

## A STUDY ON FINANCIAL PERFORMANCE AND GRIEVANCES BANKING INSTITUTIONS IN INDIA

\*Vineeta

\*\*Dr. Devinder Sharma

### ABSTRACT

Efficient and sound banking system is the foundation of economic development all around the world as it provides the necessary financial inputs to the economy. Banking industry is one of the purveyors of Indian financial system. The financial system of India has a variety of institutions including capital market institutions, banks, non-banking institutions, financial institutions and a number of indigenous Banks. Banks are the prominent financial intermediaries among the different financial institutions and in fact financial inter-mediation is largely synonymous with Banking.<sup>1</sup> Commercial Banks are one of the most profit making financial institutions which accept deposits from public and provides loan to individuals like businessmen, household and entrepreneurs etc. The present study has emphasized on the profitability of different banks in India and attempts to compare which bank institution category is performing better in terms of return on assets and return on equity and to analyze their grievances as per the complaints lodged with the ombudsmen. The study is based on the secondary data. The study finds that the foreign banks are performing well in case of return of asset followed by private sector banks and public sector banks and as far as return on equity is concerned private sector banks are ahead of the foreign banks.

**Key words:** - Capital Market, Public Sector Banks, Profitability

---

\*Research Scholar, Department of Commerce, Himachal Pradesh University, Summer Hill, Shimla, 171005

\*\*Professor, Department of Commerce, Himachal Pradesh University, Shimla

### INTRODUCTION

Indian banking system has gone through various phases and developments over the past decades like, Nationalization, Deregulation, Consolidation, Reforms, digitalization and Technology Up-gradation. After the reforms and nationalization of commercial banks, the public sector banks dominated the banking industry for next two decades. In the nineties there are changes in the banking industry due to financial and economic liberalization. With the entry of foreign and private sector banks into the industry the entire banking system has undergone massive transformation. Particularly, the new private and foreign sector banks dominated the entire banking system in the country with their performance exceeding that of the public sector banks. Although there is too much stress on the social

responsibility but the Financial viability of banks cannot be ignored. The banks' profitability is important not only for long-run sustainability of the industry but also for retaining public confidence. Indian Banks can be classified into commercial banks and Cooperative banks. Further commercial banks comprises (1) Schedule Commercial Banks (SCBs) and non-scheduled commercial banks. Schedule Commercial Banks are further classified into public sector banks, private sector banks and foreign sector banks and Regional Rural Banks (2) Co-operative banks which include urban and rural Co-operative banks.

#### **Scheduled Commercial Banks**

Scheduled commercial banks are those banks which are included in the second schedule of the RBI Act, 1934. The scheduled banks have a paid-up capital and reserves of gross value of not less than Rs. 5 lakhs.

#### **Public Sector Banks**

Public Sector Banks are the major type of government owned banks in India, where a majority of shares i.e. more than 50 percent is held by the Government of India, state government and Ministry of Finance. It comprises of all nationalized banks, state banks and its associates and all regional rural banks.

#### **Private Sector Banks:**

Private Banking in India was practiced since the beginning of banking system in India. All the banks in India were earlier private banks. They were founded in the pre-independence era to cater to the banking needs of the people. The first private bank in India to be set up in private sector banking in India was IndusInd Bank. It was one of the fastest growing private sector banks in India. The first private sector bank in India to receive principle approval from RBI was Housing Development Finance Corporation Ltd. (HDFC).

#### **Foreign Banks in India:**

Foreign banks have been operating in India since decades. A few foreign banks have been operating in India for over a century. Foreign banks are those banks which are registered or incorporated outside India. They have an office or branch in India. With the changes in the banking policy in post 1993 period, the number of foreign banks will increase. The globalization of Indian economy will encourage the presence of more foreign banks.

#### **REVIEW OF LITERATURE**

**Al-Tamimi and Jabnoun (2006)**<sup>2</sup> have compared service quality and bank performance between national and foreign commercial banks in the UAE. Foreign banks were found to be superior to the local banks in the more important dimension of human skill. Results showed that there was no significant difference between foreign banks and national banks in overall service quality. **Jain et al. (2012)**<sup>3</sup> have made a study of the performance of the banks to see if the perception of service quality has an effect on the banks. It has been observed that in the banking sector it is the HDFC bank which

