A Study on the Performance of Indian Banks

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Abstract-We must have a proper outlook of what is the history of an Indian banking system and understand the basis of why banking reform was necessary and which reforms are vitalBefore we look into the performance of banking sector of India. In the present scenario, the demand of banking is anytime, anywhere banking, this requires innovative robust secure optimized and ready to meet the expectations of empowered and tech savvycustomers. The main focus of the study is on the performance of Indian banks.The data has been extracted from the various sources like research articles, publications from government of India, various bulletins of RBI and authenticated websites.

Key words: Banking in India, performance, Indian Banks etc

INTRODUCTION

India has a long tradition of banking. Evidence regarding the existence of money-lending operations in India is found in the literature of the Vedic times, i.e., 2000 to 1400 BC. Basically, the functions of banks are to accept the deposits from the people and advance the money to the people provide loans to the people when they are in great need. The concept of bank is very old only difference is that today we are using modern techniques in the banks and in traditional time only money lenders give loans to the poor people. The banking system is central to a nation's economy. A banking institution is essential for economic growth and development of nations.

India possesses a rich historical legacy in the realm of banking. The literature of the Vedic era, spanning from 2000 to 1400 BC, contains evidence pertaining to the presence of money-lending activities in India. In essence, the primary roles of banks encompass the reception of deposits from individuals and the provision of monetary advances and loans to individuals in times of significant financial exigency. The notion of banking has a long historical lineage, with the key distinction being the utilization of contemporary procedures in modern banks. In contrast, during traditional times, financial assistance to impoverished individuals was mostly provided by moneylenders. The financial sector plays a pivotal role in the economic framework of a nation. The presence of a financial institution plays a crucial role in fostering economic growth and facilitating the development of nations.

In the year 1955, the Imperial Bank of India underwent nationalization and was subsequently renamed as the "State Bank of India". This institution assumed the role of the primary agent of the Reserve Bank of India (RBI) and was entrusted with the responsibility of managing banking operations across the whole nation. The establishment of the entity occurred in accordance with the provisions outlined in the State Bank of India Act of 1955. On July 19th, 1969, a significant process of nationalization was undertaken. Simultaneously, the government of India implemented the nationalization of 14 prominent commercial banks within the country. In the year 1980, a further six banks underwent the process of nationalization, resulting in a cumulative total of twenty nationalized banks. An further seven banks underwent the process of nationalization, each of which possessed deposits over Rs 200 Crores. Until the year 1980, the banking sector in India was predominantly owned by the government, accounting for nearly 80% of the total market share. In the context of India, it can be seen that previous to the process of nationalization, the banking sector was mostly concentrated in metropolitan regions, while rural and semi-urban areas were largely overlooked and underserved. The majority of loan facilities were predominantly availed by large industries and substantial corporate entities. The sectors of agriculture, small-scale industries, and experts have not been given the appropriate level of attention they require.

The rationale for the decision to nationalize was primarily driven by the observation that private commercial banks were unable to effectively address the social developmental objectives inherent in the banking sector, which are of paramount importance for any nation undergoing industrialization. The objectives pertaining to the growth of financial intermediation were not successfully attained. A committee, named for its head M. Narasimham, was established to facilitate the liberalization of banking processes. The implementation of the reforms led to a significant and quick expansion in the number of banks. In November 1991, the committee presented its report, which encompassed a comprehensive set of recommendations. These recommendations included a reduction in the liquidity ratio, the gradual elimination of the direct credit program, the redefinition of the priority sector, the determination of interest rates without the intervention of the Reserve Bank of India (RBI), the abolition of branch licensing, and the cessation of dual control over the banking system by the Finance Ministry and the Reserve Bank.

The amendment of the Banking Regulation Act in 1993, in response to the recommendations of the Narasimham Committee, facilitated the entry of new private sector banks. The data presented in Table 1 indicates a notable growth in the number of branches within the Indian banking sector. Public sector banks currently possess 45,293 branches, while private sector banks have 4,665 branches, and foreign banks have 182 branches. This increase in branch numbers is significant when compared to the pre-nationalization era.

OBJECTIVE OF THE STUDY

1. To examine the performance of Indian banking system during pre and post reform period.
2. To highlight the impact of technological development on Indian banking system.
3. To analyze the performance of non-performing assets on the profitability of banks.

JUSTIFICATION OF THE STUDY

The banking reforms that began in the early 1990s have continued to this day, and an effort is being made to investigate the major effects of those techniques on the banking sector. Based on the aforementioned study, we can conclude that the Indian banking system performs far better now than it did prior to nationalization; all banks are in better condition because they offer ATM services to their customers via debit cards, credit cards, and other means; the interaction with foreign banks has increased our Indian banks' efficiency and profits.

