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Financial Performance and Employee Efficiency: A Comparative Study of Indian Banks

KEYWORDS: Employee Efficiency, Financial Performance, Indian financial sector

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ABSTRACT *The study compares the financial performance and employee efficiency of Indian banks during 2007 to 2013. The study has taken into account all the banks working in India. The financial performance of the banks was measured using standard financial performance measures and employee efficiency was measured using accounting ratios related with employees efficiency. The data required for the analysis were collected from the database of Reserve Bank of India for the period the study. It is concluded that both the financial performance and employee efficiency of foreign banks working in India are better than Indian domestic banks, and private sector banks performance are better than the Public sector banks. It is noted that the Public sector banks performance are more stable when compared to the private sector banks.*

Introduction

The operating environment for banks in India passing through significant changes since 1991 especially since global financial crisis 2007. With the beginning of economic reforms, the commercial banking sector, which has retained its predominantly public character, has undergone a number of changes in terms of size, efficiency of operation and financial soundness. As per the analysis by the World Bank for 2005, prior to the outbreak of the global financial crisis, the operational efficiency and financial soundness of the Indian banking sector compared favorably with its Asian peer group countries as well as developed OECD countries. The global financial crisis, which left the banking sector of most developed and even developing countries weakened, had relatively limited impact on the Indian banking sector. The Report on Trend and Progress of Banking in India (RTP) - 2008-09 had concluded that while the Indian banking system largely withstood the pressures of the crisis, it was not expected to remain insulated from the slowdown of the Indian economy, which followed the crisis.

Indian financial sector witnessed a series of reforms aiming increasing operational efficiency of the banking sector because it is recognised the main factor which contribute the high cost of financial services in the country is the inefficiency of the banking sector. The reforms mainly include lowering SLR and CRR, gradual deregulation of interest rates on deposits and landings, introduction of prudential norms in line with the introduction of standard. Moreover, Indian financial sector were opened to the private and foreign investors, which brought about introduction of latest technologies and increased competition. The new private sector banks had to adopt better practices and human resources policies and had to follow foreign bank is implementing the latest technologies to put firm feet on the sector. The nationalized banks and SBI and its associates have been employing measures to improve the operational efficiency, meeting customer expectation and reduction of operating costs.

This study analyses and compares the financial performance and efficiency of employees of Public sector banks, foreign banks and Private Banks in India.

Review of Literature

Sudha Rani et.al (2013) analyzed the performance and growth of different categories of Indian commercial banks during the period 2009 to 2012. They found that during the global economic crisis the Indian commercial banks have shown a positive trend for development. They observed that, during this period the SBI performed much better than the other public sector banks.

Kajal Chaudhary and Monika Sharma (2011) analysed how efficiently Indian public sector banks and private sector banks manage their NPA and they reached on a conclusion that Indian public sector banks NPA management is alarming.

Anita Makkar, Shveta Singh (2013) compared the financial performance of Indian commercial banks. They used CAMELS rating methodology to measure the performance of the banks. They concluded that on an average, there was no statistically significant difference in the financial performance of the public and private sector banks in India

Sharad Kumar and M Sreeramulu (2007) compared the employee productivity and employee cost ratio between the traditional banks and modern banks and found that performance of the modern banks were much superior than the traditional banks. The Gap Index analysis of their study showed that the performance of modern and traditional banks on all variables studied had a decreasing trend.

Objective of the Study

Banks are very much concern on the role of employee and their efficient utilization as they are important factor on the operational efficiency and other parameters of banks performance. The present study therefore compares the Business per Employees and profit per employees among the banks in India. It also compares financial performance of Indian banks. Thus the present study aims to compares the financial performance employee efficiency and of Indian Banking.

Data and Methodology

Data required for the study were obtained from data base of the RBI for the period of 2007 to 2013. The comparison is done among public sector banks, private banks and foreign banks.

The financial performance of the banks were compared using standard measures like Return on Assets, Credit Deposit ratio, and NPA/ to Net advances ratio. Employee efficiency of the banks was measured using business per employees, profit per employees. There are number of studies in the literature using ratios for financial performance and employee efficiency ratios like Perevalov et.al 2000, Milind Sathye 2005, Sharad Kumar M Sreeramulu (2007).

