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PERFORMANCE BANKING SINCE INDEPENDENCE

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Banks play a pivotal role in the shaping up the economy of a country. Through its numerous policies, strategies and services, banking has become the most important part of every society. Modern life requires the smooth operation of banks, insurance companies, securities firms, mutual funds, finance companies, pension funds and governments. Empirical evidence consistently emphasizes the nexus between finance and growth, though the issue of direction of causality is more difficult to determine. At the cross-country level, evidence indicates that various measures of financial development (including assets of the financial intermediaries, liquid liabilities of financial institutions, domestic credit to private sector, stock and bond market capitalization) are robustly and positively related to economic growth.

This research paper attempts to measure the relative performance of Indian banks to find out changes which have taken place during the last few decades. The analysis[*] uses 16 variables i.e. Number of Scheduled Banks, Number of Bank Offices, Population per Branch, Centre wise Distribution of Bank Branches, Deposits of Scheduled Commercial Banks, Credit of Scheduled Commercial Banks, Credit-Deposit ratio, Scheduled Commercial Bank's Advances to Priority sector, Capital Adequacy Ratio of Scheduled Commercial Banks, Net NPAs as percentage of Total Advances of Scheduled Commercial Banks, Operating Cost To Total Assets of Scheduled Commercial Banks, Intermediation Cost of Scheduled Commercial Banks, Business Per Employee of Scheduled Commercial Banks, Business Per Branch of Scheduled Commercial Banks, Net Interest Margin (Spread) to Total Assets of Scheduled Commercial Banks and Return on Assets of Scheduled Commercial Banks. The analysis has been made with the help of Tables and graphs.

[*] The analysis has been made on the basis of availability of data.

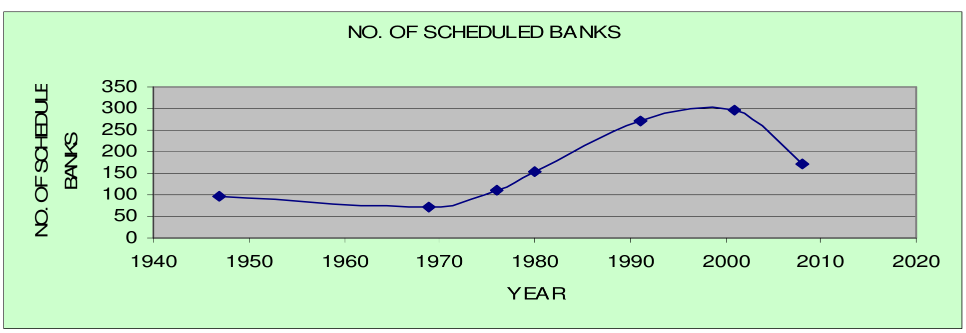
1. Number of Scheduled Banks: There has been unprecedented geographical expansion of banking operations in India particularly during the post nationalization period. Table 1 showing number of banks since the independence of table showing number of banks since the independence of the country reveals that number of banks increases from 96 in 1947 to 296 in 2001 but after 2001 it declined to 171 due to consolidation of banks. Thus there was an increase of 1.78 times in the numbers of scheduled banks during (1947-2008).

Table 1: Number of Scheduled Banks

YEAR	NO. OF SCHEDULED BANKS
1947	96
1969	73
1976	111
1980	154
1991	272
2001	296
2008	171

Source: Extracted and computed from
Report on Trend and Progress of Banking in India,
Various issues

Graphical Presentation



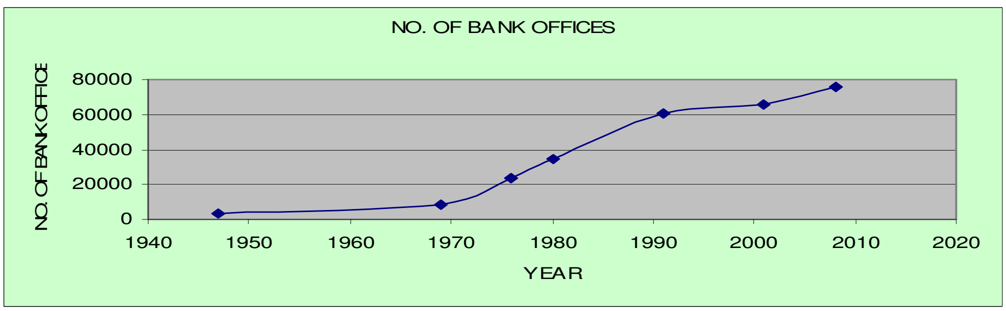
2. Number of Bank Offices: The analysis in terms of bank branches during the different periods adumbrates that pace of geographical expansion of banks was slow until nationalization but the number of branches increased rapidly thereafter. Table 2 showing Number of Bank Offices since the independence of the country vividly reveals that number of Bank Offices surged from 2,987 to 76050 registering an increase of 25 times during the corresponding period. The post nationalization period witnessed gargantuan growth particularly during 1969 to 1991, registering an increase from 8,262 to 60,220 in 1991.

