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"THE STUDY ON INDIAN BANKING SYSTEM:PRIVATE BANKS VS PUBLIC BANKS"

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ABSTRACT

Banks form a fundamental component of the financial system and are also active players in financial markets. An efficient banking system capable of mobilizing the savings and channelling them to productive purposes are essential for the development of any economy. The objective of the study is to analyse and compare the overall financial performance of selected public and private sector banks in India. The study is based on secondary data that has been collected from annual reports of the respective banks, Reserve Bank of India website. This research study covers a period of five years i.e. from financial year 2016 2017 to 2020 2021. Ratio and graphs are used to analyse the data. Although there was increase in profitability for both sector banks the rate of growth is higher for private sector banks. Public sector banks are lagging in some financial parameters and they are facing some challenges also. It is concluded that Public sector banks must redefine their strategies by considering their strengths and weakness and the type of market they are operating.

Introduction

The banking system plays an important role in promoting economic growth not only by channelling savings into investments but also by improving allocative efficiency of resources. The recent empirical evidence, in fact, suggests that banking system contributes to economic growth more by improving the allocative efficiency of resources than by channelling of resources from savers to investors. An efficient banking system is now regarded as a necessary pre condition for growth.

The banking system of India consists of the central bank (Reserve Bank of India RBI), commercial banks, cooperative banks and development banks (development finance institutions). These institutions, which provide a meeting ground for the savers and the investors, form the core of India's financial sector. Through mobilization of resources and their better allocation, banks play an important role in the development process of underdeveloped countries.

Banking is defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to conduct economic activities such as making profit or simply covering operating expenses.

In other words, **Banking** is an industry that handles cash, credit, and other financial transactions. Banks provide a Safe place to Store extra cash and credit. They offer savings accounts, Certificates of Deposit, and checking accounts. Banks use these deposits to make loans. These loans include home mortgages, business loans, and car loans.

Features of Banking

- Deals with Money
- Provide loans
- Middle Man
- Deposits must be withdrawable
- Internet Services
- Commercial in nature

Nature of agent

What is Public Bank and Private Bank?

The private sector banks and the public sector banks are differentiated mainly on the basis of the persons who are holding its majority of the shares were in case of the private sector banks majority of shares are held by the private individuals and corporations whereas in case of the public sector banks, majority of shares are held by the government.

Private Banks:

Private sector banks are usually known for their highly competitive outlook and technological superiority. As a result, careers in private sector banking also tend to be more competitive where professionals are required to meet stiff targets and perform above par to ensure good career growth.

A risk reward component is also higher and remuneration could be better but job security may not be on par with publicly owned banks.

Public Sector Banks:

Public sector banks are known for their better organizational structure and greater penetration in the customer base. The work environment is also relatively less competitive as compared with privately owned banks and professionals often do not have to focus on meeting targets and being the best performer in a team.

There is typically greater stress on providing necessary training to their personnel in order to help update their knowledge and skills to be a better performer in the long run. Job security is much higher as compared to private sector banks and for some, this could be the prime attraction for building a long term career.

What is SEBI?

Securities and Exchange Board of India (SEBI) is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets. It monitors and regulates the securities market and protects the interests of the investors by enforcing certain rules and regulations.

SEBI was founded on April 12, 1992, under the SEBI Act, 1992. Headquartered in Mumbai, India, SEBI has regional offices in New Delhi, Chennai, Kolkata and Ahmedabad along with other local regional offices across prominent cities in India.

The objective of SEBI is to ensure that the Indian capital market works in a systematic manner and provide investors with a transparent environment for their investment. To put it simply, the primary reason for setting up SEBI was to prevent malpractices in the capital market of India and promote the development of the capital markets.

How does the Stock Exchange work?

The stock market works mainly in two sections: the primary market and the secondary market. The primary market is where the company issues shares by way of IPOs (Initial public offerings) a process by which the company raises capital. Institutional investors buy these shares from investment banks and the price of the share, once it goes public, is determined by the amount of shares being issued. The secondary market is where you buy shares of the company. It is the secondary market in which we do all of our trading in the stock market. In the secondary market, you as well as institutional investors can buy stocks of a company from the stock market.