Analysis and Comparison of the Financial Performance

For the purpose of data analysis and comparison of financial performance of Indian banks, we have collected data for the

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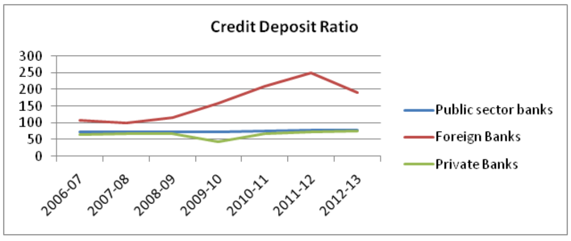
individual banks and summed up it sector wise to get total of financial data on Public Sector Banks, Foreign Banks and Private Banks separately. The Public sector banks include SBI and its associates and Nationalized banks. Private Bank includes new private banks and old private banks and foreign banks include all the foreign banks in India. During the study period many foreign banks and private banks have started business and many banks have stopped business. Two SBI associates have been merged with SBI also. All these changes have been considered. Financial performance of the banks are analysed using standard measures like credit Deposit Ratio, Return on Asset and NPA to Net advance

Credit Deposit Ratio

It is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending, the main banking activity. A higher ratio indicates more reliance on deposits for lending and vice-versa. The regulator does not stipulate a minimum or maximum level for the ratio. But, a very low ratio indicates banks are not making full use of their resources. And if the ratio is above a certain level, it indicates a pressure on resources. At present, the credit-deposit ratio for the banking sector as a whole is 75 per cent. In the case of Indian banks, a credit-deposit ratio of over 70 per cent indicates pressure on resources as they have to set aside funds to maintain a cash reserve ratio of 4.5 per cent and a statutory liquidity ratio of 23 per cent. Banks can lend out of their capital, but it is not considered prudent to do so.

Figure 1

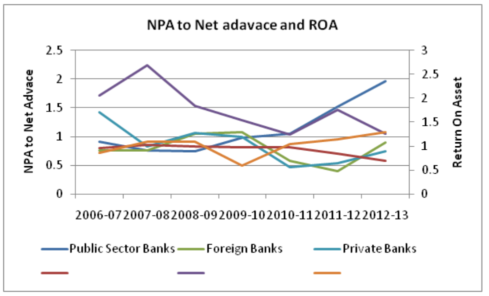


The graph above depicts that public sector banks maintain a ratio of around 75 per cent. Though this gives a pressure on resources they are able to maintain it consistently and this is a good sign of financial performance. The private banks are also keeps ratio between 65 per cent to 75 per cent, but when compare to the public sector bank the variation of credit deposit ratio of private sector banks are high. In the case of foreign banks the ratio crosses 100 per cent every year during the study period and some years it even reaches 250% percent. A very high ratio is considered alarming because, in addition to indicating pressure on resources, it may also hint at capital adequacy issues, forcing banks to raise more capital. Moreover, the balance sheet would also be unhealthy with asset-liability mismatches. (See appendix table I)

Return on Asset

The return on assets shows the proportion of net income to total assets of a bank. This ratio also acts as productivity indicator. The higher the ratio, the better is utilization of assets. The below graph delineates that return on asset of the foreign banks are far better than public sector banks and private banks. Indian public sector banks keep a ratio around 95%. But the ratio of last two years shows a declining trend. Foreign banks has good rate of return on their asset that it keeps around 150% and Private banks also keeps good return on assets that is around 100%. That shows when compared to Indian banks foreign banks are more profitable and the public sector banks are less profitable compared to private sector banks.

Figure 2



NPA to Net advance

Credit risk (i.e., the borrower's inability or unwillingness to repay the loan) is the principal risk faced by the all commercial banks NPA creates three major problems before any bank- As the bank has to make provision against NPA, so their profit is reduced and also the interest income as NPA does not generate any Income. So as an overall result the capacity of the bank to make fresh loans also reduced. It also creates mismatch of assets & liabilities of the banks. Huge accumulation of NPA in banks leads to heavy expenditure to maintain such poor quality of assets in their books.