Table 2: Number of Bank Offices

YEAR	NO. OF BANK OFFICES
1947	2987
1969	8262
1976	23654
1980	34594
1991	60220
2001	65919
2008	76050

Source: Extracted and computed from
Report on Trend and Progress of Banking in India,
Various issues

Graphical Presentation



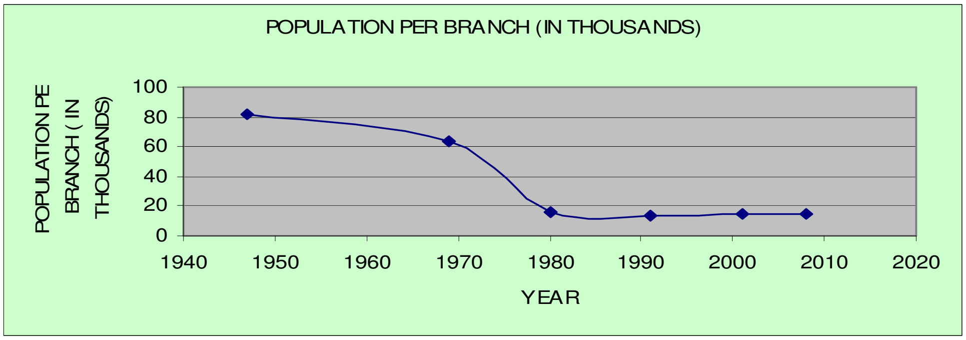
3. Population per Branch: Table 3 shows Population per Branch since the independence of the country. Table clearly shows that the average population per

Table 3: Population per Branch

YEAR	POPULATION PER BRANCH (IN THOUSANDS)
1947	82
1969	64
1980	16
1991	14
2001	15
2008	15

Source: Extracted and computed from
Report on Trend and Progress of Banking in India, Various issues

Graphical Presentation



Bank branch has gone down steeply from 82,000 in 1947 to 15,000 in 2008 registering a decrease of 0.18 times, indicating the intensive efforts of the commercial banks to reach the masses.

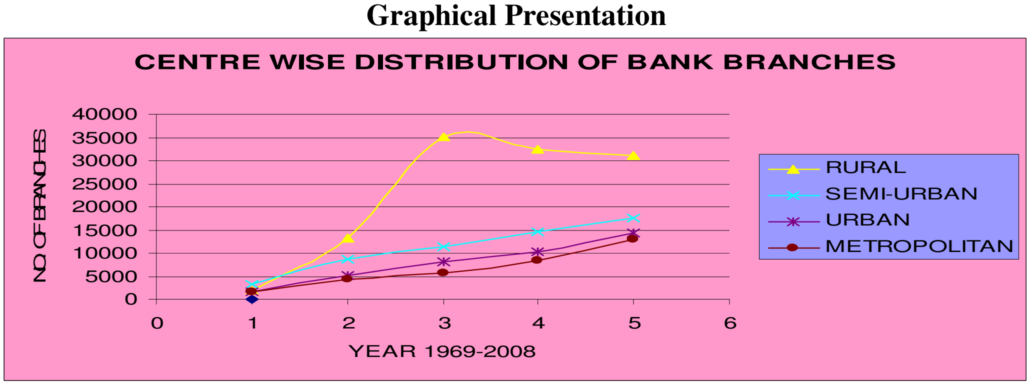
4. Centre wise Distribution of Bank Branches: Table 4 shows Centre wise Distribution of Bank Branches since the nasalization of banks. The table vividly reveals that Centre wise Distribution of Bank Branches increases in all areas. What is most striking to note is that thrust of banks expansion has been in rural and semi-urban areas in between 1969-1991, but after 1991 increasing percentage of rural branches declined due to liberalization and banking sector reforms.

Table 4 Centre wise Distribution of Bank Branches

CENTRES	CENTRE WISE DISTRIBUTION OF BANK BRANCHES				
	1969	**1980**	**1991**	**2001**	**2008**
RURAL	1833	13151	35206	32562	31076
SEMI-URBAN	3342	8613	11344	14597	17675
URBAN	1584	5253	8046	10293	14391
METROPOLITAN	1503	4192	5624	8467	12908
TOTAL	8262	31209	60220	65919	76050

Source: Extracted and computed from Report on Trend and Progress of Banking in India, Various issues

