Research Paper Management

# An Analysis On Risk Evaluation of Selected Private Sector And Public Sector Banks In India

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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. Since competition cannot be observed directly, various indirect measures in the form of simple indicators or complex models have been devised and used both in theory and in practice. This study attempts to measure the elative performance of Indian banks. For this study, the researcher has used public sector banks and private sector banks. Investors 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 productivity of banking sector. Segmentation of the banking sector in India was done on bank net sales. Overall, the analysis supports the conclusion that new banks are more efficient than old ones.*

KEYWORDS : Indian banks, banking sector, net sales, segmentation. Economic

**Introduction:**

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the export led growth of other Asian economies, with emphasis on self-reliance through import substitution.These features are reflected in the structure, size, and diversity of the country's banking and financial sector. The banking system has had to serve the goals of economic policies enunciated in successive five year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In banking industry to serve as an instrument of state policy was subjected to various nationalization schemes in different phases (1955, 1969, and 1980). As a result, banking remained internationally isolated (few Indian banks had presence abroad in international financial centers) because of preoccupations with domestic priorities, especially massive branch expansion and attracting more people to the system. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries, exports, and banking activities in the developed commercial centers (i.e., metro, urban, and a limited number of semi-urban centers).

**Review of Lterature:**

**Mittal, S. (2013)** assessed the perception of employees towards the HRD climate in the two leading banks. The study tried to find out the difference between the perception of employees of private and public sector banks with respect to all the dimensions of HRD Climate. The HRD climate was subdivided into General Climate, OCTAPACE and HRD Mechanisms. The primary data was collected from 200 employees through a structured questionnaire comprising 40 items. The questionnaire measured General Climate, HRD Mechanisms and Openness, Collaboration, Trust, Proactiveness, Autonomy, Confrontation and Experimentation. HRD climate of the public sector bank was found better than in the private sector counterpart.

**Pandya, B., & Mehta, S. (2013)** studied the shareholder value of Indian banks during the period 2001-2010. Mean created shareholder values in private and public sector banks are found to be Rs.1045361.120 million and Rs. 307131.124 million respectively with standard deviations of Rs. 4682413.907 million and 3573748.803 million respectively. ICICI bank, HDFC bank and State Bank of India were the biggest wealth creators based on average CSV whereas IDBI bank, Oriental Bank of Commerce and Vijaya Bank being was the biggest wealth destroyers. The results of t test proved that Indian banks recorded statistically positive CSV during the study period. The study revealed that CSV was not significantly statistically different between private sector banks and public sector banks.

**Nandi, J. (2013)** attempted to highlight the comparative financial performance of the selected public sector and private sector banking companies in India for the period from 2001-02 to 2011-12 and for the purpose financial performance analysis based on ratios under CAMEL methodology and other statistical tools had been applied to assess the overall efficiency and consistency in terms of profitability, interest spread, customer service and satisfaction, cost control, management and NPA etc. Top 10 public sector and 10 private sector banks in India for this study. Study given equal weights to each parameter of CAMEL method. Result ompar that on average Bank of Baroda occupies the top most position followed by ICICI Bank and HDFC Bank. Also it was observed that Central Bank of India was at the bottom most position, followed by Karnataka Bank and UCO Bank. As a whole, selected public sector banks performed better than selected private sector banks in terms of both financial performance and performance consistency.

**Chopra, A., & Arora, U. (2013)** focused on the gap between customers' expectation and customers' perception regarding selected CRM practices in public and private sector banks. The paper identified four major dimensions, viz., pre-transaction services, during-transaction services, post-transaction services and behavioral factors, constituting overall CRM practices in banks. The paper also omparativ on comparing the customers' expectation and perception levels in public and private sector banks.

**Deepika, & Anjum, I. (2013)** studied the various changes the Indian Banking Sector undergone in last decade. Due to Globalization Domestic banks had learnt to stand in such a cut throat competition and RBI possessed different norms and rules. The effort was made to discuss what were the major changes that have been taken place and how Public, Private and foreign sector banks are managing their funds with the help of inter comparison between three, various ratios being the based have been used.

