e-ISSN : 2347 - 9671
Impact Factor : 0.998
p- ISSN : 2349 - 0187

EPRA INTERNATIONAL JOURNAL OF ECONOMIC AND BUSINESS REVIEW

www . epratrust.com

August 2014 Vol - 2 Issue- 8

FINANCIAL PERFORMANCE OF BANKING INDUSTRY

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ABSTRACT

Now-a-days Banking is recognized as pioneering Banking. The 21st century witnesses all embracing the convergence of computing, communications, information and knowledge. This will radically change the way we live, work and think. Developments in Information Technology have given a rise to innovations in the pecuniary industries and banking sectors. Computers are getting more sophisticated. The changes that new technologies have brought to banking are enormous in their impact on officers, employees and customers. The paper attempts to analyze the sustainable development of the Indian banking industry from end to end Information Technology through on both Financial and Technology parameters. Financial parameters include Net Profit as Percentage of Working Funds, Capital to Risk Weighted Asset Ratio (CRAR), Business per Employee (BPE), Profit per Employee (PPE), Interest Income and Non-Interest Income. The IT has become a Gateway for the success of all the Banks. Financial parameters are design more flexible pathways to economic growth and are taking Green steps for sustainable banking industry.

KEYWORDS: *Banking, Information Technology, Sustainable Development and Transformation.*

INTRODUCTION

Sustainable development (SD) is a pattern of money-making growth in which resource use aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for generations to come (sometimes taught as ELF-Environment, Local people, Future).The main objective of the study is to analyze the emerging issues of sustainable development in India's banking sector. To that end it seeks to identify the outfitted principles of sustainable development in the context of the banking industry in India and to examine the current regulatory mechanism for achieving sustainable technological development also to analyze the prevailing national and international practices for achieving sustainability in banking operations. Some of the reports felt that the measures needed to Integrate banking development with technological, social concerns, environmental integrity and good governance.

The Indian economy's liberalisation in the early 1990s has resulted in the conception of various private sector banks. This has sparked a boom in the country's banking sector in the past two decades. The revenue of Indian banks grew four-fold from US$ 11.8 billion to US$ 46.9 billion, whereas the profit after tax rose nearly nine-fold from US$ 1.4 billion to US$ 12 billion over 2001-10. This growth was driven primarily by two factors. First the influx of Foreign Direct Investment (FDI) of up to 74 percent with certain restrictions. Second the conservative policies of the Reserve Bank of India (RBI), which have shielded Indian banks from recession and global economic turmoil. The Bankex is an index tracking the performance of important banking sector stocks, and has grown at a compounded annual growth rate (CAGR) of approximately 20 per cent over 2003-126. The Figure below shows that the Bankex and the Sensex have had similar growth trends over the past decade.

With the adoption of technology, the Indian banking sector has undergone significant transformation from local branch banking to anywhere-anytime banking. Over the past couple of years, there has been huge growth registered in the number of transactions done through mobile devices. As per RBI, there were 49 banks with a customer base of about 13 million offering mobile banking servic es as at the end of Mar 2012. During FY12, around 25.6 million mobile banking transactions valued at Rs. 18.2 billion were transacted, recording a growth of 198% y-o-y and 174% y-o-y respectively. This rapid growth is driven by availability of 3G/4G network, increasing number of smart phones and several tele com companies offering economical data usage packages.

The Indian government can bring in financial inclusion by setting up ATMs and providing mobile/online banking facilities. Further, experts suggest that the number of ATMs need to increase by 5 times to reach 160,000-190,000 in the coming decade31. The mobile banking channel in India is also untapped, with close to 900 million mobile connections, and only 400 million bank accounts. With mobile connections expected to grow to 1,150 million by 2020, mobile banking is a key growth prospect and an important channel for financial inclusion gives a perspective on the transaction costs of various banking channels and highlights the cost saving that can be achieved through mobile, online and ATM banking.

