PERFORMANCE OF INDIAN BANKs IN INDIAN FINANCIAL SYSYTEM

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ABSTRACT

The progression of an economy is significantly dependent upon deployment as well as optimum utilization of resources and most importantly operational efficiency of the various sectors, of which banking sector plays a very vital role. Banking sector helps in stimulation of capital formation, innovation and monetization in addition to facilitation of monetary policy. It is imperative to carefully evaluate and analyze the performance of banks to ensure a healthy financial system and an efficient economy. The present study attempts to evaluate the performance of banks from their origin to their current situation which is helping India in strengthen its financial system.

INTRODUCTION

In India, commercial banks are the oldest, largest and fastest growing financial intermediaries. They have been playing a very important role in the process of development. In 1949 RBI was nationalized followed by nationalization of Imperial Bank Of India (New State Bank Of India) in 1995. In July 1969, 14 major commercial banks were nationalized and in April 1980, 6 more were nationalized. Reforms in banking sector have led to the setting up of new private sector banks as well as entry of more foreign banks.

STRUCTURE OF BANKING IN INDIA :-

Banking system in India is classified in to scheduled and Non-scheduled banks. Scheduled banks consist of State co-operative banks and Commercial banks. Non-scheduled consist of Central Co-operative Banks and primary credit society and Commercial Banks

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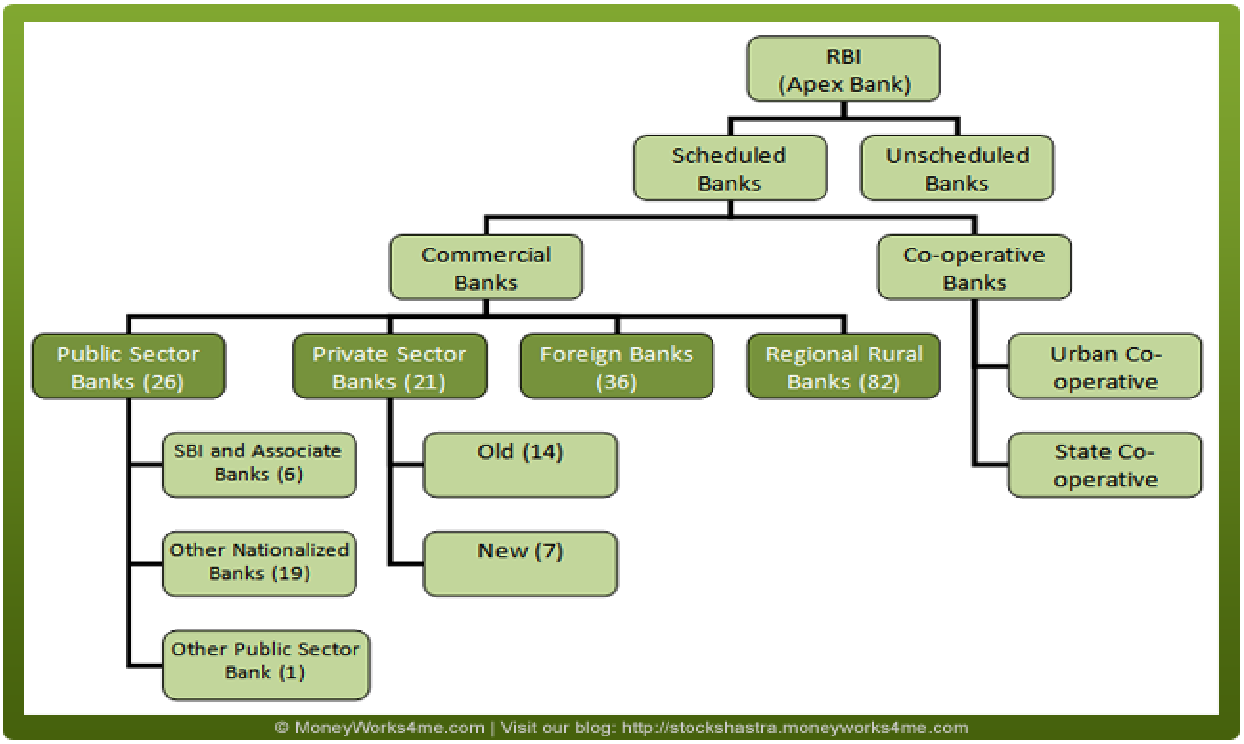
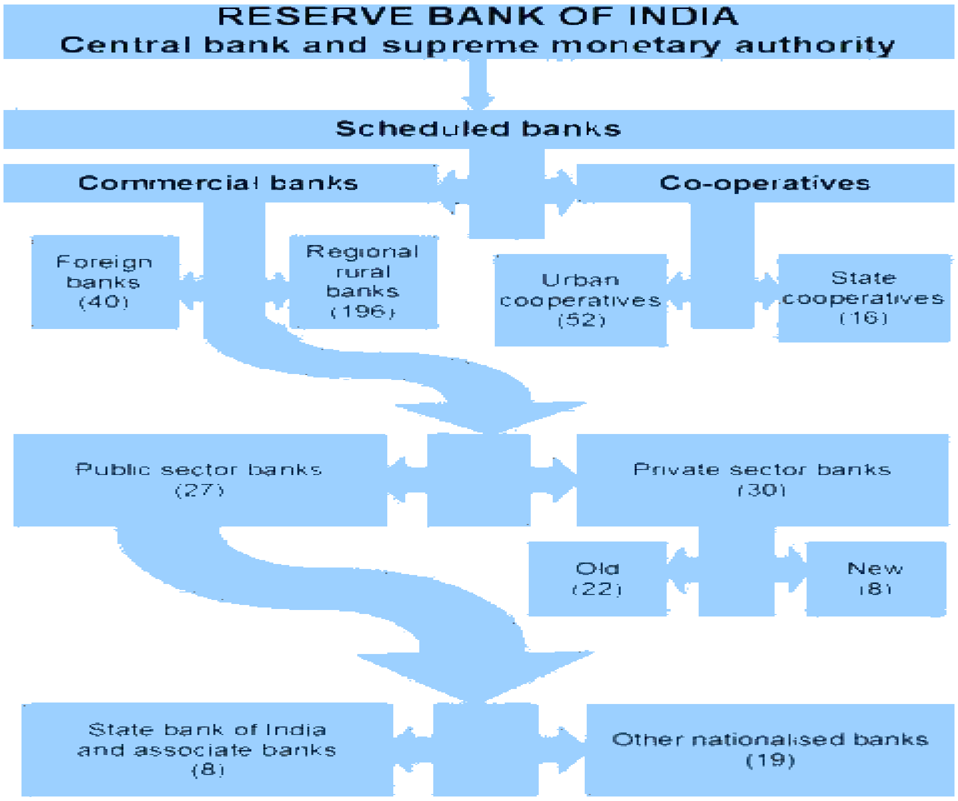