Graphical Presentation



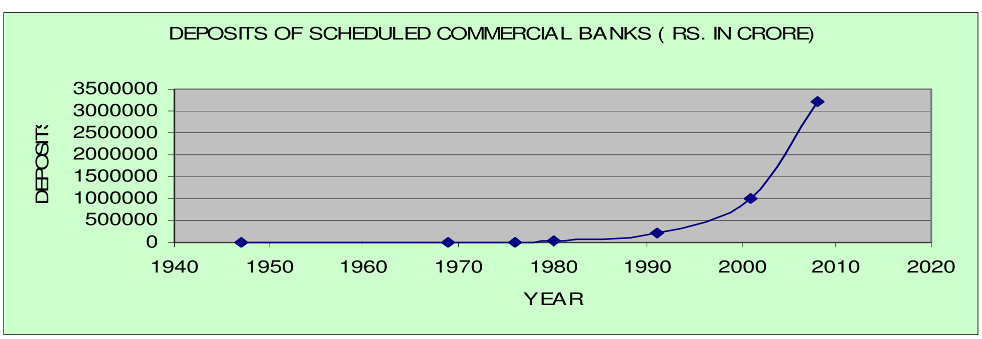
5. Deposits of Scheduled Commercial Banks: Commercial banks being repositories of deposits have played significant role in garnering savings of the people particularly after their nationalization, as is evidenced from Table. Table 5 shows Deposits of Scheduled Commercial Banks since the independence of the country. It may be noted from the Table that bank deposits boomed from Rs. 1080 crore to Rs. 3196939 crore in between 1947 and 2008 registering an increase of 2960 times. There was acceleration in deposit mobilization after nationalization of banks. This was because of tremendous branch expansion, growth in interest rates and introduction of innovative deposit schemes.

Table 5: Deposits of Scheduled Commercial Banks

YEAR	DEPOSITS OF SCHEDULED COMMERCIAL BANKS (RS. IN CRORE)
1947	1080
1969	4646
1976	15255
1980	40428
1991	201199
2001	989141
2008	3196939

Source: Extracted and computed from
Report on Trend and Progress of Banking in India,
Various issues

Graphical Presentation



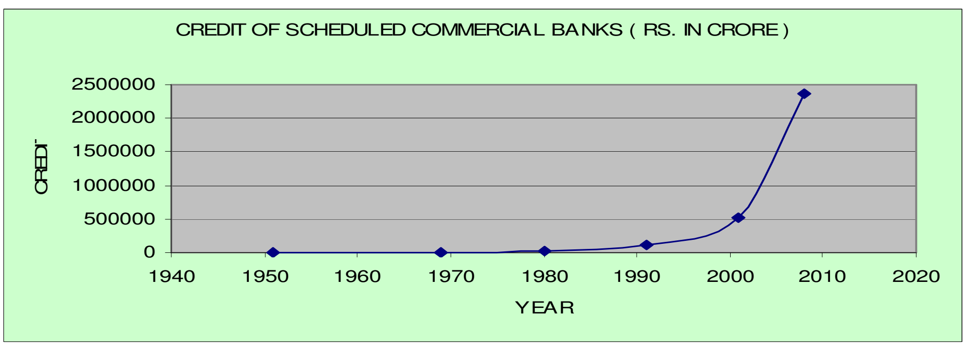
6. Credit of Scheduled Commercial Banks: Banks deploy their funds to optimize returns and profits. Table 6 exhibiting quantum of credit provided by

Table 6: Credit of Scheduled Commercial Banks

YEAR	CREDIT OF SCHEDULED COMMERCIAL BANKS (RS. IN CRORE)
1951	595
1969	3599
1980	25070
1991	121865
2001	529272
2008	2361914

Source: Extracted and computed from
Report on Trend and Progress of Banking in India,
Various issues

Graphical Presentation



Scheduled banks shows quantum jump in amount of credit facilities extended by the banks particularly after nationalization of banks. Credit of Scheduled Commercial Banks surged from Rs. 595 to Rs. 2361914 during the corresponding period, registering an increase of 3969 times.

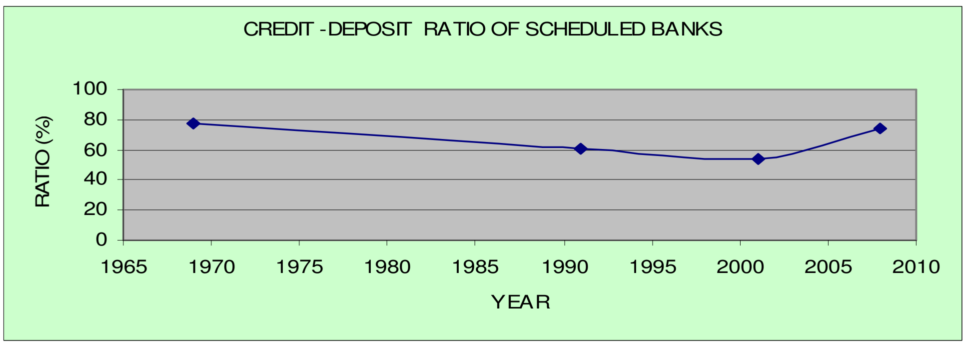
7. Credit – Deposit Ratio of Scheduled Commercial Banks: The credit-deposit ratio is a barometer of progress of a financial institution like commercial banks. It indicates the level of credit deployment of banks in relation to deposits mobilized by them. A high credit-deposit ratio indicates that larger portion of deposit is put to use to earn maximum interests. Credit-deposit ratio (C-D ratio) of scheduled commercial banks is depicted in Table 7 for the period 1969-2008. The table shows that credit-deposit ratio declined from 77.5% in 1969 to 53.5 % in 2001 there after tended to increases. This remarkable and persistent fall can be explained mainly by strict credit policy of the RBI and decline in corporate demand of bank credit because of emergence of the process of disintermediation.

