Research Paper Commerce

A Comparative Study of the Selected Public Sector Banks through CAMEL Model

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ABSTRACT

The Indian banking sector has been the backbone of the Indian economy over the past few decades. It includes public and private sector banks in it. The researcher would like to analyze the performance of three public sector banks namely, Bank of Baroda (BOB), State Bank of India(SBI) and Punjab National Bank(PNB) for the period of three years(2010-2012) in the Indian banking sector. Here in this paper CAMEL approach has been used and try to give rank to the banks under study period as per performance according to various ratios used under study approach.

Keywords : CAMEL model, Public sector banks

Introduction

The banking sector has been undergoing a complex, but comprehensive phase of restructuring since1991,with a view to make it sound, efficient, and at the same time forgoing is links firmly with the real sector for promotion of savings, investments and growth. Although a complete turn around in banking sector performance is not expected till the completion of reforms, signs of improvement are visible in some indicators under the CAMEL framework. Under this bank is required to enhance capital adequacy, strengthen asset quality, and improve management, increase earnings and reduced sensitivity to various financial risks.

CAMEL frame work

CAMELS are an acronym for six measures Capital Adequacy, Assets Quality, Management Soundness, Earnings, Liquidity, and Sensitivity to market risk. In this analysis the six indicators which reflect the soundness of the institution framework are considered.

Review of literature

B S Bodla and Richa Verma (2006) “Evaluating Performance of Banks through Camel Model: A case study of SBI and ICICI” concluded that SBI has an edge over its counterpart ICICI in terms of Capital Adequacy .However, the vice versa is true regarding assets quality, earning quality and management quality. The liquidity position of both the banks is sound and does not differ significantly.

MIhir Dash (2009) “A CAMEL analysis of the Indian Banking Industry” compares the performance of public sector banks with private/foreign banks under the CAMEL framework. He concluded that private/foreign banks fared better than public sector banks on most of the CANEL factors in the study period.

The paper by Chaudhry and Singh analyzes the impact of the financial reforms of 1991 on the increase in soundness of Indian Banking through its impact on the asset quality. The key players to ensure this soundness are again, risk management, NPA levels, effective cost management and financial inclusion

The paper by Ghosh analyses the performance of the previously owned state-owned banks after the partial privatization. Privatization improves bank soundness, enhances profitability and efficiency. Government ownership has been empirically proven to be detrimental to growth. It was synonymous to higher spread, lower resources to lend and a low activity on the stock market. Apart from the above measures, The paper by Shirai, highlights the impact of diversification of banking activities. It dilutes the impact of direct lending and thus enhances the soundness by encouraging the banks to function properly.

Methodology of the Study

Objective

The chief objective of the study is to analyze and compare performance of three leading public sector banks (BOB, SBI and PNB) in terms of parameters of CAMEL model.

Source of Data;

The data used for this study is mainly secondary data and this are collected from bank’s balance sheet and annual reports for the period of three years(2010 to 2012).more information is also collected from Reserve Bank of India Indian Banks Association. Moreover journals and related websites referred and visited as and when required.

Plan of analysis

Ratio analysis is the best tool for analyzing the performance and efficiency of the banking sector. CAMEL parameters which include Capital, Asset, Management soundness and Liquidity of banks as mentioned below.

Capital Adequacy Ratio: Capital adequacy ratios (“CAR”) are a measure of the amount of a bank’s core capital expressed as a percentage of its risk-weighted asset. Capital adequacy ratio is defined as

CAR = (Tier 1 Capital + Tier 2 Capital) / Risk weighted Asset

Two types of capital are measured: tier one capital (T1 above),which can absorb losses without a bank being required to cease trading, and tier two capital (T2 above), which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors. Where risk can either be weighted assets (a) or the respective national regulator’s minimum total capital requirement.

Asset Quality: To account for the extent of Non performing Asset in the portfolio of the banks and the extent of damage this particular asset class can have on the financial performance the following ratio is studied here.

Net NPA to Net Advances (NPA/N.A)

This ratio explains the quality of the asset class in portfolio

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and also the extent of deterioration of the assets portfolio .This dimension of CAMEL analysis explains the portfolio risk and effects it could have in overall performance of the bank.

Management Quality: In CAMEL analysis this parameter occupies an important position. It reflects the management efficiency for better financial performance of the banks. Three ratios are studied here in this study as given below.

1. TotalAdvancestoTotalDeposites (T.A/TD
2. Businesses per Employee (BPE)
3. Profits per Employee (PPE)

Earning Quality.
Earning Capability of bank can be reflected as funding dividends, maintains CAR, providing growing opportunities of banks and standing in the competitive market. For this quality of bank here four ratios are considered in this parameter.

1. Net Profit Margin (NPM)
2. Returns on Net worth (RONW)
3. Interest Income to Total Income (I.I/T.I)
4. Non Interest Income to Total Income (N.I.I/T.I)

Liquidity Position:
Liquidity reflects the bank's ability to manage its short term liquidity liabilities and loan commitments. Liquidity occupies the prime position and if it is not managed properly it can adversely affect the performance of the banks. For the study Current Ratio and Quick Ratios are considered here.

Data Interpretation: According to the values of the ratios the selected banks will be ranked. Higher average value of the ratios is given higher rank. The best ratio first rank one followed up to rank three with an interval of one. In case of tie the average rank is assigned to the banks. All the ratios having higher value get higher rank but in case of ratio Net NPA to Net Advances is given the rank in reverse order. Higher Net NPA to Net Advances ratio is given lower rank (last to first)The overall ranking of the banks considering all the sub criteria rankings under CAMEL analysis over the three years period is presented in the Table-1. The group rankings of all the banks considered for the purpose of study is taken and averaged out to reach at the overall grand ranking in Table-2.

Limitation:
There are about nineteen Public sector Banks in India But this study is undertaken with only three banks Moreover there are more or less ratios can be used under CAMEL model which may alter the ranking.

Table-2 Overall Grand Ranking of CAMEL parameters

Parameters	BOB	SBI	PNB
Capital Adequacy	1	3	2
Asset Quality	1	3	2
Management Quality	1	3	2
Earning Quality	1.5	3	1.5
Liquidity	1	2	3
Average	1.1	2.8	2.1
Rank	1	3	2

Conclusion:
The Table-1 and Table-2 shows that Bank of Baroda is standing at first rank, Punjab National Bank is on Second and State Bank of India is on Third position for this study period through CAMEL approach.

Table -1 Rank as per Parameters and Group

	Parameters of CAMEL	BOB	SBI	PNB
C	CAR	1	2	3
	Advances to Asset	2	3	1
	Average	1.5	2.5	2
	Rank	1	3	2
A	NPA/N.A	1	3	2
M	T.A/T.D	3	1	2
	BPE	1	3	2
	PPE	1	3	2
	Average	1.67	2.33	2
	Rank	1	3	2
E	NPM	1	3	2
	RONW	2	3	1
	I.I/T.I	1	3	2
	N.I.I/T.I	3	1	2
	Average	1.75	2.5	1.75
	Rank	1.5	3	1.5
L	Current Ratio	2.5	1	2.5
	Quick Ratio	1	3	2
	Average	1.75	2	2.25
	Rank	1	2	3

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