Table 1: Total Indian banks

	Indian banks	Foreign banks	Total banks
2013-2014	217452	5531	222983
2014-2015	272119	6988	279107
2015-2016	320816	8748	311565
2016-2017	373137	12232	385369
2017-2018	443537	15045	458618
2018-2019	556303	18827	575130
2019-2020	649586	21839	671425
2020-2021	747189	25093	772282
2021-2022	874046	26921	900967

Source: Reserve bank of India, Handbook of monetary statistics of India.

There are two types of Indian banks: scheduled commercial banks, which are further subdivided into four categories: public sector, with 27 branches; private sector, with 34 branches; foreign banks, with 42 branches; and regional rural banks, with 196 branches. Cooperative banks are the second category of India's scheduled banks, and they are further split into two groups. First, there are state cooperative banks with sixteen branches and urban cooperative banks with fifty-one branches.

TABLE 2: Total number of Indian Bank Branches (as of March, 2022)

Items	Number	Branches
Public sector banks	27	45293
Private sector banks	34	4664
Foreign sector banks	42	182

Table 3: Operations of Public sector Indian banks (Actually operational)

Name of bank	Branch		Subsidiary			Representative office		Joint venture bank		Total
2013	2014	2015	2016	2017		2018	2019	2020	2021	2022
Public sector bank	137	144	20	21	3	39	7	7	203	211
Allahabad Bank	1	1	-	-	1	1	-	-	2	2
Andhra bank	-	-	-	-	2	2	-	-	2	2
Bank of Baroda	46	47	9	9	3	3	1	1	59	60
Bank of India	24	24	3	3	5	5	1	1	33	33
Canara bank	4	4	-	-	1	1	-	-	5	5
Corporation Bank	-	-	-	-	2	2	-	-	2	2
Indian bank	3	4	-	-	-	-	-	-	3	4
Indian overseas bank	6	6	1	1	4	4	1	1	11	12
IDBI bank Ltd.	1	1	-	-	-	-	-	-	1	1
Punjab National Bank	4	4	2	3	4	4	-	--	11	12
State Bank of India	42	47	5	5	8	8	-	-	59	64
Syndicate Bank	1	1	-	-	-	-	-	-	1	1
UCO Bank	4	4	-	2	2	2	-	-	6	6
Union Bank	1	1	-	5	5	5	-	-	6	6
Oriented Bank of India	-	-	-	1	1	-	-	-	1	1
Oriental Bank of Commerce	-	-	-	-	1	1	-	-	1	1

Source: http://www.rbi.org.in

Table 4: Operations of Private sector Indian banks (Actually operational)

Name of bank	Branch		Subsidiary		Representative office		Joint venture bank		Total	
New Private Sector Bank	11	13	3	16	17	-	-	-	30	33
Axis Bank	3	3	-	2	3	-	-	-	5	6
HDFC Bank Ltd.	1	2	-	2	2	-	-	-	3	4
ICICI	7	8	3	3	8	8	-	-	18	19
Indusind bank Ltd.	-	-	-	-	2	2	-	-	2	2
Federal bank Ltd.	-	-	-	-	1	1	-	-	1	1
Kotak Mahindra bank Ltd.	-	-	-	-	1	1	-	-	1	1
Total	148	157	23	24	55	56	7	7	233	244

Source: http://www.rbi.org.in

Between 2021 and August 2022, Indian banks opened nine more branches in abroad. Thus the, foreign operations of Indian banks expanded in 2021-22 with a wide network of 244 offices as compared with 233 offices in the previous year.

PROGRESS OF BANKING IN INDIA

Technological Development in Banks:

Nearly 90% of bank branches use the core banking technology, and banks are entirely automated. Additionally, the advent of automated teller machines (ATMs) made it possible for clients to do banking without physically visiting a bank location. The number of ATMs increased by 24% in 2021–2022 compared to the previous year. However, there was a marginal reduction in the ratio of off-site ATMs to total ATMs from 45.7% in 2020–21 to 45.3% in 2021–22. As of the end of March 2022, public sector banks owned more than 65% of all ATMs.

Benefits of Automatic Teller Machines

ATMs were first introduced to the Indian banking sector by a foreign bank. A major disadvantage faced by the majority of international banks and certain private sector firms was the absence of a robust branch network. By providing hassle-free services and interacting with consumers at a reduced startup and transaction cost, ATM technology was utilized to partially address this disadvantage. Since then, there have been significant advancements in ATM technology and a marked rise in client receptiveness. The battle to expand ATM networks increasingly includes public sector institutions as well. The creation of ATM networks is used as a powerful marketing tool in addition to a means of reducing transaction costs.