When you place a buy order for a share, your stockbroker passes on your order to the stock market. Once seller and buyer are fixed, the exchange takes place. In today's times, all your orders are executed electronically, which takes just a few minutes. When you trade in a stock market, the prices of the shares change as the share prices are dependent on the perceived value. It's ultimately a classic case of demand and supply and its impacts. So, when you see the stock price of a company rise, it means someone or many investors are placing a buy order for that stock and shares of that particular company are in demand.

India's two main stock exchanges are the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). These two are among Asia's largest stock exchange surpassed only by the stock exchanges of Japan and China.

The Bombay Stock Exchange is one of Asia's oldest stock exchange, beginning operations on July , , as "The Native Share & Stock Brokers Association".

The National Stock Exchange is India's biggest stock exchange in terms of market capitalization. Its operation beginning in 1992, it was the first exchange to bring in fully automated trading to India.

NATIONAL STOCK EXCHANGE (NSE)

The NSE or National Stock Exchange is the leading stock exchange of India. It is the fourth largest in the world (based on equity trading volume). Based in Mumbai and established in 1992, it was the first stock exchange in India to offer a screen based system for trading.

The NSE was initially set up with an aim to usher in transparency to the Indian market system, and it has ended up delivering on its aim quite well. With the help of the government, the NSE successfully offers services such as trading, clearing as well as the settlement in debt and equities comprising domestic and international investors.

BOMBAY STOCK EXCHANGE (Bse)

The BSE or the Bombay Stock Exchange is a lot older than its cousin. It was Asia's first stock exchange. With a trading speed of 6 microseconds, the BSE is the fastest stock exchange in the world.

The BSE does have some interesting history. A man named Premchand Roychand founded the Native Share and Stock Brokers Association in the 19th century. In those times, it used to function in Dalal Street under a banyan tree where traders would gather together to buy and sell stocks. Gradually, the network expanded and the exchange was established by the name of Bombay Stock Exchange in 1875

Objectives of the Study

- To study the impact of Private Bank and Public Bank on Indian economy.
- To analyse the financial statement of Public Bank and Private Bank.
- To enhance the knowledge that how a banking industry work.
- To understand the concept and impact of Net Performing Asset (NPA).
- Past, Current and Future company status in Security Market.

Significance of the Study

The scope of the study is to analyse and compare the financial position and performance of public sector bank (SBI) and private sector bank (ICICI) in India. For the purpose of this study, SBI from public sector banks and ICICI bank from private sector banks have been selected as they have the largest market capitalization at present.

Review of Literature

- **Kwan and Eisenbeis (2017)** observed that Asset Quality is commonly used as a risk indicator for financial institutions, which also determines the reliability of capital ratios. Their study indicated that financial capitalization affects the operation of financial institution. More the capital, higher is the efficiency.

- **Prasuna (2019)** analysed the performance of State Bank of India and ICICI Bank using CAMEL approach and found that better service quality, innovative products and better bargains were beneficial because of the prevailing tough competition.

- **Bodla and Verma (2019)** assessed the performance of SBI and ICICI bank through the CAMEL model for the period 2012 17 and found out that although liquidity position of both the banks did not differ significantly, ICICI Bank has outperformed SBI in terms of assets quality, earnings ability and management efficiency.

- **Chaudhury and Singh (2020)** analysed the impact of the financial reforms on the soundness of Indian Banking through its impact on the asset quality. The study identified the key players as risk management, NPA levels, effective cost management and financial inclusion.

- **Gupta (2020)** evaluated the performance of all 26 public sector banks in India using CAMEL approach for a five year period from 2011 to 2016 and concluded that there is a significant difference in performance of all the public sector banks assessed by CAMEL model.

Research Methodology

What is a research methodology?

When you're working on your first piece of academic research, there are many different things to focus on and it can be overwhelming to stay on top of everything. This is especially true of budding or inexperienced researchers.