**Objectives of the Study**

1. To estimate the investment potential and evaluate the valuation of selected banks
2. To investigate the factors affecting the profit earning of the selected banks during the period.
3. To measure the level of financial risk of the selected banks

**Research Design:**

This present study is conducted by following a Descriptive Design. Descriptive Research is defined as research that determines the cause of something and/or describes the operant of something. Descriptive research is mainly done when a researcher wants to gain a better understanding of a topic.

**Sample Unit:**

Private banks and Public sector banks operating in India.

**Sample Size:**
For the in-depth analysis, ten major public sector and ten private sector banks are selected. Private sector banks and Public sector Banks are selected on the basis of their Total Sales from the year 2009 to 2012.

State Bank of India & its associates have not been taken in the study because of its difference in the scale of production from the other banks be it any other private or public sector banks in Indian perspective.

**Sampling Technique:**
Judgement sampling technique is used in the study for the sample selection.

**Data Collection:**
Secondary data collection was used for the analysis. Data was collected through Reserve Bank of India monthly bulletins, annual reports, money rediff, money control, banks websites etc. Bank balance sheet was used to analyse the selected private and public sector banks.

**Tools used for the Analysis:**
Mean Return, Standard Deviation, Beta and Value at Risk of Banks
Analysis and interpretation
Table 1 Mean Return of Banks

| Year / Banks | 2011-2012 | 2010-2011 | 2009-2010 |
|---|---|---|---|
| ICICI Bank | 0.0019 | 0.0002 | -0.0003 |
| HDFC Bank | 0.0019 | 0.0003 | -0.0006 |
| Axis Bank | 0.0032 | 0.0000 | -0.0006 |
| Yes Bank | 0.0026 | -0.0014 | -0.0023 |
| Kotak Mahindra Bank | 0.0039 | 0.0210 | -0.0003 |
| IndusInd Bank | 0.0029 | 0.0006 | -0.0013 |
| Federal Bank | 0.0037 | -0.0005 | 0.0000 |
| Jammu & Kashmir Bank | 0.0050 | -0.0015 | -0.0005 |
| ING Vysya Bank | 0.0024 | 0.0010 | -0.0041 |
| South Indian Bank | 0.0033 | 0.0007 | -0.0003 |
| Punjab National Bank | 0.0034 | 0.0012 | -0.0009 |
| Canara bank | 0.0026 | 0.0005 | -0.0023 |
| Bank of baroda | 0.0054 | -0.0011 | -0.0033 |
| Bank of India | 0.0050 | -0.0041 | -0.0030 |
| Union Bank of India | 0.0020 | -0.0017 | -0.0002 |
| IDBI | 0.0029 | 0.0017 | 0.0000 |
| Allahabad bank | 0.0070 | 0.0012 | -0.0042 |
| Central Bank of India | 0.0028 | -0.0001 | -0.0053 |
| INDIAN OVERSEAS BANK | 0.0048 | -0.0001 | -0.0030 |
| Oriental Bank | -0.0008 | -0.0011 | -0.0008 |

The table 1 reports that the mean return of bank sector resulted primarily from a slowdown in the pace of economic growth; India's economy grew by 8.3% in 2010, but that growth rate fell to 6.1% in 2011 — its lowest growth rate in three years. Due to recession in the banking sector most of the banks shows the negative return in the year 2009-10 and 2010-2011. The entire banking sector has to improve the return to satisfy the depositors. Due to recession in the banking sector most of the banks shows the negative return in the year 2009-10 and 2010-2011 of -0.0030 and 0.0001 respectively. The entire banking sector has to improve the return to satisfy the depositors.

