Financial Dynamics of Public and Private Sector Banks in Post Globalized Regime: Issues and Concerns

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Abstract

The major role of the banks in any given economy is to control the circulation of money in national and international market framing the policies for the same. In case of India the economy runs on two policy frameworks i.e. fiscal policy and monetary policy and both of these policies are responsible controlling the financial dynamics of the country. This present study will try to evaluate the comparative dynamics of public and private sector banks in India. The study period is from 2009 to 2018 and CAMELS model is used to rank the banks on the basis of CAGR and CAR. Man Whitney U test is used to compare the statistics of CAMELS ranking. SPSS Ver. 22.0 is used as tool of analysis. Here it is important to mention that the international economic framework has suffered from crisis at two levels i.e. Financial Crisis of Asia in 1997 and the subprime crisis of United States. These two events had brought economic recession to most of the developing countries including India and inflationary condition in developed economies. These crises have given an opportunity to all the developed and developing countries to assess the overall banking system of the country and refuel it with better safety and security measures. In this present study the researcher will try to evaluate the dynamics of banking sector in India using different statistical measures.

Key words: Financial Dynamics, Economic recession

Introduction

Financial infrastructure of a given economy in like a catalyst of growth i.e. if the financial system of the country is strong then the effect of the same can be seen in the form of cumulative growth rate. As a matter of fact, the banks either public or private are the drivers of the above said financial growth. Banks are covered under the service sector, specifically in financial service sector and responsible for industrial growth, financial growth and even social development of the country. The major role of the banks in any given economy is to control the circulation of money in national and international market framing the policies for the same. In case of India the economy runs on two policy frameworks i.e. Fiscal policy and Monetary policy, here the Fiscal policy is another name for annual budget announced by finance minister of the country and monetary policy refers to the guidelines of RBI (*quarterly announced*) for the basic operation of banks and related matters. Then on the other hand the banks are responsible for motivating savings in the country and assist in capital formation against these savings. Development of industry, agriculture and tertiary sector is the responsibility of banking system of the country. The other tasks handled by the banking system of the country are:

- Development and growth of national and international trade
- Encouraging trading operations at national level
- Taking care of BoT (*Balance of Trade*)
- Circulation and value of currency
- Encouraging saving potential of the country

Levine et al(2014); Abma et al (20105) and many other experts of the area believed that a strong financial or banking sector ensures the overall growth of a given economy. **Kroon (2016)**stated that the banks in a country are just like the building blocks of a skyscraper, rather it took time for the skyscraper to take shape but then again if the bulding blocks are strong then no one can harm the building.

Fase et al (2017) stated the basic orientation of banking system in the following manner:

- Acting as financial intermediary

- Control and assist in balancing the investment activities
- Flag the associated risk in financial collisions
- Gross the national savings
- Assist the national and international trade in the country

Becket al(2017)stated that the banking sector of a country works hand in hand with stock market and economic growth rests on these two shoulders, if any of the shoulder gets weak then the economic growth of the country comes at stake. **Levine (2012)** presented a basic layout of a banking system and stated that the banks are responsible for boosting the low growth areas for generating income and then use that income to fuel the development of high priority. This model is followed by a number of countries including India, rather Russia was an exception where the economic model works downwards i.e. high priority sector to low priority sector.

Brief Description of Banks in India

The overall banking system of the country falls in two broad categories i.e. Commercial Banks and Co-operative Banks.

Commercial Bank

Such banks are directly dealing with the public at large and accepting deposits from them, the main set of customers include general households, businessmen, government and private sector employees, etc. apart from this such banks are profit seeking entities and the general profit is in terms of interests and commissions. Establishment of such banks is based on the guidelines of Company's Act, 1956 and the respective functions are governed by RBI (*Reserve Bank of India*)

The SCBswere incorporatedas per the second schedule of RBI Act, 1934 and the minimum paid up capital should be equal to or more than 5 Lakhs. Also such banks are defined as company in terms of Indian Companies Act, 1913. Here it is important to mention that the SBI group and

Nationalized Banks come under the head of public sector banks and other scheduled commercial banks are covered under the head of scheduled commercial banks.

Then again the private sector banks are those where the higher value of shares is in the hands of private sector, after the national drive of privatization and liberalization, RBI revised its guidelines and banks established Post-Liberalization are called as new private sector banks. Some of the examples are, HDFC, UTI, ICICI, Kotak and many others. Then the foreign banks use to play an important role in Forex generation in the country, as a matter of fact the incorporation of such bank needed an allotted capital of USD 25 million. Then comes the RRB (*Regional Rural Banks*), these banks are governed in parts by different government agencies i.e. 50% by Central Government, 15% by State government and 35% by Sponsor Public Sector Bank. The functioning of such bank is governed by NABARD. Co-Operative Bank can be considered as collision of people registered under Cooperative Societies Act, 1912 and the motive is to support the mutual requirements related to financial needs.