If you've never put together a research proposal before or find yourself in a position where you need to explain your research methodology decisions, there are a few things you need to be aware of.

Once you understand the in's and out's, handling academic research in the future will be less intimidating. We break down the basics below:

The basics of a research methodology

A research methodology encompasses the way in which you intend to carry out your research. This includes how you plan to tackle things like collection methods, statistical analysis, participant observations, and more.

You can think of your research methodology as being a formula. One part will be how you plan on putting your research into practice and another will be why you feel this is the best way to approach it. Your research methodology is ultimately a methodological and systematic plan to resolve your research problem.

In short, you are explaining how you will take your idea and turn it into a study, which in turn will produce valid and reliable results that are in accordance with the aims and objectives of your research. This is true whether your paper plans to make use of qualitative methods or quantitative methods.

In the present study, an attempt has been made to measure, evaluate and compare the financial performance of SBI and ICICI Bank which one related to the public sector and private sector respectively.

The study is based on secondary data that has been collected from annual reports of

the respective banks, magazines, journals, documents and other published information. The study covers the period of 5 years i.e., from year 2016 17 to year 2020 21. The Financial Analysis wasapplied toanalyse and compare the trends in banking business and financial performance.

1. Research Design

Descriptive research is used in this study because it will ensure the minimization of bias and maximization of reliability of data collected. The researcher had to use fact and information already available through financial statements of earlier years and analyse these to make critical evaluation of the available material.

Hence by making the type of the research conducted to be both Descriptive and Analytical in nature. From the study, the type of data to be collected and the procedure to be used for this purpose were decided.

2. Data Collection/Sample Size

The required data for the study are basically secondary in nature and the data are collected from the audited reports of the company.

a) Secondary Data:

Secondary data are those data, Secondary data is the data that have been already collected by and readily available from other sources.In this project, Websites and Books has been used for gathering required information.

b) Sources of Data:

The sources of data are from the annual reports of the company from the year 2016 2017 to 2020 21.

Statistical Tools Used

- **Technical reports** summarizing completed or ongoing research from educational or public institutions (colleges or government).
- **Scientific journals** that outline research methodologies and data analysis by experts in fields like the sciences, medicine, etc.
- **Literature reviews** of research articles, books, and reports, for a given area of study (once again, carried out by experts in the field).
- **Trade/industry publications**, e.g. articles and data shared in trade publications, covering topics relating to specific industry sectors, such as tech or manufacturing.
- **Online resources:** Repositories, databases, and other reference libraries with public or paid access to secondary data sources.

Data Analysis and Interpretation

Data analysis and interpretation is the process of assigning meaning to the collected information and determining the conclusions, significance, and implications of the findings. The steps involved in data analysis are a function of the type of information collected, however, returning to the purpose of the assessment and the assessment questions will provide a structure for the organization of the data and a focus for the analysis.

Data interpretation refers to the implementation of processes through which data is reviewed for the purpose of arriving at an informed conclusion. The interpretation of data assigns a meaning to the information analysed and determines its signification and implications.

The importance of data interpretation is evident and this is why it needs to be done properly. Data is very likely to arrive from multiple sources and has a tendency to enter the analysis process with haphazard ordering. Data analysis tends to be extremely subjective. That is to say, the nature and goal of interpretation will vary from business to business, likely correlating to the type of data being analysed. While there are several different types of processes that are implemented based on individual data nature, the two broadest and most common categories are “quantitative analysis” and “qualitative analysis”.

Quantitative data

Quantitative data is statistical and is usually structured in nature meaning it’s more rigid and defined. This kind of data is measured using values and numbers, which makes it a more suitable candidate for data analysis.

