banking sector has seen a remarkable transformation in its operating environment over the last decade, while also encountering certain drawbacks due to advancements.

An analysis of the proportions indicates that the presentation of public area banks has significantly improved almost all metrics. The presentation of private sector banks has been remarkable throughout both the initiation of reforms and the post-reform era. It may be confidently concluded that there was an urgent need for budgetary reforms to enhance the performance of the banking sector. Public sector banks continue to lag behind private sector banks in performance.

11. Conflict of interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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