Financial Performance of State Bank in India- An Empirical Study

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Abstract

The progression of an economy is significantly dependent upon deployment as well as optimum utilization of resources and most importantly operational efficiency of the various sectors, of which banking sector plays a very vital role. Banking sector helps in stimulation of capital formation, innovation and monetization in addition to facilitation of monetary policy. It is imperative to carefully evaluate and analyse the performance of banks to ensure a healthy financial system and an efficient economy. The present study attempts to evaluate the performance of State Bank & its group in India using CAMEL approach for a five year period from 2014-2018.

KEYWORDS: Operational efficiency, healthy financial system, CAMEL model.

INTRODUCTION

In 1991, the Indian economy went through a process of economic liberalization, which was followed up by the initiation of fundamental reforms in the banking sector in 1992.The banking reform package was based on the recommendations proposed by the Narasimham Committee Report (1991) that advocated a move to a more market-oriented banking system, which would operate in an environment of prudential regulation and transparent accounting. One of the primary motives behind this drive was to introduce an element of market discipline into the regulatory process that would reinforce the supervisory effort of the Reserve Bank of India (RBI). Market discipline, especially in the financial liberalization phase, reinforces regulatory and supervisory efforts and provides a strong incentive to banks to conduct their business in a prudent and efficient manner and to maintain adequate capital as a cushion against risk exposures. Recognizing that the success of economic reforms was contingent on the success of financial sector reform as well, the government initiated a fundamental banking sector reform package in 1992.Banking sector, the world over, is known for the adoption of multidimensional strategies from time to time with varying degrees of success.

Banks are very important for the smooth functioning of financial markets as they serve as repositories of vital financial information and can potentially alleviate the problems created by information asymmetries. From a central bank's perspective, such high-quality Disclosures help the early detection of problems faced by banks in the market and reduce the severity of market disruptions. Consequently, the RBI as part and parcel of the

financial sector deregulation, attempted to enhance the transparency of the annual reports of Indian banks by, among other things, introducing stricter income recognition and asset classification rules, enhancing the capital adequacy norms, and by requiring a number of additional disclosures sought by investors to make better cash flow and risk assessments. For the present study, five banks chosen for the study are nationalised at the same period 1969. With the development of the banking sector, it is interesting to know how the selected banks have performed. The present study carried out is a closer analysis of five nationalised banks namely Bank of India (BOI) Bank of Baroda (BOB) Canara Bank Indian Overseas Bank (IOB) and Punjab National bank (PNB) based on their annual results. For the purpose of analysis of comparative financial performance of the selected Banks world-renowned CAMEL Model is applied. They are the crucial Parameters which reflect the operating performance, soundness and Liquidity of the selected Banks.

Camel model

The **CELS ratings** or **Camels rating** is a supervisory rating system originally developed in the U.S. to classify a bank's overall condition. It's applied to every bank and credit union in the U.S. (approximately 8,000 institutions) and is also implemented outside the U.S. by various banking supervisory regulators.

The components of a bank's condition that are assessed:

- **(C)**apital adequacy
- **(A)**ssets
- **(M)**anagement Capability
- **(E)**arnings
- **(L)**iquidity (also called asset liability management)
- **(S)**ensitivity (sensitivity to market risk, especially interest rate risk)

Ratings are given from 1 (best) to 5 (worst) in each of the above categories.

REVIEW OF LITERATURE

Swindle.C.Sloan (2013), "Evaluate Regulatory effectiveness at Commercial Banks", Journal of Financial Services Research", volume 9 Issue 2, ISSN 0920-8550: Examines the influence of **bank** regulators on the improvement of capital of inadequately capitalized banks in the United States in 1980s using the capital adequacy component of **CAMEL** rating system. Response of banks on regulators' demands for greater capital; Comparison of capital regulation between national banks and state-chartered banks; Quarterly change in primary book capital.

Mishra Ashwini Kumar & Sri Harsha (2015), "Analysing soundness in Indian Banking", Research journal of management sciences, volume 1(3), ISSN 2319-1171: The objective of this paper is to analyze the performance of 12 public and private sector banks over a period of eleven years (2000-2011) in the Indian banking sector. For this purpose, CAMEL approach has been used and it is established that private sector banks are at the top of the list, with their performances in terms of soundness being the best. Public sector banks like Union Bank and SBI have taken a backseat and display low economic soundness in comparison.