Qualitative data can be created through

- Experiments

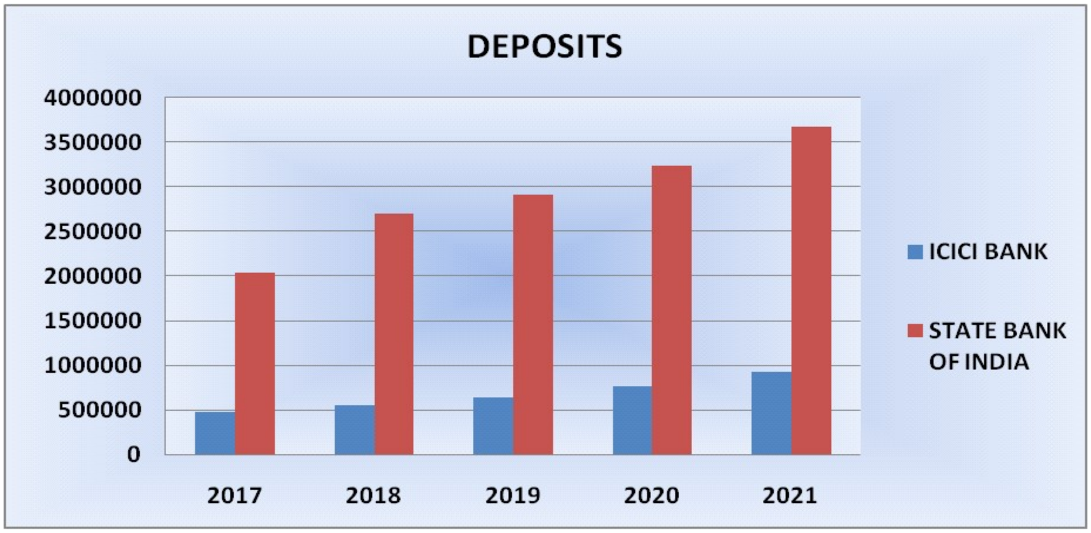
- Surveys
- Metrics
- Tests

Qualitative data

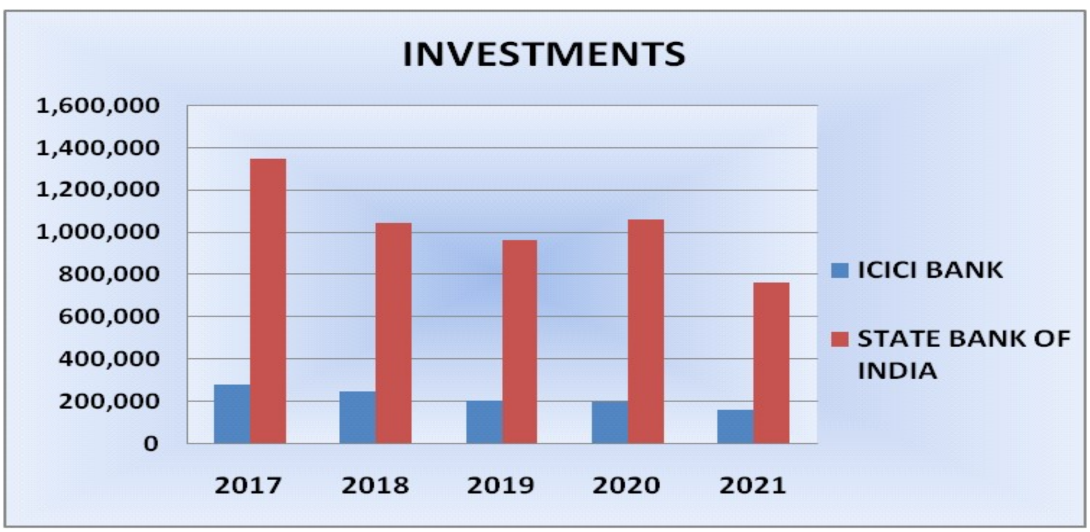
Qualitative data is non statistical and is usually unstructured or semi structured in nature. This data isn't necessarily measured using hard numbers that are used to develop graphs and charts. Instead, it's categorized as supported properties, attributes, labels, and other identifiers.

