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RESEARCH PAPER

Efficiency and profitability of banks in Indian financial system

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ABSTRACT

Efficiency and profitability of the banking sector in India has assumed primal importance due to intense competition, greater customer demands and changing banking reforms. This study attempts to measure the relative performance of Indian banks. For this study, public sector banks, old private sector banks, new private sector banks and foreign sector banks have been used. We know that in the service sector, it is difficult to quantify the output because it is intangible. Hence, different proxy indicators are used for measuring the productivity of banking sector. Segmentation of the banking sector in India was done along the following basis: number of banks, offices, number of employee, business per employee, deposits per employee, advances per employee, bank assets size, non-performing assets etc. Overall, the analysis supports the conclusion that foreign owned banks are on average most efficient and that new banks are more efficient than old ones. The public sector banks are not as profitable as other sectors are. In terms of size, the smaller banks are globally efficient, but larger banks are locally efficient. It means that efficiency and profitability are interrelated. It is true that productivity is not the sole factor but it is an important factor which influences to profitability. The key to increase profitability is increase productivity. For this, some suggestions have been recommanded to tackle the challenges faced by the banks particularly public sector banks.

KEY WORDS : Efficiency, Profitability, Public sector banks, Financial reforms

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The banking sector reforms in India were stimulated by the report of the Committee on financial system, popularly known as Narasimham Committee. This committee, which submitted its report in 1991, suggested various measures to improve the efficiency and health of banking sector by making it more competitive and vibrant (Ahluwalia, 2002). It affected the productivity, profitability and efficiency of the banks to a large extent (Mohan, 2005). Now more than two decaded have elapsed after banking sector reforms, hence it is high time to analyze that how the new banking policy have affected the banking operations of the different banks.

Objectives:

The specific objectives of the paper are:

- The present paper seeks to analyze the comparative performance of public sector, old private sector banks, new private sector banks and foreign sector banks.
- It also studies the challenges and opportunities particularly faced by the public sector banks.

Hypothesis:

- The performance of foreign banks is significantly better than old private sector banks, new private sector banks and public sector banks.
- The performance of new private sector banks is significantly better than old private sector banks and public sector banks.

METHODOLOGY

The present paper is concerned with the Indian banking system. For this all commercial were selected for this study. The study is based on secondary data. The required data have been collected from the various issues of Banking

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