Dr. Mukund Sharma (2014), "Performance Evaluation of Indian Banking analysis", International Journal of Economic and Business Review, volume 2 Issue 3, ISSN 2347-1998: The purpose of the study was to understand the extent of relationship between banking financial position in Indian economy . Now a day banking sector is playing vital role in Indian economy. But some parameter is decided for to check different method. Camel is one of the most popular model of comparing the banks financial position .In this model we use different kind of ratio which is direct effect on bank outcome. We can take decision for trying to get best result of bank. Here we have to find out ratio and give the ranking through bank performance ratio for a period of 1995-2000.

RESEARCH METHODOLOGY

CAMEL is a ratio-based model used to evaluate the performance of banks with the help of different criteria, viz. Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity. The present study is a descriptive research study based on analytical research design.. The present study covers five banks Bank of India, bank of Baroda, Canara bank, Indian overseas bank and Punjab national bank. The data of the sample banks for a period of 2013-2018 have been collected from the published annual reports of the banks. Fifteen financial ratios have been used to assess the performance of banks.

OBJECTIVE OF THE STUDY

The main objective of the study is to analyze the financial position and performance of the State bank group in India using CAMEL model.

ANALYSIS OF COMPONENTS OF CAMEL FRAMEWORK
I.   Capital Adequacy

The first component in CAMELS is capital. Bank Managers look at capital as the main source of protection for depositors. A well-capitalized bank can absorb large losses without the depositors losing their money. To make a good bank, bank managers should generate plenty of bank's capital, high Capital Adequacy Ratio (CAR), and conservative dividend policy.

For the study, the following ratios have been used to measure capital adequacy:
- Capital Adequacy ratio
- Debt equity ratio
- Advance to asset ratio
- Government securities to total investment

The following is the analysis of the various ratios used to measure capital adequacy

Capital Adequacy						
Bank	CAR	Debt equity ratio	Advance to asset ratio	Government securities to total investment	Average	Rank
BOI	11.6	1.4	0.574	0.854	3.607	**3**
BOB	10.2	0.988	0.574	3.743	3.876	**5**
CANARA	12.6	0.976	0.59	0.731	3.724	**4**
IOB	11.4	1.255	0.616	0.667	3.484	**2**
PNB	10.8	1.304	0.626	0.786	3.379	**1**

From the above table, on the basis of group averages of four sub-parameters of capital adequacy Punjab national bank gets 1st and Indian overseas bank in 2nd, 3rd place goes to bank of India4th and5th place goes to canara bank and BOB.

II. Asset Quality

A second component in CAMELS is assets quality which is a major part of bank managers. Asset quality determines the healthiness of financial institutions against loss of value in the assets as asset impairment risks the solvency of the financial institutions. For the study, the following ratios have been used to measure asset quality:

- Net NPA to Total Investment
- Net NPA to Total Loan
- Total investment to Total asset
- Gross NPA to Total Loan
  The following is the analysis of the various ratios used to measure asset quality.

Asset Quality						
Bank	Net NPA to Total Investment	Net NPA to Total Loan	Gross NPA to Total Loan	Total Investment to Total Asset	Average	Rank
BOI	3	2	3	4	3	2
BOB	1	5	2	5	3.25	3
CANARA	2	1	1	2	1.5	1
IOB	5	4	5	1	3.75	5
PNB	4	3	4	3	3.5	4

From the above table, on the basis of group averages of four sub-parameters of debt equity ratio table it shows that canara bank performs well in debt equity and stands 1st.2nd place goes to bank of India 3rd place goes to bank of Baroda. From this it is clear that Punjab national bank and Indian overseas bank does not perform well.

III. Management quality

Management is the third component in CAMELS rating system. A good bank need experienced management, integrity, technical and managerial skills well spread, clear and logical business / sales strategy, size and market reputation, good training, good internal / external communication, and good customer care in their management performance to enhance good reputation in banking management system. For the study, the following ratios have been used to measure Management quality:

- Total advance to Deposit ratio
- Total income to No of employee
- Profit per employee ratio
- Total income to total asset ratio

The following is the analysis of the various ratios used to measure Management quality.

Management Efficiency

Bank	Total Advance to Deposits	Total Income to No Of Employee	Profit Per Employee	Total Income to Total Asset	Average	Rank
BOI	0.71	1.03	0.005	0.07	2.5	1
BOB	0.68	0.93	0.009	0.06	3.25	4
CANARA	0.70	0.87	-0.0077	0.08	3	3
IOB	0.69	0.80	-0.084	0.09	3.5	5
PNB	0.72	0.75	0.008	0.08	2.75	2

IV. Earning ability / Profitability Ratio

Earning is a component which indicates the profitability. High ROA and ROE, always profitable year after year, stable income stream, and few exceptional items are the indicators for high earnings acceptable by the banks. For the study, the following ratios have been used to measure Earning ability/ Profitability ratio:

- Return on Asset
- operating profit to total asset
- Interest Income to Total Income

The following is the analysis of the various ratios used to measure Earning ability/ Profitability ratio.