Table 5: ATMs of Scheduled Commercial Banks (As at end- March 2022)

Sr.no	Bank group	On site ATM	Off site ATM	Total number of ATMs	Off site ATM as percent of total ATMs
I	Public sector banks	29,795	19,692	49,487	39.8
II	Private sector banks	10,648	13,003	23,651	55.0
III	Foreign banks	286	1,081	1,367	79.1
ALL SCBs		40,729	33,776	74,505	45.3

SOURCE: http://www.rbi.org.in/scripts/PublicationsView.aspx?id=13938

During 2021-22, 21,000 ATM were deployed by the banks. Public sector banks accounted for more than 60 Per cent of the total number of ATM as at end-March, while close to one-third of the total ATMs.

Outstanding Number of Credit Cards

The issuance of credit cards facilitates transactions without having to carry paper money. Despite the decline in the number of outstanding number of credit cards, the volume and value of transactions with credit card recorded a growth of 181.97to 227.84 million2021-22 compared to previous year.

TABLE6: Outstanding Number credit cards issued by scheduled commercial banks (As at End-March 2022) (in millions)

Bank group	2017-18	2018-19	2019-20	2020-21	2021-22
Public sector banks	44.09	64.33	91.7	129.69	170.34
Private sector banks	27.19	34.1	41.34	47.85	53.58
Foreign banks	3.71	4.02	4.39	4.43	3.92
Total	74.98	102.44	137.43	181.97	227.84

SOURCE: http://www.rbi.org.in

Computerization in Banks:
Through computation, technology has revolutionized the Indian banking industry; yet, new private sector banks and international banks have an advantage in this respect. As of March 2022, 97.8% of public sector bank branches have been fully digitized, compared to all SBI branches, which have all been fully computerized.

Table 7: Computerization in Public Sector banks

Category	2020	2021	2022
Fully computerized branches (%)	85.6	93.7	97.8

Source: RBI,Annual Report 2021-22

Financial Performance of Scheduled Commercial Banks
In 2021–2022, banks' financial performance was negatively impacted, mostly as a result of rising deposit costs amid an environment of high interest rates. On the plus side, though, banks' efficiency increased. The two primary profitability indicators, i.e., RoE (rate of equity) and RoA (rate of asset) declined marginally during 2021-22, reflecting deceleration in the net profit of banks.
Profitability

The sharp rise in interest expenses was the primary reason behind the banking sector's consolidated net profit growing at a slower rate than the previous year, despite faster growth in total income. Over three-quarters of banks' overall interest expenditures were made up of interest paid on deposits. This caused the percentage of relatively expensive term deposits to rise, which in turn caused the interest costs of banks to accelerate. In addition, the high interest rate environment made retail deposits more expensive.

Table 8: Trends in income and expenditure of scheduled commercial banks (Amount in 'billion')2021-2022

Amount	Percentage variation	Amount	Percentage variation	
1.Income	5,712	15.5	7,408	29.7
2.Expenditure	5,009	14.5	6,591	31.6
3.Operating profit	1,231	23.1	1,731	16.1
4.Net profit	703	23.2	817	16.1

Source: Annual accounts of respective banks

Table 9: Return on Assets and Return on Equity of SCBs (per cent) Bank group/year

	Return on Assets		Return on Equity	
2020-21	2021`-22	2020-21	2021`-22	
Public sector banks	0.96	0.88	16.90	15.33
Private sector banks	1.43	1.53	13.70	15.25
Foreign banks	1.75	1.76	10.28	10.79
All SCBs	1.10	1.08	14.96	14.60

Source: Annual report of RBI

CONCLUSION

In comparison to the pre-reform era, the Indian banking system did better. The Indian financial system was significantly impacted by the IT revolution. The advent of internet banking in India was facilitated by the usage of computers. With the country's banking industry exposed to the global market following economic liberalization in 1991, the utilization of contemporary innovation and computerization in India's banking sector has multiplied several times. Without the use of computers and information technology, Indian banks were finding it difficult to compete with foreign banks in terms of customer care. The rising transaction volume of banks has been managed more accurately and promptly thanks to the effective use of technology. Banks bring excitement and customer satisfaction to their customers' doorsteps by providing them with technology that is easy to use, safe, and secure. Rural regions should see a rise in the number of branches. ATMs ought to be accessible in remote locations as well. Increased technological use is required to promote financial inclusion.

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