

## Financial Performance of Schedule Commercial Banks in India: A Review of Literature

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### ABSTRACT

*The banking industry in India has an old history, which covers the regular banking, traditional banking practices from the time of Britishers. Banking in India had undergone through various phases of nationalization and other reforms. With changing times it had gone through new achievements.*

*However, banking business is exposed to risk and this lead to affect its financial performance. This paper comprises of review of literature of the research carried on by me on the topic "A Comparative Analysis of Financial Performance of Schedule Commercial Banks in India". This paper aims to identify the changes that had been undergone in performance of banking sector.*

### Keywords

*Banking Sector, Performance, People and Dynamics*

### INTRODUCTION

Indian banks are considered to have clean and transparent balance sheets-as compared to other banks in comparable economies in its region in terms of quality of assets and capital adequacy. The Reserve Bank of India is an autonomous in nature, with minimum pressure from the government. With the growth in the services sector of Indian economy, the demand for banking services like retail banking, mortgages and investment services are anticipated to be strong at services.

According to Kinley, "a bank is an establishment which makes the individuals provide services such as advances of money, and to which individuals entrust money when not required by them for use". (Mishra, 2010)

According to Prof. Sayers, "A Bank is an institution whose debts are widely accepted in settlement of other's people debts of each other.

In this definition Sayers have emphasized the transactions from debts which are raised by a banking institution." (Mahboob 2014). The economic scenario of the global economy is changing where the impact of information and communication technology has integrated the various business sectors through the online networks to work in a systematic and coordinated way. The financial system is the lifeline of any economy. The changes in the economy get mirrored in the performance of the financial system. The business performance is the reflection of the development and growth of the banking industry. The direction of growth of the economy depends on the efficient planning of the government to build the vision to grow in a collaborated and soutane way.

To have vivid insights an exhaustive literature review exercise has been undertaken to identify the issues related to financial performance of banks.

### REVIEW OF LITERATURE

**Vijayaraghavan (2008)**, in his work titled, "Indian Banking Then.....and.....Now" revealed that the banking industry of India had change over the last 150 years. Banks in India have chequered history.

Nationalization of banks led to emergence of the PSBs during late 1960s. The 1990s saw the banking industry embracing technology in a massive way due to entry of private and foreign banks. The author stated that technology has made a tremendous impact on the banking industry and brought about many changes. Virtual e-banking and 'anywhere and anytime banking 'are the order of the day. In the wake of global financial integration, Indian banks face several challenges.

The major challenges are: financial inclusion, wealth management, implementation of Basel-II norms, deregulation of Indian banking sector in 2009,

consolidation/ mergers and acquisitions, customer relationship management (CRM), cyber security and hectic competition. To meet these challenges effectively, the banks have to be optimistic in their approach. The author has summarized the present day banking in Three 'T': transformation, Technology and Transparency.

The roadmap for adoption of Basel-II is ready for travelling. Moreover Indian banks are slowly but surely moving towards universalization (Consolidation/Merger and Acquisition). Another area where banking industry is in the process of transformation is online banking and Net Banking.

The results are very positive in this direction. Last but not the least, the new Mantra of Indian banking is customer service. Finally, the author highlighted that we live in a world of change. Let us think of change not as problem presenting but as challenges offering. The future is full of challenges. Banks which have the ability to respond to these changes very fast and be proactive, can alone to stay in the race ahead. There is nothing truer than this.

**Shyamala (2007)** in her inaugural address at 18<sup>th</sup> Annual National Conference on Forex Association of India dated April 6, 2007 at Bangkok about the special features of financial sector reforms in India. She said that reforms were undertaken in various segments in order to enable the financial sector to perform its role of intermediary in an efficient way.

She also said that reforms were so that the structural adjustment could take place which had an insightful impact on the functioning of the various financial institutions of India, especially banks. The aim of reforms of the financial sector was to not only to improve the allocative efficiency of resources but also to ensure financial stability and maintain the confidence in the financial system by enhancing its efficiency. She also highlighted the impact of reforming the banking sector.

Various measures initiated have significantly strengthened the commercial banking sector in terms of profitability and asset quality. The recent initiatives like supervision of financial conglomerates, new capital instrument, and procyclical prudential provisioning, credit information companies and financial inclusion have been taken under the umbrella of reforms. She also put forth the future work programme on Draft guidelines on Accounting Aspects, Derivatives, Stress testing, Basel-II, Mortgage Guarantee companies and FSAP to undertake self-assessment.

**Vradi, Vijay, Mauluri, Nagarjuna (2006)**, in his work carried on 'Measurement of efficiency of bank in India' founded that performance of banking is more significant to stable the economy. There are basically four indicators profitability, productivity, assets, quality and financial management to realize the efficiency for all Indian banks including public sector, private sector banks in India majorly during the period 2000 and 1999 to 2002-2003.

Thus, they have adopted development envelopment analysis to measure the efficiency of banks and concluded that public sectors banks are more efficient than other banks in India.

**Tondon (2006)**, in his article, studied the influence and impact of globalization on Indian banking. The management of financial sector has been oriented towards gradual balancing between efficiency and stability and the changing shares of public and private ownership. The development of financial market has been by and large healthy. The author highlighted the challenges in the banking sector and the roadmap ahead. The banking sector in India is getting redefined- which is faced with many challenges and opportunities.