Table 7: Credit – Deposit Ratio of Scheduled Commercial Banks

YEAR	CREDIT -DEPOSIT RATIO OF SCHEDULED BANKS
1969	77.5
1991	60.6
2001	53.5
2008	73.9

Source: Extracted and computed from
Report on Trend and Progress of Banking in India,Various issues

Graphical Presentation



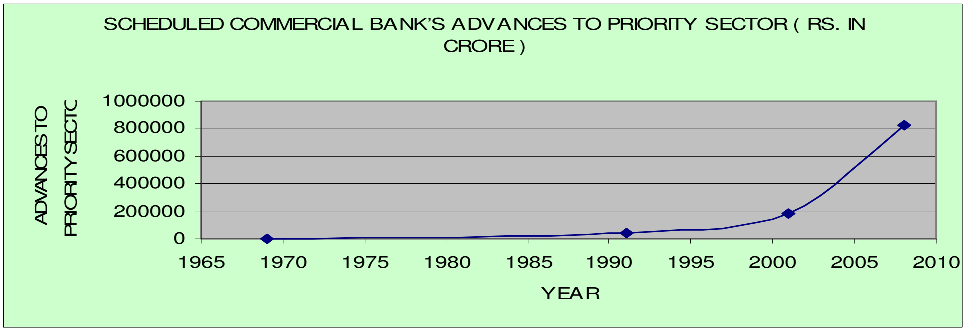
8. Scheduled Commercial Bank's Advances to Priority sector: One of the major objectives of the nationalization of banks was to provide banking facility to all especially rural areas. The Priority sectors have received the concerted attention of the banks particularly after nationalization. To provide special take care to Priority sector i.e. agriculture, small-scale industries, small traders, artisans, self-employed persons and similar other weak sections of society, Government launched schemes including Integrated Rural Development Programme (IRDP), Twenty Point Economic Programme (TPEP) and Drought Prone Areas Programme (DPAP). At present targets of 40% of net bank credit and 32% of net bank credit must be achieved by domestic banks and foreign banks respectively. Table 8 furnishes information on priority sector advances. It may be glanced from this Table that priority sector advances registered a record increases from Rs. 504 crores on the eve of the nationalization of banks to Rs. 824773 crores at the march end, 2008, registering an increase of 1636 times.

Table 8: Scheduled Commercial Bank's Advances to Priority sector

YEAR	SCHEDULED COMMERCIAL BANK'S ADVANCES TO PRIORITY SECTOR (RS. IN CRORE)
1969	504
1991	44572
2001	182255
2008	824773

Source: Extracted and computed from
Report on Trend and Progress of Banking in India, Various issues

Graphical Presentation



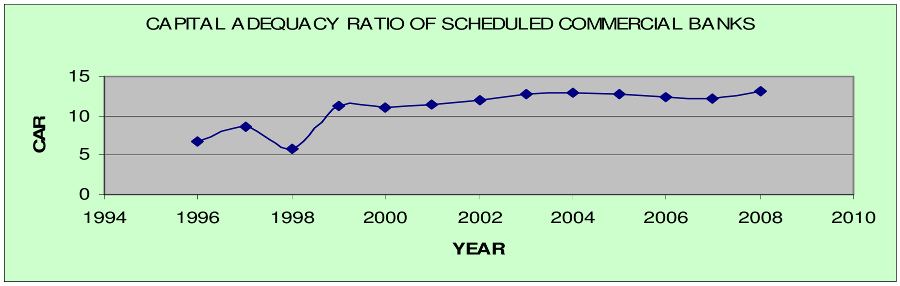
9. Capital Adequacy Ratio of Scheduled Commercial Banks: The capital adequacy ratio measures the amount of a bank's capital in relation to its risk weighted credit exposures and is most widely used measure of soundness of banks. It determines the capacity of a bank to withstand the unexpected losses arising out of its operations. The risk weighting process takes into account, in a stylized way, the relative riskiness of various types of credit exposures that banks have, and incorporates the effect of off balance sheet contracts on credit risk. The

