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Financial performance of banks: A comparative study of different bank groups

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Banking in India is defined under Section 5 (A) of Banking Regulation Act as "any company which transacts banking, business" and the purpose of banking business defined under section 5(B), "accepting deposits of money from public for the purpose of lending or investing". Thus, bank is an institution which deals with money and credit. It accepts deposits from the public, makes the funds available to those who need them and helps in the remittance of money from one place to another. In India till the eighties, the banks operated in a protected environment characterized by administered interest rates, high levels of pre – emption in the form of reserve requirements and directed credit. Financial and banking sector reforms were initiated in India in 1991 with the report of a committee on the financial system headed by M. Narsimham, against the back drop of challenges faced by the Indian banks from within and outside the banking system in the country as well as forces of globalization operating worldwide. The accent of the reform process was to improve productivity and efficiency of the financial system and to provide a highly competitive environment for different bank groups *i.e.* new generation private sector banks, old private banks, public sector banks and foreign banks, which are working in India.

Some of the information related to the present studies are presented in the followingparagraphs

Ram Mohan and Ray (2003) considered Tornquist total factor productivity growth, Malmquist efficiency and revenue maximization efficiency from 1992-2000 to compare the performance of public sector banks and private sector banks. The study revealed the fact that efficiency and productivity have not been lower in public sector banks relative to their peers in the private sector.

Rao and Prasad (2003) depicted in their study that increased competition, new information, technologies and thereby declining processing costs, the erosion of product and geographic boundaries, and less restrictive governmental regulations have all played a major role for public sector banks in India to forcefully compete with private and foreign banks.

Bhattacharya *et al.* (1997) examined the productive efficiency of 70 Indian commercial banks and found that publically owned Indian banks are more efficient followed by foreign banks and privately owned Indian banks in pre – liberalization era.

Satish *et al.* (2005) analyzed the performance of 55 banks for the year 2004-05. They concluded that the Indian banking system looks sound and information technology will help the banking system grow in the future.

Objectives of the study:

The present paper carries out a comparative study of the performance of different bank groups on the basis of some important financial parameters: Operating profit, Net profit, Wage bill, Spread and Operating expenses.

METHODOLOGY

For the present study, data for all banks from 1995 – 96 to 2007 – 08 have been taken into consideration for different financial parameters. All these parameters were analyzed as a percentage of total assets. The data were taken from various issues of trends and progress of banking in India published by Reserve Bank of India. For analysis of the data following tools have been used.

– Mean
– Standard deviation
– Coefficient of variation

Operating profit:

Excess of total income over total expenditure other than provisions and contingencies is known as operating profit. It is a measure of company's earning power from ongoing operations, equal to earning before the deduction of interest payments and income taxes. Operating profit of new private sector banks (2.1) has an edge over that of public sector banks (1.79) and old private sector banks (1.97). It seems that new private sector banks have substantially increased their earning power to meet the expenses followed by old private sector banks and public

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