Literature Review :

Singh (2011)this study was based on the comparative analysis of private and public sector banks and the location of the study was in Patiala, Punjab. The study evaluated the financial performance of the selected banks from 2004 to 2010, the main component of comparison were number of branches, deposits, advances and borrowings, etc. the tools used to analyze the data was trend analysis. Findings of the study stated that in terms of overall growth the private banks are in better condition and HDFC aced the list in terms of performance. The public sector banks are slow in terms of expansion and employee expansion.

Sheth et al (2012)the researchers had used CAMEL model to evaluate the performance of public and private sector banks, at the initial level the CAGR and liquidity of the selected banks was calculated and then CAMEL model is applied on the results. The findings of the study stated that from 2001 to 2010 the profitability of the public sector banks was more than the public sector banks but in case of branch expansion and productivity of employees top five places were acquired by the private sector banks like HDFC, Yes bank, ICICI, etc. the average group rank of the selected banks showed that average group rank of public sector bank is around 2.1 and that of private sector bank is around 3.02. in case of public sector banks SBI and Associates were at a higher rank.

Aspal et al (2013) This study was based on the evaluation of financial performance of State bank and associated, the findings of the study stated that on the basis of CAR (*Capital Adequacy Ratio*) State Bank of Bikaner and Jaipur and State bank of Patiala were at a higher rank as compare to rest of the associates, then on the grounds of efficient management SBM and SBT were at the top of the list, but on the grounds of financial performance both the banks were rated below 11 points. This study also established that CAMEL model is one of the best suited tool to evaluate and rank the performance of banks, at a given point of time.

Biswas (2014) This study was focused on the performance evaluation of only public sector banks and the respective study period was 2001 to 2013. The researcher used 't' test and CAR to judge the performance of selected banks. Findings of the study stated that the capital adequacy of SBI and associates was higher at one end and if compared individually then banks of Maharashtra and Andhra Bank were at a higher rank based on their CAR and debt equity ratio. The researcher used 20 different components to evaluate the performance and finally put the results in CAMEL model to find the respective ranks of selected banks.

Thanki (2016) This study was based on the comparative analysis of private and public sector banks, the sample size of the study was 10 banks where 5 were public sector banks and 5 were private sector banks. The respective period of study was 10 years i.e. 2005 to 2015. The findings of the study stated that in all the selected components to judge the performance of the selected banks, ICICI emerged as a top rated bank and SBI aced the list from selected public sector banks. The next best performance was shown by Kotak Mahindra Bank and bank of Baroda.

Objective :

(1) To evaluate the financial dynamics of public sector banks of India

(2) To evaluate the financial dynamics of private sector banks of India.

Hypothesis:

H_0 : There is no significant difference between financial dynamics of private sector banks and that of public sector banks of India

H_1: There is a significant difference between financial dynamics of private sector banks and that of public sector banks of India

Research Methodology

Data

This present study is based on secondary data, as none of the banking officials were contacted in the process and the researcher has concentrated on the data available on different websites and published resources.

Time Period

As the stipulated time was short so the researcher has considered the data related to financial performance of the banks of 10 years i.e. 2009 to 2018.

Sources of Data

The main sources of data were as follows:

- Website of RBI
- www.moneycontrol.com
- Article from different magazines
- Research papers from reputed national and international journals
- Other published and unpublished sources

Tools of analysis

- The basic tools used were average, standard deviation, percentage, etc.
- CAMEL model is used to rank to the banks on the basis of their performance.

Brief Description of CAMEL Model

The first draft of CAMEL model was prepared in late 70s by corporate giants of US, earlier the model was named as "*Uniform Financial Institutions Rating System*", but on the demand of experts and researchers the name was changed to CAMEL which was an abbreviation for Capital adequacy, Asset quality, Management, Earnings and Liquidity. Under this model the selected banks are provided with ratings from 1-5 and a cumulative rank of all the banks is also calculated. Apparently in late 1990s 'S' was added to CAMEL and this 'S' stands for ranging the 'Sensitivity to Market Risk' and since then the name of CAMEL was changed to CAMELS.

Data Analysis and Interpretation

Table.1: CAMELS Ranking of Selected Banks

S.N.	Bank	C	A	M	E	L	S	Average Rank	CAMELS Rank
1.	Allahabad Bank	29	35	25	15	29	21	27	31
2.	Andhra Bank	19	18	7	4.5	16	26	15.07	8.5
3.	Bank of Baroda	17	21	15.9	25	31	36	24.18	25
4.	Bank of India	34	29	11	31	40	38	31	38.5
5.	Bank of Maharashtra	42	18.5	39	35	4	10.5	25	27
6.	Canara Bank	14	12.5	17	23	26	33	21	23.50
7.	Central Bank of	45.5	45	43	41	10	21	34	43
8.	Corporation Bank	9	8.5	4	16	31	12.5	13	5
9.	Dena Bank	44	42	25	34.5	21	31	33.50	41
10.	Indian Bank	10	17.5	27	12.5	2	20	15	5
11.	Indian Overseas	31	30	24	17.5	11	22.5	23	24
12.	Oriental Bank of	16	15.5	5.5	21	19	31	18	15
13.	Punjab & Sind Bank	44	42	36	35	7	8	29	36
14.	Punjab National	18	27.5	20	5	15.5	31	20	18