Table 9: Capital Adequacy Ratio of Scheduled Commercial Banks

YEAR	CAPITAL ADEQUACY RATIO OF SCHEDULED COMMERCIAL BANKS (%)
1996	6.71
1997	8.70
1998	5.90
1999	11.30
2000	11.12
2001	11.40
2002	12.00
2003	12.70
2004	12.90
2005	12.80
2006	12.32
2007	12.28
2008	13.08

Source: Extracted and computed from
Report on Currency and Finance, Various issues

Graphical Presentation



Higher the capital adequacy ratio a bank has, the greater the capacity it has to absorb the unexpected losses before becoming insolvent. It, thus, provides a "cushion" for potential losses, which protects the bank's depositors or other lenders. Table 3.9 shows Capital Adequacy Ratio of Scheduled Commercial Banks. It reveals that Capital Adequacy Ratio has increased from 6.71% in 1996 to 13.08% in 2008, registering an increase of 1.95 times. This indicates high level of confidence of public and minimizes the risk.

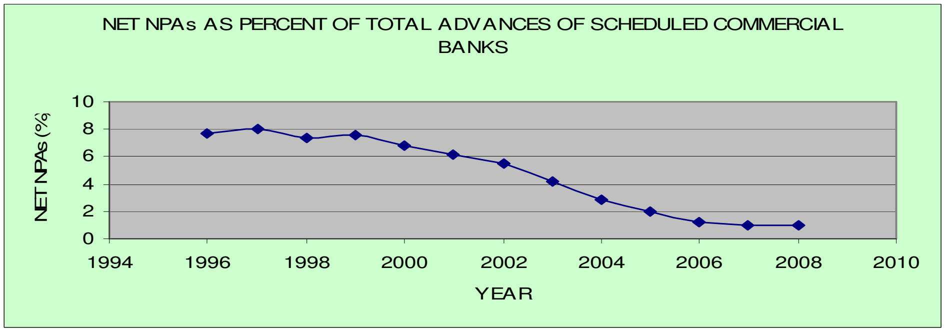
10. Net NPAs as percentage of Total Advances of Scheduled Commercial Banks: The soundness of a bank may be seriously impaired if its asset quality is poor. Non-performing assets require provisioning/write-off, which affects banks' profitability and their ability to strengthen their capital position. In case the provisioning/write-off results in net losses, it could also erode bank's capital position. Therefore, apart from sound capital position, it is necessary that banks maintain high asset quality. Table 3.10 shows Net NPAs as percentage of Total Advances of Scheduled Commercial Banks. Table clearly shows that the Net NPAs has gradually declined from 7.68% in 1996 to 1.00% in 2008 registering a decrease of 0.13 times. This indicates that scheduled commercial banks are improving asset quality year after year.

Table 10: Net NPAs as percentage of Total Advances of Scheduled Commercial Banks

YEAR	NET NPAs AS PERCENT OF TOTAL ADVANCES OF SCHEDULED COMMERCIAL BANKS (%)
1996	7.68
1997	8.05
1998	7.32
1999	7.56
2000	6.78
2001	6.17
2002	5.47
2003	4.17
2004	2.84
2005	2.01
2006	1.22
2007	1.02
2008	1.00

Source: Extracted and computed from
Report on Currency and Finance, Various issues

Graphical Presentation



11. Operating Cost to Total Assets of Scheduled Commercial Banks: This ratio indicates the amount of operating costs expended per unit of assets. All efforts by a bank to cut cost by rationalizing its labor force and branches and back office operations should get reflected in this ratio. Larger the ratio, the

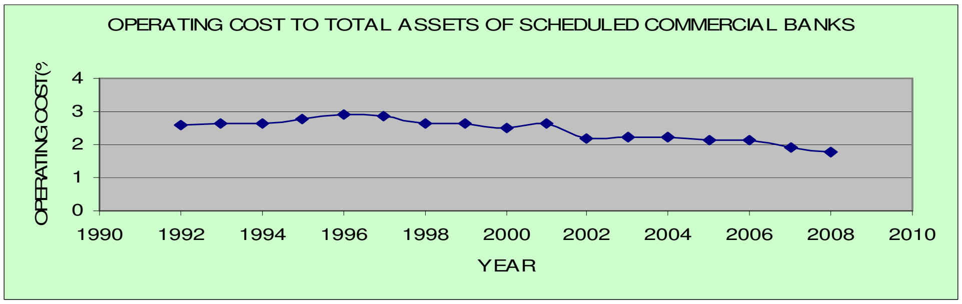
Table 11: Operating Cost to Total Assets of Scheduled Commercial Banks

YEAR	OPERATING COST TO TOTAL ASSETS OF SCHEDULED COMMERCIAL BANKS (%)
1992	2.59
1993	2.65
1994	2.64
1995	2.79
1996	2.93
1997	2.85
1998	2.63
1999	2.65
2000	2.48
2001	2.64
2002	2.19
2003	2.24
2004	2.21
2005	2.13
2006	2.13
2007	1.92
2008	1.78

Source: Extracted and computed from
Report on Currency and Finance, Various issues

Lower is the efficiency. There has been a gradual and almost sustained decline in the cost-asset ratio for the Indian banking industry as a whole from the peak level of 2.59% in 1992 to 1.78 % in 2008 registering a decrease of 0.68 times as is evident from Table 3.11.