1. Scheduled Banks :-

Under RBI Act of 1934, banks were classified as scheduled and non-scheduled banks. The scheduled banks are those which are entered in second schedule of RBI Act of 1934. They are eligible for certain facilities. All commercial banks (India and foreign, regional rural banks) and state co-operatives are scheduled banks.

A scheduled must have a paid up capital and reserves of not less than Rs. 5 lakhs. It must also satisfy RBI that it affairs are not conducted in a manner detrimental to the interest of its depositors.



2. **Non-Scheduled Banks :-**

Non-scheduled Banks are those which have not been included in the second Schedule of RBI Act. The number of non-scheduled banks is declining as many of them are attaining the status of scheduled banks in 2008.

The scheduled commercial banks consist of public sector banks, private sector Banks and Foreign Banks.

As on march 2009, there are 27 public sector banks consisting of SBI and its 8 associated banks, 19 nationalised banks and IDBI Ltd. There are 7 new private sector banks, 15 old private sector banks in India. Besides there are 86 RRBs in 2008-09.

I. **Public Sector Banks :-**

Public sector Banks have a dominant position in terms of business. They accounted for 71.9% of assets, 76.6% of deposits, 75.3% of advances and 69.9% of investments of all scheduled commercial banks as at end of March 2009.

Among the public sector banks, the state Bank of India and associates had 16,294 branches and nationalized banks had 39,703 branches as on June 30, 2009.

a) **State Bank Of India And Its Associate Banks :-**

On 1st July, 1955, on the recommendation of Rural Credit Survey Committee, the Imperial Bank of India was converted in to State Bank of India. RBI acquired its 92% shares, thus SBI had the distinction of becoming the first state owned commercial bank in the country.

The State Bank of India (Associate banks) Act was passed in 1959 and this paved the way for creating State Bank Group. Besides functioning as a commercial bank, SBI ushered a new era of mixed banking system in the country. It proved that financing to agriculture and other priority sectors could be a viable commercial activity.

On 19th July, 1969, 14 major commercial banks were nationalized and 6 more were nationalized in 1980. Over the years SBI and its associates have expanded their business. On June 30, 2009, they accounted for 20% of total branches of all commercial banks. The share of banking business with them was roughly 30%. In 1993, SBI Act was amended to enable it to have access to capital market.

b) <u>Regional Rural Banks (RRBs) :-</u>

The RRBs came to be set up under the act of 1976. They were set up to save the poor rural people from the grip of money lenders and traders. The Working Group on Rural Banks recommended the setting up of RRBs as part of multi-agency approach to rural credit. A RRB is sponsored by a public sector bank which also subscribes to its share capital. As on June 30, 2006, there were 196 RRBs with a network of 14,500 branches.