15.	Syndicate Bank	37	14	32.5	22	21.5	34	27	33
16.	UCO Bank	40	39.5	34	4.5	36	24	36	45.5
17.	Union Bank of India	27	29	13	19.5	43	31	27	32
18.	United Bank of India	31	34	40.5	37	7	17.5	28	34
19.	Vijaya Bank	38.5	9	34	30.5	14.5	25	26	28
20.	State Bank of India	29.5	34	31.5	26	21	28.5	28	35
21.	State Bank of Bikaner & Jaipur	33	26.5	29	14	4	8.5	19	18
22.	State Bank of	35	30	16	14	11	13	21	22
23.	StateBbnk of	33	23.5	27	10.5	23	5.5	20	21.5
24.	State Bank of Patiala	21.5	8	11	24.5	26	12.5	17	14.5
25.	State Bank of	36.5	11	21	20.5	8	3.5	16	12.5
26.	IDBI Bank Limited	8.5	21	1.5	43	17	35	21	22.5
27.	Catholic Syrian	41	39	45	38	6.5	11.5	34	44
28.	Baty Union Bank	9	24.5	19	1.5	37	2	15	8.5
29.	Dhanlaxmi Bank	41	43	44	44.5	13	10.5	32	41.5
30.	Lederal Bank Ltd.	4	20.5	11	10.5	33	15	16	11
31.	ING Vysya Bank	26	5	35	42	41	4.5	25	30
32.	Jammu & Kashmir	14.5	3.5	21	12.5	43.5	6.5	16	12
33.	Karnataka Bank Ltd.	25	39.5	31	32	35	18	30	37
34.	KarurVysya Bank	2	13	5	4.5	44	2.5	11	3
35.	Lakshmi Vilas	22.5	45	38.5	42	41	7	32	39

	Bank								
36.	Nainital Bank Ltd.	12	2	38	8	2	10	12	4
37.	Ratnakar Bank Ltd.	8	36	42	33	2	12	24	26
38.	South Indian Bank	25	26	28.5	28	30	16	25	31
39.	Lnmbilnad Mercantile Bank Ltd.	2	32	15	4	45	15	21	19
40.	Axis Bank Ltd.	22	3	8	10	35	27	17	12
41.	Development Credit	23	41	43	45	21	17	34	44
42.	HDFC Bank Ltd.	12	6.5	13	2.5	24	11	11	2
43.	ICICI Bank Ltd.	6.5	22	3	27	13	37	18	14
44.	IndusInd Bank Ltd.	15	9	10	30	32	22	20	21

Source: website of RBI and www.moneycontrol.com

The above given table states the ranks of selected banks, as can be seen from the table that the cumulative rank of public sector banks is around 26 and that of private sector banks is 22, then it also shows that the average rank of private sector banks is less than the public sector banks. The comparative ranking indicates that within all the scheduled commercial banks the public sector banks are performing better. The data for this analysis is taken from the website of RBI and moneycontrol.com, tenure of the study was 2009 to 2018.

Table 2: General Statistics of Ranking in table 9.1

Component	Type of Bank	N	Mean Rank
CAMELS Rank	Public	20	26.03
	Private	20	20.82

	Total	40	

Table 3: Test Statistics (*Mann Whitney U test*)

Component	M-W Variable	Z Score	p-Value
CAMELS Rank	198.030	-1.239	.301

Source: Output of SPSS Ver. 22.0

As per the results of Mann Whitney U test, given in table 3, it can be seen that at the 95% of significance level the Z –score lies within the limits of ±1.96 which is an acceptable limit and the p-value of the same is 0.301 or more than 5% level of significance. This proves that the test results are in right direction and motivates for the acceptance of null hypothesis.

Result:

Based on the above analysis and interpretation it can be stated that if the overall scenario of financial dynamics is measured then on average basis the financial dynamics of public sector banks is stronger than the private sector banks, hence the null hypothesis can be rejected and the alternate hypothesis can be accepted.

Conclusion:

The financial crisis emerged at the international level are liable to put some effect on the public and private sector banks of the country, this present study evaluated the top banks, both in public and private sector. The motive of this study was to evaluate the financial dynamics of the banking industry of India. The researcher has used the CAMELS for this analysis and Mann Whitney U test for comparing the results. The results of the study concluded that there is a difference in the cumulative ranking of the selected banks but then again the difference at statistical level is not significant. Then on the other hand the findings of the study also state

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that the public sector banks are more dynamic as compared to private sector banks and this variation will continue in near future. In the present times of COVID-19 there is a steep slowdown experienced in the overall economy of the country but then again the growth rate is stable and this is an indication that the overall economy will revive and reach the desired level of expectancy.

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