Graphical Presentation



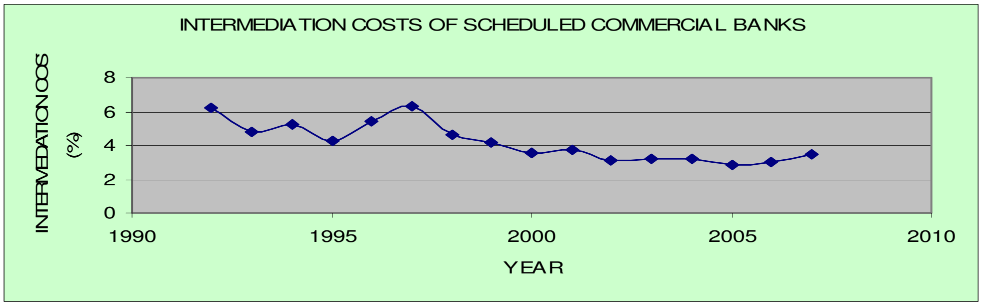
12. Intermediation Cost of Scheduled Commercial Banks: The most commonly used definition of intermediation cost is the spread between cost of deposits and return on loan assets. It reflects the efficiency with which financial

Table 12: Intermediation Cost of Scheduled Commercial Banks

YEAR	INTERMEDIATION COSTS OF SCHEDULED COMMERCIAL BANKS (%)
1992	6.24
1993	4.82
1994	5.22
1995	4.27
1996	5.43
1997	6.28
1998	4.61
1999	4.19
2000	3.59
2001	3.74
2002	3.12
2003	3.17
2004	3.18
2005	2.87
2006	3.05
2007	3.43

Source: Extracted and computed from
Report on Currency and Finance, Various issues

Graphical Presentation



Resources are intermediated by the banks from savers to investors. The intermediation costs are expected to decline with the increase in productivity/efficiency of the banking system, as more efficient financial systems are expected to facilitate easier fund mobility at lower transaction costs. Table 3.12 shows Intermediation Cost of Scheduled Commercial Banks. Table clearly shows that the Intermediation Cost has gradually declined from 6.24% in 1992 to 3.43% in 2007 registering a decrease of 0.54 times, this indicates that positive efficiency of scheduled commercial banks.

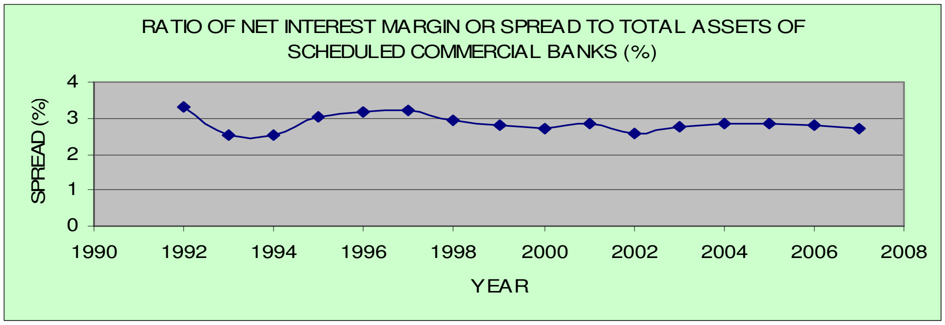
13. Net Interest Margin (Spread) to Total Assets of Scheduled Commercial Banks: Net interest margin (NIM) is defined as the difference between the total interest earned (including from such items as investments) and total interest expended (including on such items as inter-bank borrowings), normalized by assets. This ratio indicates as to how effectively the banks deploy all their funds (both deposit and borrowings) to generate income from credit and investment operations. Lower the ratio, the more efficient is the banking system. Historically, Indian banks had high NIM due mainly to lack of enough competition. The increased competitive pressures in the industry following the initiation of reforms appear to have exerted downward pressure on the spreads. The NIM for the industry, which was 3.30% in 1992 declined to 2.69%in 2007 registering a decrease of 0.81 times shows Table 3.13.