is perceived to be offering better quality of services followed by the other private banks. **Chepuri and Banana (2018)**<sup>4</sup> have expressed in their study “Financial Performance of Andhra Bank, SBI, ICICI and HDFC Bank: A Comparative Study” that evaluating the performance of the banking sector is an effective indicator to check the reliability of economic activities of an economy. The study concluded regarding financial performance of four banks that HDFC bank stood at top and the performance of Andhra Bank stood at a low level. **Shah and Sharma (2019)**<sup>5</sup> in their article “Non-Performing Assets: A Comparative Study of SBI & HDFC Bank” examined the impact of non-performing assets on the growth of the banking sector and also compared the non-performing assets of the State Bank of India and HDFC bank and concluded that SBI Bank have a high non-performing asset ratio as compared to HDFC Bank, which results in low credit portfolio of State Bank of India. While in case of HDFC bank, it shows a low risk profile as compared to State Bank of India in terms of non-performing assets. **Ashok and sudarshana (2019)**<sup>6</sup> have carried out the present study to evaluate and compare the performance of State bank of India and HDFC bank. The study concluded that regarding financial parameters performance of both the banks is decreasing therefore they should pay attention on improving non financial perspectives which directly improves the financial performance of the banks. **Nirmal and Derashri(2020)**<sup>7</sup> compared the overall performance of India’s two largest banks i.e. State bank of India from public sector banks and HDFC from private sector banks. It has been observed from the study that HDFC bank has managed their net profits in a systematic way. However, in case of State bank of India they are not that much efficient in case of net profits and non performing asset but provision coverage ratio and capital adequacy ratio are being managed well by them. **Pavithra and Brindha(2017)**<sup>8</sup> described in their study “Comparative Study On Financial Performance And Home Loan Of Sbi And Hdfc” that HDFC showed outstanding performance with respect to housing loan and financial performance when compared to State bank of India. An attempt has been made by **Budhedeo and Pandya(2018)**<sup>9</sup> in their research paper “Short Term Liquidity of Foreign Banks in India” to examine the foreign banks in India for their liquidity performance and management capacity post financial crisis period. It has been found from the results that the foreign banks have failed to meet the requirements of the short term liquidity parameter of Indian banking sector. **Samuel (2018)**<sup>10</sup> in his paper evaluated the financial performance of three major commercial banks i.e. Syndicate Bank, Canara bank and Indian overseas bank using CAMELS Rating Model. The results also showed that the Syndicate bank has high efficiency related to earning efficiency, asset quality and management efficiency. While Canara Bank has high efficiency in terms of liquidity and all the three banks are maintaining their Credit adequacy ratio. **Rajput et.al. (2014)**<sup>11</sup> in their study “Efficiency of Foreign Banks Operating in India: DEA Analysis” observed that foreign banks performance received a considerable boost after the post reform period as Reserve bank of India liberalized its policy for foreign banks in order to achieve representation and growth in India. **Kirthika and Nirmala(2015)**<sup>12</sup> exhibited in their paper “A Study on Trend Performance of Foreign Banks operating in India” that main factors which affecting the efficiency and profitability of the

banks are the direct credit and investment, increased proportion of other income in the total income and growth of assets and advances of the banking sector etc

Based upon the literature reviewed it is obvious that emphasis has not been drawn upon comparing of the performance and to know about the grievances of different categories of banking institutions and therefore, the present research is a modest attempt in this direction.

### **NEED AND SCOPE OF THE STUDY**

With the promulgation of regulations for banking and financial institutions in India, there has been a frequent entry of private and foreign sector banking institutions in the Country due to which, there has been a competition. Further, the private and foreign sector banking institutions have emerged to be highly equipped with sophisticated technologies and substantial infrastructure and facilities which have influenced the profitability and performance of these banks, which is a challenge to the public sector banks. In order to know how much emphasis in India, the banking institutions have made for focusing upon profitability and financial performance, a need has been felt to conduct the research. The scope of the study is confined to study and analyze data during the period 2012-13 to 2019-20

### **OBJECTIVES OF THE STUDY**

- To compare the bank category-wise complaints received by bank Ombudsman in India
- To analyse the return on assets and return on equity of different categories of banking institutions.

### **RESEARCH METHODOLOGY**

The secondary data has been collected from various journals, magazines, and websites and has been analyzed by applying accounting ratios and percentages. The results ave been accordingly interpreted and conclusion and findings have been drawn and on the basis of the findings, measures have been suggested.