The major challenges to which Indian banking sector are bracing themselves to be ready through adoption of newer technology, strengthening their capital base to become Basel-II compliant, reducing their NPA, bringing down operating costs, enhancing corporate governance, undertaking organization restructuring, and sharpening their customer-centric initiatives. Consolidation of Indian banks through mergers and acquisitions (M&A) route to effectively compete with large global banks may not be far-off. The author revealed that implementation of Basel-II norms is posing new challenges and impaired assets continue to be a major area of concern. Banks are under increasing pressure to improve their profitability to meet the high operating costs and to shore up the capital.

The author also made comparisons of Indian banking system with China and rest of the world. He compared the Bank of China with their Indian counterpart and rest of the world in terms of Size, Return on Assets and Non-Performing Assets (NPAs). The author believed that the structure of Indian banking system is expected to undergo a transformation, led by consolidation, convergence and technology. Indian banking sector is now focusing on small number of large banks and enhancing banking competence and efficiency thereby integrating with global banking.

Finally, the author concluded that the growing

international influence offers Indian banks three-fold benefit: the opportunity to service the cross border needs of Indian companies serving the multinational for their local banking needs create its footprints globally. Notwithstanding intense competition, the expansionary phase of the economy is expected to provide ample opportunities for the growth of the banking industry.

**Sankharaj Roy, Biplab Kumar De (2013)**, in their research paper titled 'An analysis of Financial Performance of Indian Commercial Banks' studied the various financial aspects of banks in India. The study was conducted to examine the importance of financial performance of the commercial banks during the period of 2000 to 2011.

The study various ratios like profitability ratios for evaluating the financial performance of the commercial banks. A regression analysis between Earnings before interest and tax and different factors affecting banks profitability was done as financial stability of the banks plays a critical role in the growth of the banks.

The study reveals that the during the period Return on Assets which indicates how efficiently the company is utilizing its total assets shows an increasing trends in the period from 2007 to 2011. Results shows that an increasing trend from 2007 with very poor performance in 2006 For the Return on Net Worth occurred.

**Sanjeev Kumar Srivastaw (2013)**, examined the foreign and new private sector banks of India by using ratios like financial ratios in which the Performance was compared. It was founded that the Foreign Banks and New Private Sector Banks improved the quantum of PSL (Priority Sector Lending) by taking benefit of the existing provisions.

**Almumani (2014)** analysed and examined the performance of Saudi banks that were listed in stocks market during the period from 2007-2011.

The study attempts to draw the financial performance of banks and sources of information was considered on the basis of financial ratios and variables. Trend analysis and inter-firm analysis were the two approaches through which financial performance was measured. It was evaluated that increasing of assets, operating expenses, and cost to income cause a reduction in Saudi bank's profitability.

**Deepti Tripathi and Kishore Meghani (2014)** conducted a study of financial performance for two banks namely Axis and Kotak Mahindra bank (Private Sector banks).The

study considered The CAMELS' analysis and t-test which concludes that there is no significance difference between the financial performance of Axis and Kotak Mahindra bank's .The research concluded that the Kotak Mahindra bank performance is slightly less compared with Axis Bank.

**Gudata (2015)** measures the financial performance of five commercial banks of the period 2007-2011. He used ratio analysis which founded that Commercial Bank of Ethiopia positioned first in assets management whereas another Awash International Bank ranked first in terms of profitability .The Cooperative Bank stand last in terms of liquidity management and United Bank stood ranked first in terms risk management among all sample banks .

**Mulualem (2015)** conducted his study on fourteen commercial banks and used multiple regression for the period of 2010-2014. From the study he analysed that liquidity shows positive relationship with both profitability measures and earnings whereas Capital adequacy, Asset Quality and Management efficiency have negative relationship . Buna international bank ranked first by CAR (capital adequacy), asset quality and liquidity ratio while commercial bank ranked first by Management efficiency and Earning ratios respectively .Wegagen Bank was the first by the composite rate.

## CONCLUSION

In most of the paper it is accepted that banking industry of India had changed over the last one decade. It is stated that technology has made a tremendous impact on the banking industry and brought about many changes.

**Shyamala (2007)** in her inaugural address at 18<sup>th</sup> Annual National Conference on Forex Association of India dated April 6, 2007 at Bangkok about the special features of financial sector reforms in India. **Vradi, Vijay, Mauluri, Nagarjuna (2006)**, in his work carried on ' Measurement of efficiency of bank in India founded that performance of banking is more significant to stable the economy. **Tondon (2006)**, in his article, studied the influence and impact of globalization on Indian banking. **Sankharaj Roy, Biplab Kumar De (2013)**, in their research paper titled 'An analysis of Financial Performance of Indian Commercial Banks' studied the various financial aspects of banks in India. **Sanjeev Kumar Srivastaw (2013)**, examined the foreign and new private sector banks of India by using ratios like financial ratios in which the Performance was compared. **Almumani (2014)** analysed and examined the performance of Saudi banks that were listed in stocks market during the period from 2007-2011.

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