REVIEW OF LITERATURE

Bhattacharya (1997) has found public sector banks with the highest efficiency among the three categories of bank groups as foreign and private sector banks have much lower efficiencies. Though public sector banks started showing a decline in efficiency after 1987, private banks witnessed no large and foreign banks disclosed sharp rise in efficiency.

B.Janaki (2002) has analyzed how technology is affecting the employees' productivity. There is no doubt in India particularly; public sector banks will need to use technology to improve operating efficiency and customer services. The study concludes that technology is the only tool to achieve their goal.

Singla and Arora (2005) attempted to analyze the comparative performance of Canara bank and Indian bank that both banks have improved their financial performance during the study period. Where Canara bank has an upper hand in growth of deposit, advances and working funds in case of productivity, it is rising in both the banks but remained much higher in Canara bank.

Sign, Interjects and Parmodkumar (2006) have discussed the deposits is a major determinant of spread followed by barrowings and labour. The study again concluded that average technical and allocate efficiency are the highest in foreign banks while of public sector banks id although lower than foreign banks but much better than private sector banks.

Vradi, Vijay, Mauluri, Nagarjuna (2006) in his study on measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable economy in order to see the efficiency of Indian banks. We have see the four indicators i.e. profitability, productivity, assets, quality and financial management for all banks in India for the period from 1999-2000 to 2002-2003. Finally, paper concluded and found that public sector banks are more efficient then other banks in India.

NEED FOR THE STUDY

Researchers on various occasions have raised many issues which must be addressed in context of the banking industry. It is relevant to refer briefly to the previous studies and research in the related areas of the subject to find out and to fill up the research gaps, if any. The present study seeks to sustainable developments of among public, private sector and foreign banks in India.

OBJECTIVES OF THE STUDY

To study and analyze the sustainable developments in Indian banking industry in provisions of financial parameters i.e., Net Profit as Percentage of Working Funds , Capital to Risk Weighted Asset Ratio (CRAR), Business per Employee (BPE), Profit per Employee (PPE), Interest Income and Non-Interest Income.

RESEARCH METHODOLOGY

Under the regime of banking sector reform, IT Act of 1999 gave new dimensions to the banking sector. IT revolution is entirely changing the way banking is done. IT has created transformation in banking structure, business process, work culture and human resource management. Type of research used in the present study is analytical research. Among public, private sector and Foreign banks in India from 2001 to 2012 were used to study the objectives. The Study is based on the secondary data the relevant and required data has been collected from various journals, dailies, annual reports, magazines, literatures which is collected from Performance Highlights, Various Issues, IBA publication, and Report on Trend and progress, RBI Publication and E- Resources. Universe of the study is Indian banking industry. The population of present study was taken three major bank groups i.e. Public sector banks (G1), Private sector banks (G2) and Foreign banks (G3).

The present study has focused on all financial parameters only, financial parameters includes Net Profit as Percentage of Working Funds , Capital to Risk Weighted Asset Ratio (CRAR), Business per Employee (BPE), Profit per Employee (PPE), Interest Income and Non-Interest Income. Time unit is divided into two parts pre-stage i.e. from 2001-2006 and post-stage i.e. 2007-2012.For analyzing the data, percentages Mean, Standard deviation and F-test were applied. The data was analyzed using statistical packages for the social sciences (SPSS) 16 version.

ANALYSIS OF DATA

Banking industry has comprising various scheduled commercial, private, public and foreign banks. This present paper focused three major bank groups: private public sector and foreign banks were taken to study the impact of the sustainable developments in banking sector. The sustainable developments of public, private sector and foreign banks is studied with the various financial parameters includes Net Profit as Percentage of Working Funds , Capital to Risk Weighted Asset Ratio (CRAR), Business per Employee (BPE), Profit per Employee (PPE), Interest Income and Non-Interest Income....etc. all those items were taken the objectives of the present study Business per employee (BPE) is key measure of labour productivity. Since computerization has enabled banks to handle higher business by employing reduced number of employees. It is clear from table 1 that in the pre-IT era business per employee is quite low in foreign bank group as compared to public and private sector bank groups. The average business per employee is the highest in private sector bank group i.e.2.71 lakh but in the post-IT era also business per employee is the highest in private sector bank group i.e.2.21 lakh. These banks groups are providing a better interest on deposits and charges lower interest on advances.