**Table 2 Standard Deviation of Banks**

| Year / Banks | 2011-2012 | 2010-2011 | 2009-2010 |
|---|---|---|---|
| ICICI Bank | 0.0046 | 0.0046 | 0.0033 |
| HDFC Bank | 0.0091 | 0.0044 | 0.0038 |
| Axis Bank | 0.0032 | 0.0029 | 0.0029 |
| Yes Bank | 0.0037 | 0.0029 | 0.0035 |
| Kotak Mahindra Bank | 0.0143 | 0.0052 | 0.0077 |
| IndusInd Bank | 0.0054 | 0.0444 | 0.0030 |
| Federal Bank | 0.0046 | 0.0017 | 0.0028 |
| Jammu & Kashmir Bank | 0.0060 | 0.0055 | 0.0032 |
| ING Vysya Bank | 0.0064 | 0.0031 | 0.0045 |
| South Indian Bank | 0.0046 | 0.0034 | 0.0120 |
| Punjab National Bank | 0.0089 | 0.0034 | 0.0037 |
| Canara bank | 0.0070 | 0.0049 | 0.0039 |
| Bank of baroda | 0.0078 | 0.0043 | 0.0054 |
| Bank of India | 0.0074 | 0.0110 | 0.0059 |
| Union Bank of India | 0.0039 | 0.0117 | 0.0032 |
| IDBI | 0.0076 | 0.0027 | 0.0021 |
| Allahabad bank | 0.0077 | 0.0046 | 0.0111 |
| Central Bank of India | 0.0036 | 0.0030 | 0.0126 |
| INDIAN OVERSEAS BANK | 0.0090 | 0.0054 | 0.0056 |
| Oriental Bank | 0.0060 | 0.0072 | 0.0040 |

The above table indicates that the selected bank is closely related to the expected return for the given period. A large and a small deviation indicate that they are clustered closely around the mean. IndusInd Bank show a highest deviation 0.0444 in the year 2010-11 respectively which indicates that the data points are far from the mean. Most of the banks show the moderate and normal deviation in the study period. A large and a small deviation indicate that they are clustered closely around the mean. Punjab National Bank show a highest deviation 0.0126 the year 2009-10 respectively which indicates that the data points are far from the mean. Most of the banks show the moderate and normal deviation in the study period. The study explains the depositors a mathematical basis for investment decisions. The overall concept of risk is that as it increases, the expected return on the asset will increase as a result of the risk premium earned. Investors should expect a higher return on an investment when said investment carries a higher level of risk.

**Table 3 Beta Calculation of Bank**

| Year / Banks | 2011-2012 | 2010-2011 | 2009-2010 |
|---|---|---|---|
| ICICI Bank | 0.7756 | 0.6578 | 0.5856 |
| HDFC Bank | 0.6624 | 0.6509 | 0.4242 |
| Axis Bank | 0.9492 | 0.9885 | 0.7306 |
| Yes Bank | 0.5099 | 0.7102 | 0.5249 |
| Kotak Mahindra Bank | 0.0687 | 0.8243 | 0.4594 |
| IndusInd Bank | 2.9707 | 1.7767 | 1.9539 |
| Federal Bank | 0.7435 | 0.2616 | 0.7126 |
| Jammu & Kashmir Bank | 0.7727 | 0.2814 | 0.7185 |
| ING Vysya Bank | 0.9056 | 0.7718 | 0.6312 |
| South Indian Bank | 0.9385 | 0.7676 | 0.7911 |
| Punjab National Bank | 1.6550 | 0.7612 | 0.5782 |
| Canara bank | 1.3774 | 1.3624 | 0.8369 |
| Bank of baroda | 1.5265 | 1.2752 | 1.0201 |
| Bank of India | 1.4196 | 0.2443 | 1.5810 |
| Union Bank of India | 0.4451 | 2.4698 | 0.6776 |
| IDBI | 0.8431 | 0.5642 | 0.4632 |
| Allahabad bank | 1.5618 | 0.8842 | 1.6768 |
| Central Bank of India | 0.6174 | 1.0513 | 0.8609 |
| INDIAN OVERSEAS BANK | 1.9110 | 1.8186 | 1.4584 |
| Oriental Bank | 0.9014 | 0.2043 | 0.8717 |