Table 13: Net Interest Margin (Spread) to Total Assets of Scheduled Commercial Banks

YEAR	RATIO OF NET INTEREST MARGIN OR SPREAD TO TOTAL ASSETS OF SCHEDULED COMMERCIAL BANKS (%)
1992	3.30
1993	2.51
1994	2.54
1995	3.03
1996	3.15
1997	3.22
1998	2.95
1999	2.79
2000	2.72
2001	2.84
2002	2.57
2003	2.77
2004	2.87
2005	2.83
2006	2.81
2007	2.69

Source: Extracted and computed from
Report on Currency and Finance, Various issues

Graphical Presentation



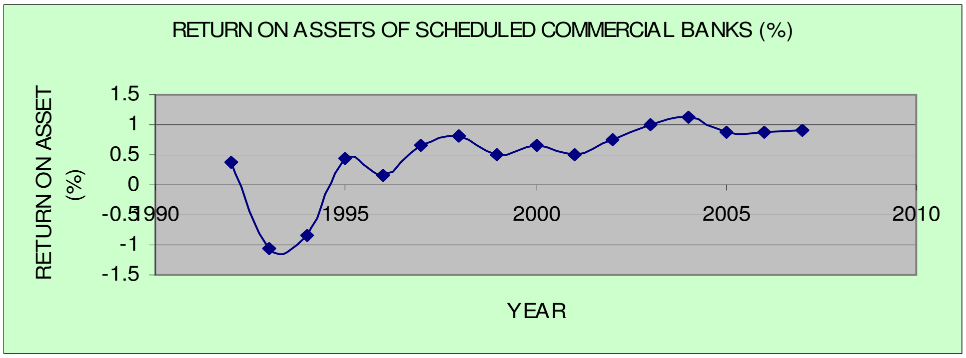
14. Return on Assets of Scheduled Commercial Banks: Return on Assets (ROA) gives an indication as to how much profit a business unit (bank in the instant case) is able to generate per unit of its assets. Higher value of this ratio is indicative of higher profitability, and hence, productivity. As per Basel –II norms, the ROA should be more than 1%. Notwithstanding increased competition in the banking system in India, the return on assets improved significantly from 0.39% in 92 to 1.13 per cent in 2003-04, albeit with some fluctuations, before stabilizing at around 0.90 per cent in the following three years registering an increase of 2.30 times shows Table 3.14. The significant improvement in the profitability ratio is all the more significant as the intermediation cost of the bank declined during the same period.

Table 14: Return on Assets of Scheduled Commercial Banks

YEAR	RETURN ON ASSETS OF SCHEDULED COMMERCIAL BANKS (%)
1992	0.39
1993	-1.07
1994	-0.84
1995	0.43
1996	0.15
1997	0.66
1998	0.81
1999	0.50
2000	0.66
2001	0.50
2002	0.76
2003	1.00
2004	1.13
2005	0.89
2006	0.88
2007	0.90

Source: Extracted and computed from Report on Currency and Finance, Various issues

Graphical Presentation



15. Business per Employee of Scheduled Commercial Banks: Various ratios used so far assessed the performance in terms of cost or return as a proportion to total earning assets, whereby productivity of the labour could not be ascertained directly. To understand the trend in labour productivity devoid of the influence of various other aspects such as pricing of services rendered by the bank could be undertaken by using ratios such as business per employee and business per branch. The entry of new private sector banks appears to have provided impetus for expansion of business per employee of public sector banks and old private banks by creating highly competitive environment, apart from introducing aggressive marketing strategies and hybrid products. Intense competition led to expansion in banking products, penetration of banking into unbanked areas expansion of business through aggressive marketing strategies

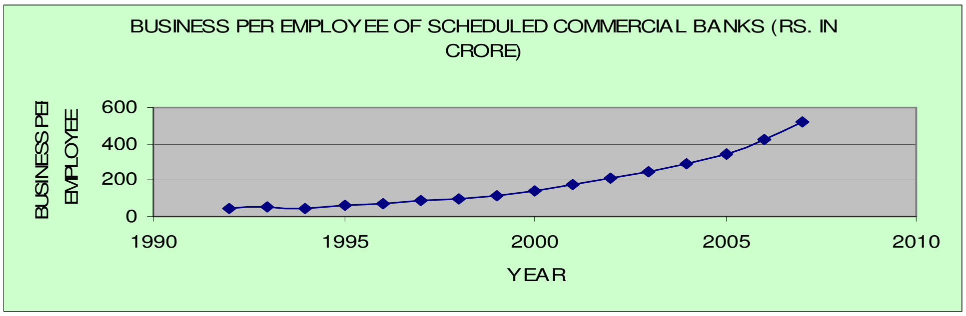
Table 15 Business per Employee of Scheduled Commercial Banks

YEAR	BUSINESS PER EMPLOYEE OF SCHEDULED COMMERCIAL BANKS (RS. IN CRORE)
1992	46.06
1993	50.32
1994	47.57
1995	63.40
1996	73.42
1997	84.09
1998	100.04
1999	117.72
2000	140.92
2001	179.43
2002	213.97
2003	247.02
2004	286.90
2005	348.27
2006	419.77
2007	521.94

Source: Extracted and computed from
Report on Currency and Finance, Various issues

Ably supported by technology such as core banking solutions. The business (deposits plus credit) per employee of commercial banks in India increased by more than eleven times in between 1992 to 2007 Table 3.15 vividly reveals that business per employee of scheduled commercial banks from Rs.46.06 crore in 1992 to Rs.521.94 crore in 2007 registering an increase of 11 times.