Table-1: Business per Employee (BPE) (In lakh)

Pre-IT Period			
Bank Group	G1	G2	G3
2001	1.50	1.78	2.27
2002	1.94	2.43	1.88
2003	2.54	2.75	2.11
2004	3.00	2.73	2.49
2005	2.50	4.82	2.87
2006	2.06	1.76	2.86
Mean	2.25	2.71	2.41
S.D	0.52	1.12	0.40
CV	0.28	1.26	0.16
Post-IT Period			
2007	1.50	1.87	2.65
2008	1.79	2.36	2.12
2009	1.94	1.18	1.41
2010	1.98	1.78	1.38
2011	1.99	2.36	1.98
2012	1.97	3.73	2.43
Mean	1.86	2.21	1.99
S.D	0.19	0.86	0.52
CV	0.37	0.74	0.27

Source: www.indiastat.com.

Table-2: Non-Interest Income (In percent)

Pre-IT Period			
Bank Group	G1	G2	G3
2001	1.30	1.47	2.28
2002	1.55	2.51	1.97
2003	1.79	2.66	2.19
2004	2.13	2.44	2.51
2005	1.78	4.26	2.52
2006	1.20	1.43	2.52
Mean	1.62	2.46	2.23
S.D	0.34	1.03	0.22
CV	0.12	1.06	0.05
Post-IT Period			
2007	1.30	1.36	2.65
2008	1.13	1.49	2.17
2009	1.18	1.43	1.71
2010	1.21	1.42	1.69
2011	1.18	1.69	2.45
2012	1.15	3.44	2.35
Mean	1.19	1.80	2.17
S.D	0.05	0.80	0.39
CV	0.00	0.65	0.15

Source: www.indiastat.com.

Non-Interest Income includes the income earned from various e-channels, draft, and services. It is reveals from the table that after the IT period Non-interest income all the bank groups have been increased. Thus table implies that IT is becoming helpful in increasing the Non-interest income. The standard deviation of Non-interest income is the lowest in public sector bank group i.e., 0.05 percent but in the pre IT period Non-interest income is the higher efficiency in foreign bank group.

Table-3: Interest Income (In Percent)

Pre-IT Period			
Bank Group	G1	G2	G3
2001	9.92	10.4	4.16
2002	8.53	9.54	3.49
2003	8.61	9.56	3.89
2004	8.17	8.63	4.57
2005	8.61	7.56	4.97
2006	7.36	7.52	4.96
Mean	8.63	8.86	4.34
S.D	0.82	1.17	0.59
CV	0.62	1.37	0.35
Post-IT Period			
2007	9.91	7.76	4.85
2008	8.15	9.23	3.89
2009	8.58	7.52	3.07
2010	8.50	10.4	3.17
2011	8.58	9.20	4.23
2012	8.38	7.63	4.41
Mean	8.63	8.62	3.93
S.D	0.62	1.16	0.70
CV	0.38	1.36	0.49

Source: www.indiastat.com.

Interest income is the income earned from advances. Table 3 reveals that interest income in the after IT era has reduced. Interest income of the foreign bank group has reduced more than the other bank groups. Because a foreign bank group is concentrating on Non Interest income and also the prime reason of this diminution in Interest income is that a portion of this income is immovable in NPAs.

