Tactful Management Research Journal
ISSN: 2319-7943
Impact Factor : 2.1632(UIF)

AN ANALYTICAL STUDY OF PERFORMANCE OF COMMERCIAL BANKS IN THE POST REFORM PERIOD

Asst. Prof. Shashikant V. Mundhe
Siddharth College of Commerce & Economics

Abstract: *Prior to the reforms, the banking sector has suffered from lack of competition, low capital base, inefficiency and high intermediation costs. After the introduction of reforms there is an overall improvement in the performance of all the banks in India. The asset qualities of commercial banks, which were at a very precarious level before the reforms, improved significantly. The capital positions of commercial banks also improved substantially. Profitability of commercial banks has improved despite decline in spread. This itself is a measure of efficiency.*
This paper analyses the performance of the commercial banks, on the basis of important parameters, as a result of introduction of banking sector reforms.
The paper is divided into three parts; introduction, performance of commercial banks and conclusion.

Keywords: *Commercial, Banks, Capital, Profit, Performance*

INTRODUCTION:

Prior to the reforms, the banking sector has suffered from lack of competition, low capital base, inefficiency and high intermediation costs. After the introduction of reforms there is an overall improvement in the performance of all the banks in India. The asset qualities of commercial banks, which were at a very precarious level before the reforms, improved significantly. The capital positions of commercial banks also improved substantially. Profitability of commercial banks has improved despite decline in spread. This itself is a measure of efficiency.
This paper analyses the performance of the commercial banks, on the basis of important parameters, as a result of introduction of banking sector reforms.

I. FINANCIAL SOUNDNESS:

The capital adequacy ratio (CAR) is the most important indicator of financial soundness of banks. All commercial banks in India have become Base II complaints as on March 31, 2009. Under Basel II Indian banks have to maintain a stipulated minimum CRAR of 9% Thus, the Capital to Risk Weighted Asset Ratio (CRAR) under Base I and Base II norms is given in table 1 .The CRAR of Indian banks under Basel I framework has fallen from 13.2 percent at end March 2009 to12.77 percent at end March 2013. Under Base II, CRAR of Indian banks also has declined from 14 percent at end March 2009 to 13.88 percent at end March 2013.The Indian banks have managed to maintain CRAR above the stipulated minimum ratio. Among banks groups, foreign banks registered the highest CRAR, followed by new private sector banks and PSBs in 2013. Table 1 shows capital to Risk Weighted Asset Ratio (CRAR) under Basel I and II.

Table 1: Capital to Risk Weighted Assets Ratio (as at end March)

Bank Group	Basel I		Basel II	
Scheduled Commercial Banks	2009	2013	2009	2013
	13.2	12.77	14.00	13.88

The proposed Basel III framework will become operational from January 1,2013 in a phased manner. According to some quick estimates the CRAR of Indian banks under Basel III will be 11.5 percent as on June 2013 as compared to required CRAR under proposed Basel III at 10.5 percent.

II. ASSET QUALITY:

The asset quality of banks is shown by level of nonperforming asset (NPAs). Better quality of the asset is the indicator of efficiency. The ratio of net NPAs to net a advances and gross NPAs to gross advances have declined in all the banks, during the post reform period especially since 1999.
The gross NPA ratio of scheduled commercial banks declined from 14.6 percent at end March 1999 to 2.25 percent at end March 2009 and has increased to 3.6 in 2012-13. The net NPA ratio of scheduled commercial banks has increased from 1.05 percent at end March 2009 to 1.7 percent in March 2012-13.
In 2012-13 the net NPA ratio was the highest for public sector banks, followed by foreign banks and new private sector banks. The net NPA ratio of public sector banks has also increased between 2009 and 2012-13 , while it has declined in the new private sector banks and foreign banks, the net NPA has increased from 1.05 in 2009 to 1.7 in 2012-13 (see Table 2)

Table 2 : Gross and Net Non Performing Assets (NPAs) of Commercial Banks (at end March)

	Total NPAs as Percent to Total Advances		Net NPAs as Percent to Net Advances	
	2009	2013	2009	2012-13
Scheduled Commercial Banks	2.25	3.6	1.05	1.5

III. OPERATING PARAMETERS:

Percentage income to total assets earned by the banks has marginally improved during the period that is 2010-11 to 2012-13,Similarly interest income to increased by slightly more than 1 percent. Expenditure incurred has increased from 6.97 percent in 2010-11 to 8.4 percent in 2012-13, the increase is more than 1 percent. Interest expended has also increased from 4.16 percent to 5.36 percent during the period. The increase on this count is one of the reasons for the decline in net profit. Net profit of the SCBs has marginally declined from 0.98 percent to 0.95 percent.