### **ANALYSIS AND DISCUSSION**

The findings of the research are drawn on the basis of analysis as discussed below:

#### **Bank Category Wise Complaints Received By Bank Ombudsman in India**

The trend of complaints received by the office of ombudsman regarding different categories of banking institutions is analyzed as below:

**Table 1 Bank Category- Wise Complaints Received By Bank Ombudsman in India**

Year	Nationali sed Bank	Growt h %	State Bank Group	Growt h %	Private Bank	Gro wth %	Foreign Bank	Grow th %	Sched uled Prima ry co- op	Gro wth %	RRBs/ others	Growth %	Tota l	Gro wth %

									Bank					
2010-11	20417		22307		17122		7081		1130		3217		71274	
2011-12	22326	9.35	25854	15.90	15084	-11.90	5068	-28.42	1439	27.34	3118	-3.07	72889	2.26
2012-13	21609	-3.21	23134	-10.52	15653	3.77	4859	-4.12	1489	3.47	3797	21.77	70541	-3.26
2013-14	24391	12.87	24367	5.32	17030	8.79	5016	3.23	1590	6.78	4179	10.06	76573	8.55
2014-15	28891	18.44	26529	8.87	19773	16.10	3406	-32.09	1966	23.64	4566	9.26	85131	11.17
2015-16	35447	22.69	29585	11.51	26931	36.20	3413	.20	2293	16.63	5225	14.43	102894	20.86
2016-17	45364	27.97	35950	21.51	35080	30.25	3284	-3.77	2481	8.19	8828	68.95	130987	27.30
2017-18	54970	21.17	46993	30.71	42443	20.98	3850	17.23	3229	30.14	11632	31.76	163590	24.89
2018-19	61755	12.34	59522	26.66	54922	29.40	4196	8.98	3660	13.34	10092	-13.23	195901	19.75
2019-20	92503	49.79	91584	53.86	98623	79.56	5935	41.44	6060	65.57	8696	-13.81	308630	57.54

**Source:** Annual accounts of respective banks, websites and RBI bulletins.

The table shows that during the year 2010-11 number of complaints registered with national banks were 20417 which increased to 22326 in the year 2011-12 with a growth of 9.35percent, but showed a relevant decrease in the next year dropping down to 21609 ( 31%) in the year 2012-13 with growth percentage of -2.90. After the year 2013-14the complaints have increased over the year's marking70534 the largest growth percentage of 40.70in the year 2019-20 with 92503complaints.

In the same way, for the state bank groups there is a greater increase in the number of complaints registered in the year 2010-11, they were 22307which increased to 25854 in the year 2011-12 with a growth of 15.90 percent, but decreased to 23134 with negative growth rate of 10.52 percent in the year 2012-13. However the statistical figures related to the complaints received again showed a significant increase from 24367complaints in 2013-14 to 91584 in the year 2019-20 having growth rate of 53.86.

In case of private sector banks the percentage growth decreased by 11.90 percent from the year 2010-11 to 2011-12 with the number of complaints 17122 and 15080. Over the next eight years the numbers subsequently increased and touched up to 54922 in the year 2018-19 and 98623 in the year 2019-20 with the growth percentage of 79.56. Statistical figures regarding foreign banks shows subsequent decrease in the complaints dropping down to 5068 in the year 2011-12from 7081 in the

year 2010-11. The decreasing trend continues till 2016-17 with 3284 complaints except in the year 2013-14 and 2015-16 when it shows slight increase in the number of complaints.

Similarly for the scheduled primary co-operative banks there is a greater increase in the number of complaints registered within the span of ten years as it has recorded 1130 complaints in the year 2010-11 which increases to 6060 in the year 2019-20 having growth percentage of 65.57. The bank groups like RRBs/ others have observed variation in the complaints received. It has been analysed from the total number of complaints of all bank categories that it increased from 71274 in 2010-11 to 72889 in 2011-12 with a growth of 2.26 percent. For the next year i.e 2012-13, the number reduced to 70541 after which the complaints recorded a regular increase of 195901 in 2018-19 and 308630 in the year 2019-20 with a percentage growth of 57.54.

### **Return on Assets and Return on Equity of Banking Institutions:**

The study finds that over the period of six years between 2013-14 to 2018-19, there has been a declining trend in the return on assets as well as return on equity of all categories of banking institutions in India. The following table depicts the return on assets and return on equity of the three categories of banking institutions.

**Table 2**

### **Return on Assets and Return on Equity of Banking Institutions (%)**

Year	Return on Assets				Return on Equity			
	Public	Private	Foreign	All	Public	Private	Foreign	All
13-14	0.50	1.65	1.54	0.81	8.47	16.22	9.03	10.68
14-15	0.46	1.68	1.87	0.81	7.76	15.74	10.24	10.42
15-16	-0.20	1.50	1.45	0.31	-3.47	13.81	8.00	3.59
16-17	-0.1	1.3	1.6	0.4	-2.0	11.9	9.1	4.2
17-18	-0.8	1.1	1.3	-0.2	-14.6	10.1	7.2	-2.8
18-19	-0.65	0.63	1.5	-0.09	-11.4	5.4	8.7	-1.8