Graphical Presentation



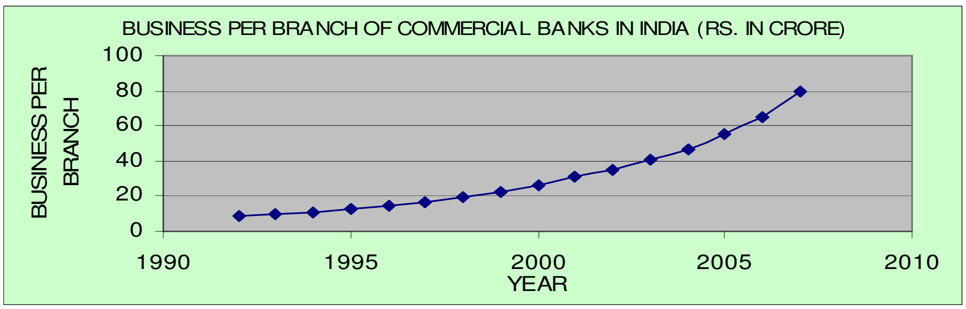
16. Business per Branch of Scheduled Commercial Banks: Business per branch, similar to the ratio of business per employee, has risen (more than eight times) steadily for the banking industry since the early 1990s. This may be attributed to expansion

Table 16: Business per Branch of Scheduled Commercial Banks

YEAR	BUSINESS PER BRANCH OF SCHEDULED COMMERCIAL BANKS (RS. IN CRORE)
1992	9.12
1993	10.08
1994	10.92
1995	12.72
1996	14.84
1997	16.72
1998	19.59
1999	22.75
2000	26.58
2001	31.13
2002	35.32
2003	40.56
2004	46.45
2005	55.81
2006	64.74
2007	79.39

Source: Extracted and computed from Report on Currency and Finance, Various issues of new business, rationalization of branches by some banks, and evolution of new business strategies like sharing of ATMs so as to economies on cost and capitalize on technology. Pick up in business per branch in the case of public sector banks was not as sharp as in the case of business per employee, the rise in which, to an extent, was also due to voluntary retirement schemes introduced by public sector banks. Table 3.16 furnishes information on business per branch of scheduled commercial banks. It may be glanced from this table that business per branch registered a record increases from Rs. 9.12 crores in 1992 to Rs. 79.39 crores at the March end, 2007 registering an increase of 8.77 times .

Graphical Presentation



CONCLUSION

The above analysis revealed that there has been an all-round improvement in the productivity/efficiency of the banking sector in the post-reform period. At the time of initiation of financial sector reforms, most of the efficiency ratios did not compare well with the banks in most advanced countries and emerging market economies. The performance of the banking sector, especially nationalized banks, worsened in the initial years of reforms as they took time to adjust to the new environment. However, a distinct improvement was discernible thereafter, especially beginning 2001-02. As a result, various efficiency/productivity and soundness parameters have moved closer to the global levels. The most significant improvement has taken place in the performance of public sector banks, as a result of which the performance of various bank groups has now converged with that of foreign banks and new private sector banks in respect of most of the parameters.

ABOUT THE AUTHOR:

With First Class academic record **Dr. Brajesh Kumar Tiwari** has completed his B.Com (Hons.), M.Com, M.Phil and Ph.D Degree from Banaras Hindu University. Dr. Tiwari is serving, Department of Commerce, Guru Ghasidas Central University Bilaspur in the capacity of Assistant Professor. He has attended more than thirty five International and National seminars & conferences and has presented around two dozen papers therein. He also holds several of national publications, two international books from USA and Germany and has three chapter contributions in edited books to his research basket. He was awarded as "Yuva Kashi-Gaurav" by Purvanchal Vikas Samiti, Varanasi and "Best Volunteer" in Faculty Annual Day by Faculty of Commerce BHU. He got Best Research Paper Award in International Conference in Nepal and one of his Research Paper was selected for Best Business Academic of the Year Award "BBAY Award" in 58th All India Commerce Conference. Being a Research Fellow, he represented the Faculty of Commerce before NAAC (UGC) in 2006. During his Ph.D he got UGC Research fellowship. He is life member of Indian Commerce Association, Indian Accounting Association and Indian Economic Association. His interest areas include Banking and Finance.