The table 3 clearly identifies that most of the sample data of bank shows a high risk. it shows the beta value of 2.9707 in the year 2011-12 and also the overall risk level of IndusIndain bank is greater than 2. This shows that the market risk is twice the magnitude of the overall market's returns of IndusInd bank; when the market's return falls or rises by 2%, the IndusInd bank return will fall or raise double the market i.e 6% on average. It also depends on the correlation of returns; there can be considerable variance about that average; the higher the correlation, the less variance; the lower the correlation, the higher the variance. Union bank of India shows the highest beta value of 2.4698 in the year 2010-11 and the lowest beta value of 0.4451 in the year 2011-2012. Oriental bank shows the lowest beta value of 0.2043 in the year 2010-2011 and the highest value of 0.9014 in the year 2011-2012. The market risk is twice the magnitude of the overall market's returns of Indian Overseas bank and Union bank. It also depends on

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the correlation of returns; there can be considerable variance about that average; the higher the correlation, the less variance; the lower the correlation, the higher the variance.

**Table 4 Value at Risk of Bank**

| Year / Banks | 2011-2012 | 2010-2011 | 2009-2010 |
|---|---|---|---|
| ICICI Bank | 18.99 | 1.99 | 1.99 |
| HDFC Bank | 18.98 | 2.99 | 5.99 |
| Axis Bank | 31.99 | -0.01 | 5.99 |
| Yes Bank | 25.99 | 13.99 | 22.99 |
| Kotak Mahindra Bank | 38.96 | 20.99 | -3.02 |
| IndusInd Bank | 28.99 | 5.88 | -13.01 |
| Federal Bank | 36.99 | -5.00 | -0.01 |
| Jammu & Kashmir Bank | 4.98 | -15.02 | -5.01 |
| ING Vysya Bank | 23.98 | 0.99 | -41.01 |
| South Indian Bank | 32.99 | 6.99 | -3.03 |
| Punjab National Bank | -0.02 | -0.01 | -0.01 |
| Canara bank | -0.01 | -0.01 | -0.01 |
| Bank of baroda | -0.01 | -0.01 | -0.02 |
| Bank of India | -0.01 | 0.03 | -0.02 |
| Union Bank of India | -0.01 | -0.03 | -0.01 |
| IDBI | -0.02 | -0.01 | -0.01 |
| Allahabad bank | -0.01 | -0.01 | 0.03 |
| Central Bank of India | -0.01 | -0.01 | 0.03 |
| INDIAN OVERSEAS BANK | -0.02 | -0.01 | -0.02 |
| Oriental Bank | -0.02 | -0.02 | -0.01 |

The table 4 show the Value at risk of banks. In the year 2009-2010 the bank shows the negative value of -3.03. It indicates that the bank has to measure and control the level of risk. The bank has to ensure that risks are not taken beyond the level at which the bank can absorb the losses of a probable worst outcome. Bank of India, Allahabad bank and Bank of India shows the highest value of 0.03 in the year 2009-10 and 2010-2011 respectively. Most of the bank shows the negative value in the year 2011-2012, 2010-11 and 2009-2010 repectively. It indicates that the bank has to measure and control the level of risk. The bank has to ensure that risks are not taken beyond the level at which the bank can absorb the losses of a probable worst outcome.

## Conclusion

The economic liberalization measures introduced by the Indian government coupled with trends towards globalization have substantially altered the banking sector and the profitability of public sector banks have declined to a large extent. So Public Sector Banks will have to introduce new financial instruments and innovations in order to remain in business. It is clear from the analysis that the public sector banks are less profitable than the private sector banks in terms of overall profitability. All these developments in Indian banking denotes that, the Indian banks are moving towards modern banking changing a face of traditional banking of Indian economy. It is grate change of banking industry. Indian banks also trying to Universalization of banking products and services to one top banking shop for customer delight, but comparatively private and foreign banks existing in Indian economy are having a higher level of modernization and those providing numbers of modern services to their customers.

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