**Source:** Annual accounts of respective banks, websites and RBI bulletins.

**Note:** Return on Assets = Net profit/Average total assets. Return on Equity = Net profit/Average total equity.

Present table shows the return on assets and return on equity of public, private and foreign sector banks. Table shows that during 2013-14 private sector banks have the maximum return on asset i.e. 1.65 percent followed by foreign banks (1.54 percent) and public sector banks (0.50 percent). In the year 2014-15 foreign bank earned 1.87 percent return on asset followed by private and public sector bank. Again in 2015-16 private sector bank gained maximum return on asset while public sector banks have negative return on asset. For the next three consecutive sessions i.e. 2016-17, 2017-18 and 2018-19 foreign bank topped the list with the higher return on asset on the other hand public sector banks return on asset remained negative. The analysis about return on equity shows that the private sector bank have greater return on equity in all the years except 2018-19 then it comes foreign banks and public sector banks. Regarding all schedule commercial banks return on asset remained same for

2013-14 and 2014-15 then it started declining and turned negative in the last two years. In case of return on equity initially it started decreasing and then turned negative. Therefore it can be concluded from the table that foreign bank is performing good in case of return of asset followed by private sector bank and public sector bank and as far as return on equity is concerned private sector bank is little bit ahead from foreign banks.

### **CONCLUSION AND FINDINGS**

-It has been found that foreign banks are performing well in case of return of asset followed by private sector banks and public sector banks and as far as return on equity is concerned private sector banks are little bit ahead from foreign banks.

-Regarding grievances of the different categories of banking institutions, the study finds that the number of complaints with percentages and growth in complaints of nationalized and private sector banks received by the office of Ombudsman is higher than those of the foreign sector banks.

### **SUGGESTIONS**

-Public and Private sector banks should work on improving return on asset while, foreign banks should pay more attention on improving their return on equity.

- The nature of complaints need to be understood and the management of the banking institutions needs to pay special emphasis to satisfy customers so that grievances be reduced.

-There is a need to develop integrated and congenial environment of working in the banking institutions for which, management has to frequently seek the feedback within the branch regarding attitude and behaviour of officials with the customers.

### **References**

1. Ajit, "*The Role of Banking in Economic Development of India*", Prajnan, Vol. XXXV, Nos. 3-4, 1996-97, p. 311.
2. AL-Tamini A. Hassan and JabnounNaceur, "Service Quality & Bank Performance: A Comparison of the UAE National and Foreign Banks", Finance India, Vol. XX, No. 1, March 2006, pp. 181-197.
3. Jain Vibhor Gupta Sonia Jain Smrita, "Customer Perception On Service Quality In Banking Sector: With Special Reference To Indian Private Banks In Moradabad Region" International Journal Of Research In Finance & Marketing Volume 2, Issue 2, February 2012 ISSN 2231-5985
4. Rama Krishna Rao Chepuri, V. and Banana Krishna, "Financial Performance of Andhra Bank, SBI, ICICI and HDFC Bank: A Comparative Study" World Wide Journal of Multidisciplinary Research and Development July 2018, Volume 5, Issue 3, 2018

5. Shah Santosh and Sharma Dhruv, "Non-Performing Assets: A Comparative Study of SBI & HDFC Bank" Kaav International Journal of Economics, Commerce & Business Management , volume 6, Issue 2, 2019
6. Gupta Ashok Kumar and Sharma Sudarshana, "A Comparative Study on Performance Measurement of HDFC Bank and SBI using Balanced Scorecard" Pacific Business Review International Volume 11 Issue 8, February 2019
7. Nirmal Anilkumar and Derashri.Purvi, "A Comparative Study of India's two Largest Banks" High Technology letters Volume 26, Issue 7, July 2020
8. Pavithra, Kirubadevi, S. and Brindha, S., "Comparative Study on Financial Performance and Home Loan of SBI and HDFC" International Journal of Interdisciplinary Research in Arts and Humanities, Volume 2, Issue 1, 2017
9. Budhedeo Shradha, H. and Pandya Neha, P., "Short Term Liquidity of Foreign Banks in India" Asian Review of Social Sciences Vol.7 No.2, 2018
10. Elizabeth, M. and Samuel, "Comparative Performance Evaluation of Selected Commercial Banks in India using CAMELS Rating Model" International Journal of Global Sustainability Vol. 2, Issue 1, 2018 ISSN 1937-7924
11. Rajput Namita and Chopra Kamna, "Efficiency of Foreign Banks Operating in India: DEA Analysis" Asian Journal of Finance & Accounting, Volume 6, issue 2, 2014 ISSN 1946-052
12. Kirthika M. and Nirmala S., "A Study on Trend Performance of Foreign Banks operating in India" International Research Journal of Business and Management, Volume 8, , Issue 3, February 2015