The RRBs meet the credit requirements of weaker sections, small and marginal farmers , landless labourers, artisians and small entrepreneurs. RRBs have been excellent in meeting the credit needs of rural poor. RRBs 95% of total direct advances goes to weaker sections. RRBs are facting organizational and management problems. In 1995-96 they incurred losses of Rs. 426 crore. As a result of Amalgamation the number of RRBs have come down to 86 and their branches were 15,144 as on June 30, 2009. In 2009-10 their number still declined to 82.

<u>NUMBER OF BANKS IN INDIA</u>

There are currently 27 public sector banks in India out of which 19 are nationalized banks and 6 are SBI and its associate banks, and rest two are IDBI Bank and Bharatiya Mahila Bank, which are categorized as other public sector banks. There are total 93 commercial banks in India.

Sector Banks	**Number Of Banks in different Years**			
	2007-08	2008-09	2009-2010	2010-11
Public Sector Banks	28	27	27	26
Old Pvt. Sector Banks	15	15	15	14
New Pvt. Sector Banks	8	7	7	7
Foreign Sector Banks	28	31	32	33
Total Commercial Banks	79	80	81	80

Source: www.rbi.org.in

BRANCH EXPANSION

The total number of commercial bank branches in India went up from 63705 in 2007-08 to 76696 in 2010-11. Table-2 shows that maximum branches are with public sector banks followed by new private sector banks and old sector banks. Foreign sector banks have very less branches in the Indian banking system. But if we see the growth rate of different sectors banks during the period of 2007-08 to 2010-11, the number of branches witnessed the highest growth rate in new private sector banks (91.39%) followed by public sector banks (16.89%) and foreign sector bank (14.08%). Very small growth (6.84%) observed in the old private sector banks. So overall growth during this period was 20.39 % noticed.

TABLE 2, BANK OFFICES OF DIFFERENT SECTOR BANKS

Sector Banks	**Number Of Banks Offices in different Years**			
	2007-08	2008-09	2009-2010	2010-11
Public Sector Banks	55103	57850	61630	64412
Old Sector Banks	4690	4908	5220	5011
New Sector Banks	3635	4333	5232	6957
Foreign Sector Banks	277	295	308	316
Total Commercial Banks	63705	67386	72390	76696

EMPLOYEE’S POSITION

Table-3 indicates the position of employees in different sector banks. It is noticed that maximum workers are working with public sector banks. Since these banks have maximum branches in the country and using out dated technology, therefore, they have employed large staff with them whereas foreign sector b have very less staff.

TABLE 3, EMPLOYEES OF DIFFERENT SECTOR BANKS

Sector Banks	**Number Of Employees in different Years**			
	2007-08	2008-09	2009-2010	2010-11
Public Sector Bank	715408	731524	739646	757535
Old Sector Banks	48700	51341	55052	55075
New Sector Banks	110123	124998	127468	163604
Foreign Sector Banks	31301	29582	28012	27968

CONTRIBUTION OF THE BANKING SECTOR TO THE GDP

Banking is the credit creating sector. Contributions of banks to the GDP of a country can be looked in the following ways,

- *Credit creation* - In the simple model, income is either consumed or saved. Banks channelize these savings where funds are needed, in the form of loans. These loans are further used for investment purposes, generating more income.
- *Factor payments* - banks while operating needs various factors to operate, and in return payments are made. Profits were discussed in the earlier point, other factor payment includes wages and salary paid to the employees, rent for the land on which they operate, or the implicit rent if they own that land.
- *Expenditure* - while providing the various services banks incur expenditure which is again contributing to the gdp of the country. Expenditure includes - water bills, electricity bills, stationery, internet, telephone bills etc
- Contribution of the banking sector to GDP is about **7.7% of GDP**.
- Banking sector intermediation as measured by total loan as a % **of GDP is 30**%.
- Banking sector has generated employment to the tune of **1.5 million**

CONCLUSION

Today the banking sector in India is fairly mature in terms of supply ,product range and reach. As far as private sector and foreign banks are concerned, the reach in rural India still remains a challenge.

A growing economy like India requires a right blend of risk capital and long term resources for corporate to choose an appropriate mix of debts and equity , particularly for infrastructure projects which is the need of the day .

A well functioning domestic capital is also necessary for the banking sector to raise capital and support growth and alse have suitable capital adequacy ratio to mitigate risk**.**

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