Table 3: Operating Parameters of Commercial Banks (Percentage of Assets)

	2010-11	2011-12	2012-13
Income	7.95	8.93	8.99
Interest Income	6.84	7.89	7.97
Expenditure	6.97	7.94	8.04
Interest Expended	4.16	5.19	5.36
Net Profit	0.98	0.98	0.95

The two main indicators of profitability, that is, return on Assets (RTO) and Return on Equity (ROE) have declined marginally since 2011-2012 as shown in table 4

Table 4

	2011-12	2012-13
Return on Assets (ROA)	1.08	1.03
Return on Equity (ROE)	14.60	13.84

The decline in these two parameters has resulted in declaration in net profit.
In global perspective, India risks above the advanced economies and other BIRCS economies except china, in terms of cost efficiency measured through cost income (CI). In terms of efficiency captured through net interest margin (NIM) India appears at par with (BIRCS) economies but still lags behind most advanced economies. It compares favourably with other BIRCS and advanced countries in terms of profitability measured through ROA.

IV. CUSTOMER SERVICES:

Customer satisfaction is an integral part of inculcating trust among the common people on the banking sector. For this purpose RBI has set up a separate customer service Department in 2006 and also banking Ombudsman offices in 15 major banking centers. In order to ease customers access to banking facilities , Indian banks have began offering bouquet of financial services to their clients. The number of branches providing 'core banking solution'(CBS)is increasing rapidly . Under CBS ,a number of services are provided such as 'anywhere banking' ;everywhere access' and quick private sector banks and foreign banks have already put in place CBS. Public sector banks are increasingly adopting a similar system. The number of branches of PBS that have implemented CBS increased from 79.4 percent at end March 2013.

V. EXPANSIN OF BANKING SECTOR:

(a) Increase In Number Of Branches :

In 2013, the number of branches of all commercial banks increased by 4678 over the previous year. By December 31,2013,37.9% of all the branches were in rural sector.

(b) Opening branches in hitherto unbanked areas:

The bank branches opened in the hitherto unbanked areas increased from 281 in 2009-10 to more than 500 in 2012-13.

(c) Expansions Of Banking Networks through ATMS:

Introduction of ATMs has enabled customers to do banking without visiting the bank branch. The banks are providing more and more ATMs (Automatic Teller Machine) facilities to customers. ATMs particularly off-site ATMs act as substitute for bank branches in offering a means of anytime cash withdrawals to customers. The total number of ATMs of CBSs rose from 60,153 in 2010 to 1,14,914 in 2013, a double digit growth over the previous year.

Table 5 : ATMs of Scheduled Commercial Banks

Bank Group	Totl ATMs (at end of March)		
	2010	2011	2013
All SCB’s	60,153	95,686	1,14,914

CONTINUED TECHNOLOGICAL UP GRADATION:

In the recent years, the pace and quality of banking have changed with the adoption of technological advancements. Computerisation as well as adoption of core banking solution was one of the major steps in improving efficiency of banking services. The new private sector banks and most of the foreign banks were the front runner in adopting technology. At almost 98 percent of the branches of public sector banks are fully computerized and within which almost 90 percent of the branches are on core banking platform. There has been steady increase in electronic banking transaction. The electronic payment systems such as electronic Clearing Service (ECS) credit and debit, National Electronic Fund Transfer (NEFT) for retail transaction and Real Time Gross Settlement (RTGs) for large value, improved the speed of financial transactions across the country.

VII. FINANCIAL INCLUSION:

The objective of financial inclusion is to extend financial services to the large hitherto un served population of the country to unlock its growth potential. Financial inclusion in the Indian context has been defined as the provision of a affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. Financial exclusion is an important area of concern due to low levels of financial penetration and deepening in India compared with other countries across the globe .India ranks very low compared with the OECD countries as well as many of its Asian peer group countries with regard to financial penetration. However, in the recent years there has been steady increase in the penetration of bank branches and ATMs.

CONCLUSION:

The Indian banking sector has been adapting innovations in technology especially the information technology to achieve efficiency in providing wide range of products and services to the customers. Under “Core Banking Solutions” (CBS) a number of services are being provided such as 'anywhere banking', 'everywhere access', and 'quick transfer of funds' in an efficient manner and reasonable cost. More and more ATMs are being installed by the banks. Almost all the banks have been providing the internet banking facility.

REFERENCES:

(1) Biresh K S. and Mandal, A. (2011), “Examining the Performance of Banks in India: Post Transition Period”, The IUP Journal of Bank Management, Vol.X (2), pp.7-31.

(2) Kumar, S. and Gulati, R. (2008): “An Examination of Technical, Pure Technical and Scale Efficiency in Indian Public Sector Banks using Data Envelopment Analysis”, Eurasian Journal of Business and Economics, Vol.1 (2), pp.33-69.

(3) Subbaroo, P. S. (2007), “Changing Paradigm in Indian Banking”, Gyan Management, Vol.1 (2), pp.151-160.

(4) Uppal, R. K. and Kaur, R. (2007), “Indian Banking Industry: Comparative Performance Evaluation in the Liberalized and Globalized Era”, Gyan Management, Vol.2 (2), pp.3-24.

(5) www.rbi.org.in (6) Economic Survey, 2013-14 and various other issues.