Profitability ratio					
Bank	**Interest Earned to Total Income**	**Return on Asset**	**Net Profit to Average Asset**	**Average**	**Rank**
BOI	0.890	-0.002	-0.017	2.3	2
BOB	0.886	0.004	0.002	1.6	1
CANARA	0.883	-0.002	-0.001	3	3
IOB	0.883	-0.009	-0.059	4.3	5
PNB	0.852	-0.001	-0.010	3.7	4

From the table the earning efficiency of bank of Baroda is high when compared to rest of four the 2nd place goes to bank of India and the 3rd position goes to canara bank the 4th and 5th position goes to Punjab national bank and Indian overseas bank. From the above Indian overseas bank's earning efficiency is lower.

V. Liquidity Ratio

Liquidity is the fifth component in CAMELS analysis system. Liquidity indicates the ability of a bank to quickly meet its obligation without a loss. Banks must have available liquid assets which can quickly be converted into cash, or they must be able to raise funds on very short notice to meet an obligation. For the study, the following ratios have been used to measure Liquidity ratio:

- liquid assets to assets
- Government securities to assets
- current ratio

The following is the analysis of the various ratios used to measure Liquidity ratio.

Liquidity ratio						
Bank	**Liquid Asset to Total Asset**	**Liquid Asset to Deposit**	**Government Securities to Total Asset**	**Loans to Deposits**	**Average**	**Rank**
BOI	0.140	0.191	0.180	0.757	2.5	2
BOB	0.190	0.222	0.291	0.721	2	1
CANARA	0.092	0.108	0.185	0.746	3.75	4
IOB	0.087	0.103	0.228	0.735	4	5

| PNB | 0.106 | 0.127 | 0.199 | 0.756 | 2.75 | 3 |

From the above table it is clearly inferred that bank of Baroda has higher liquidity which is followed by bank of India which stands 2nd the 3rd place goes to Punjab national bank and the 4th place is captured by canara bank and the low rank goes to Indian overseas bank with poor liquidity.

COMPOSITE RANKING (OVERALL PERFORMANCE)

TABLE 6: Composite Rating

BANK	C	A	M	E	L	AVERAGE	RANK
BOI	3.6	3	2.5	2.3	2.5	2.78	1
BOB	3.87	3.25	3.25	1.7	2	2.814	2
CANARA	3.72	1.5	3	3	3.7	2.984	3
IOB	3.48	3.75	3.5	4.3	4	3.806	5
PNB	3.79	3.5	2.75	3.7	2.75	3.298	4

Above composite ranking table shows that the over all performance of banks on capital adequacy, asset quality, management efficiency, earning efficiency and liquidity CAMEL parameters. It is inferred that Bank of India's over all performance is excellent and the bank got 1st position followed by bank of Baroda in second place and the 3rd position goes to canara bank and the Punjab national bank is positioned in 4th place and the lowest position 5th goes to Indian overseas bank due to its poor performance.

CONCLUSION

Economic development of any country is mainly influenced by the growth of the banking industry of that country. Today, modern banks are very useful for the utilization of the resources of the country. Banks play very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth. In this way they become very effective partners in the process of economic development. The banks are mobilizing the savings of the people for the investment purposes.

When the savings are encouraged and saving rate increases. If there would be no banks then a great portion of a capital of the country would remain idle. At present the Indian financial system consists of public, private, cooperative, development and foreign banks. Reserve Bank of India is the central controlling authority of all banks in India. The current study has been conducted to examine the economic sustainability of five nationalised banks in India using CAMEL model during the period 2013-18.

The main objectives of this research study are to understand the concept of performance management, appraisal, productivity, employee's behaviour, strategy for improving the

productivity and performance, impacts on banking performance and profitability. Further to find out the practices adopted, difficulties faced in implementation of performance management functions, productivity measurement and suggest ways for further improvement in performance and productivity of bank employees.

Management should ensure that important matters having significant bearing on the proper functioning and working of the banks such as mobilization of deposits targets, advance specially priority sector advance, liquid assets, investment, over dues and recoveries etc. It should be reviewed periodically in order to achieve better functioning. The banks should effectively made use the information and computer technology for giving a better service to the customers and to face the threats, pressures and competition of the foreign banks. The grievances of the customers should be solved as early as possible

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