Our analysis shows that private sector manage their NPA better than the Public sector banks. NPA to net advance ratio of foreign banks are comparatively same as Indian private banks. Here it is very clear that NPA management of Indian public sector has to improve so as withstand the competition from the private sector. Graph shows that the last two years average NPA of Indian Public Sector banks are alarming. (See appendix table I)

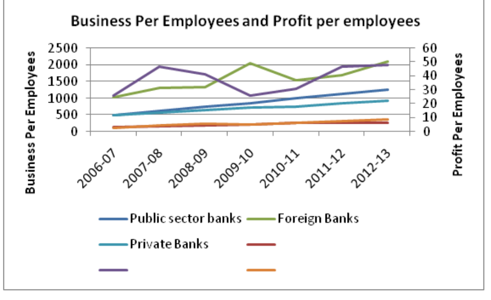
Analysis and Comparison of the Employee Efficiency

The efficiency of the employee is important for the overall performance of the banks. A number of measures are adopted to optimize the employee size. It ranges from measures to procure right employees to offering VRS plans to reduce the redundancy of the employees. These measures are supported by the technology implementation and business re -engineering or business process outsourcing.

Business per Employees

The employee productivity ratio represented by business per employee and profit per employee. Business per employee is a potency of the banks, a combination of deposits and credits. It is observed from the below given below that the business per employees of the Public sector banks are less than foreign banks. Foreign banks' profit per employees are more than double of Indian banks. Indian private banks' performance not as good as public sector banks, but when we go for deep analysis we can find that new private banks business per employees are better than that of old private banks and public sector banks. But here the important point to note that foreign banks' employee efficiency are far better and might be due to implementation of latest technologies and employing only right type and right number of employees (see appendix)

Figure 3



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Profit per Employees

The graph shows that profit per employee ratio is increasing trend for the all banks. Rate of increase in case of public sector banks is less that of private sector banks. The foreign profit per employee ratio is multifold higher than the Indian banks. This might be as they employee lesser employees and implement advanced technologies. There has been decline in the profit per employees of foreign banks in 2009-10 and 2010-11 and thereafter it reached at earlier lever that around 47. (See appendix table II)

Conclusion

In this study we analysed and compared financial performance measures and employee efficiency measures of Indian banks during the period of 2007 to 2013. It was observed that the performance of foreign banks was superior to the Indian banks. However, it is evident from the study that performance of Indian public sector banks is more stable than the private sector banks. The public sector banks had to face competitions from the private sector as reform measures were adopting during the study period and also had to face the global financial crisis ripples. Comparing to foreign banks performance of Indian banks is still quite below on these variables.

The public sector banks shows high ratio of NPA to net advance during the last two years of the study. Foreign banks and Indian private banks manage their NPA comparatively well. It is suggested that public sector banks have to adopt better strategies to curtail their NPA in a minimum level. The banks have to re-orient their strategies in the light of their own strengths and the kind of market in which they are likely to operate on. In the perspective of this domestic and international development, the banking sector has to chart out a perfect path for the development in its own.

Appendix

Table 1

	Public sector banks			Foreign Banks			Private Banks		
	Credit Deposit Ratio	ROA	NPA to Net advance	Credit Deposit Ratio	ROA	NPA to Net advance	Credit Deposit Ratio	ROA	NPA to Net advance
2006-07	72.46	0.95	0.91	108.51	108.51	0.75	66.02	66.02	1.42
2007-08	73.38	1.02	0.77	101.01	101.01	0.76	68.53	68.53	0.83
2008-09	72.95	0.98	0.75	117.33	117.33	1.05	68.44	68.44	1.06
2009-10	72.7	0.97	0.99	160.09	160.09	1.08	44.14	44.14	1.00
2010-11	75.25	0.97	1.05	209.88	209.88	0.57	67.91	67.91	0.47
2011-12	77.34	0.84	1.53	248.90	248.90	0.39	73.56	73.56	0.54
2012-13	78.11	0.70	1.97	191.08	191.08	0.89	76.11	76.11	0.75

Table 2

	Public sector banks		Foreign Banks		Private Banks	
	Business Per Employees	Profit Per Employees	Business Per Employees	Profit Per Employees	Business Per Employees	Profit Per Employees
2006-07	480.15	2.99	1037.53	26.08	495.76	2.53
2007-08	600.45	3.69	1320.13	46.95	579.41	4.58
2008-09	750.17	4.61	1340.11	41.44	636.57	5.24
2009-10	843.81	5.27	2064.41	25.80	717.77	5.09
2010-11	1004.39	6.41	1552.65	31.08	760.75	6.22
2011-12	1120.10	6.24	1703.72	46.79	845.67	7.42
2012-13	1255.72	6.11	2111.89	48.17	925.54	8.53

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