Table-4: Profit per Employee (PPE)

(In lakh)

Pre-IT Period			
Bank Group	G1	G2	G3
2001	0.68	1.15	20.07
2002	1.01	1.59	15.64
2003	2.08	4.65	17.17
2004	2.76	1.83	21.96
2005	2.08	2.66	25.57
2006	2.51	2.45	25.48
Mean	1.85	2.78	20.98
S.D	0.82	1.23	4.15
CV	0.68	1.53	17.22
Post-IT Period			
2007	0.68	4.10	25.96
2008	3.90	5.45	17.47
2009	4.66	6.23	8.05
2010	4.81	0.89	8.74
2011	4.64	7.40	9.53
2012	4.42	4.83	22.31
Mean	3.85	4.81	15.34
S.D	1.58	2.23	7.69
CV	2.51	5.00	59.27

Source: www.indiastat.com.

Table-4 shows that the profit per employee is during the pre IT stage which we observe public sector bank group has greater the efficiency than the other bank groups. In order to the post IT stage , the average profit per employee is the highest in foreign bank group i.e., 15.34 lakh.

Table-5: Capital to Risk Weighted Asset Ratio (CRAR) (in percent)

Pre-IT Period			
Bank Group	G1	G2	G3
2001	11.00	11.60	37.61
2002	10.16	11.57	37.37
2003	12.11	13.09	39.25
2004	13.07	13.87	41.69
2005	12.11	11.98	35.70
2006	12.20	11.71	35.85
Mean	11.77	12.30	37.91
S.D	1.02	0.95	2.26
CV	1.05	0.91	5.11
Post-IT Period			
2007	12.20	13.66	45.26
2008	11.00	16.39	38.14
2009	11.50	11.71	27.79
2010	13.19	11.45	27.71
2011	13.21	16.39	26.33
2012	12.40	14.87	36.95
Mean	12.25	14.07	33.69
S.D	0.88	2.19	2.60
CV	0.79	4.80	57.80

Source: www.indiastat.com

Table-5 shows that Capital to Risk Weighted Asset Ratio (CRAR) has rapidly increased in both pre and post IT period, foreign sector bank group has taken top position followed by private and public sector bank groups. The average ratio of the CRAR is increasing year to year. Banks are giving to the customers on fund based services in low interest rate. Capital adequacy ratio is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk etc. In the simplest formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders.

Table-6: Net Profit as Percentage of Working Funds (In Percent)

Pre-IT Period			
Bank Group	G1	G2	G3
2001	0.88	1.09	0.98
2002	1.44	1.33	0.99
2003	2.34	1.54	1.24
2004	3.17	3.02	-0.31
2005	1.60	1.45	0.24
2006	1.68	1.56	0.80
Mean	1.85	1.66	0.65
S.D	0.79	0.68	0.58
CV	0.63	0.47	0.34
Post-IT Period			
2007	1.38	3.00	1.56
2008	1.24	2.35	1.62
2009	0.95	2.15	1.24
2010	1.20	2.07	1.52
2011	1.14	2.97	1.84
2012	2.46	3.20	1.57
Mean	1.39	2.62	1.55
S.D	0.54	0.48	0.19
CV	0.29	0.24	0.04

Source: www.indiastat.com.

Profitability of banks reflects the financial stability of banks. Technology has brought a huge change in the profitability trends of various bank groups. It is the evident of from table 6 that average profitability in the before IT period is 1.85 percent while low in foreign bank group. In the after IT period profitability is more in private sector bank group. Because IT introduced and both the bank groups are implemented. Thus the table indicates IT has huge affect on the profitability of all the bank groups.

CONCLUSION

Sustainable development has emerged as an important concern for mankind, following intensified damage to environment and socio-cultural integrity that has accompanied accelerated economic development in many regions of the world in post-World War II years. Banking in this scenario has attracted special attention as more than any other industrial and financial activity, it tends to leave a strong negative impact on environment and society. The present study was found that, On the basis of our parameters, the banking industry has become a new gateway for the success of various bank groups. Before implement of the technology, most of the bank groups having highest average of the Business per employee, profit per employee and net profit. In case of public and private sector bank groups was highly efficient and significance compared to the after introduced technology while coming to the foreign sector banks are rapidly development in the stage of technology the non interest income , interest income and capital adequacy ratio. Financial parameters are design more resilient pathways to economic growth and are taking Green steps for sustainable banking industry.

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