Qualitative data can be created through

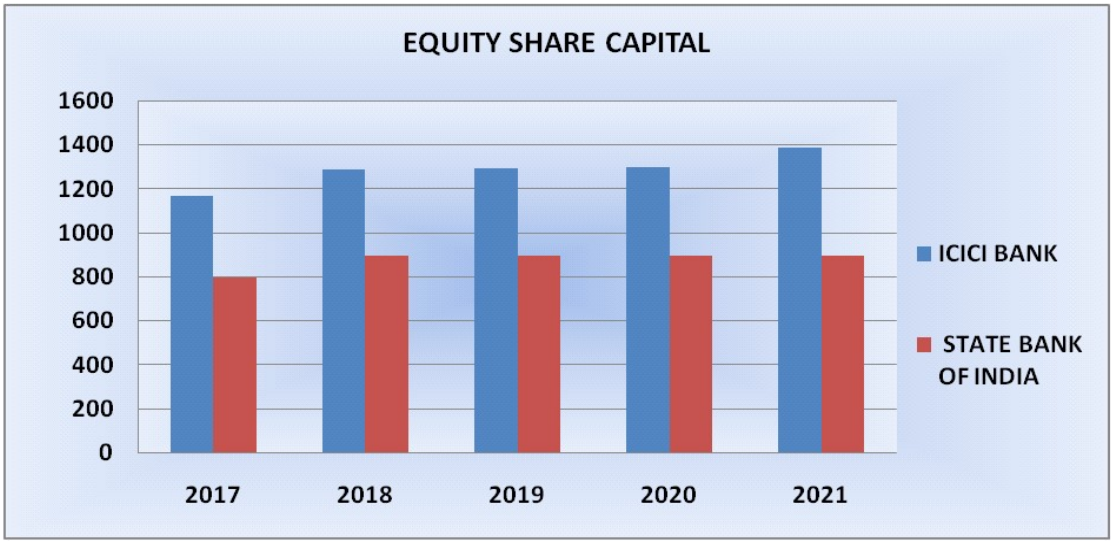
- Symbols and Images
- Video and audio recordings
- Texts and documents
- Observations and notes



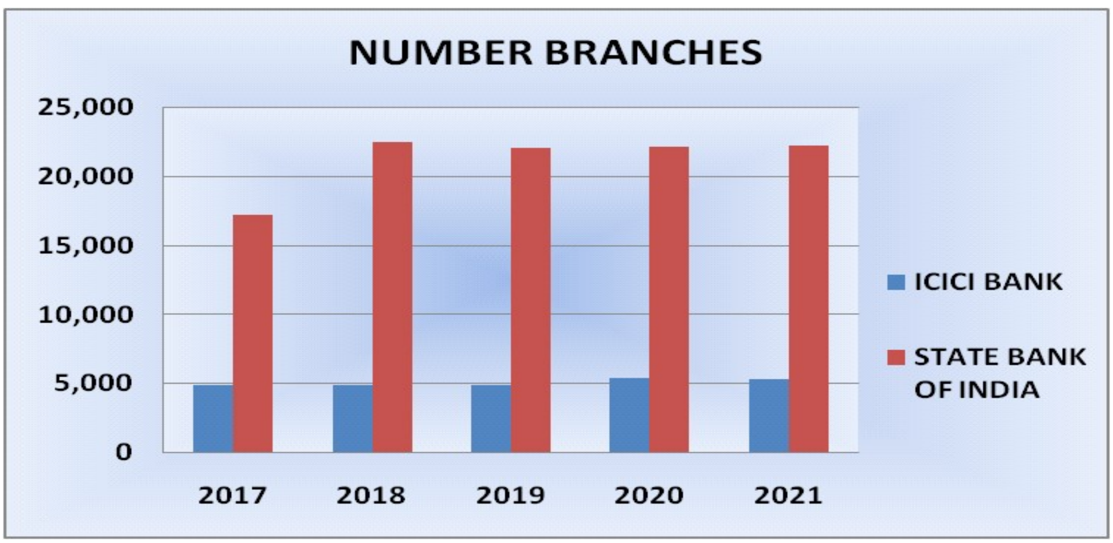
The above graph represents the deposits of State Bank of India and ICICI Bank from the year 2016 2021.Deposits is a current liability on its balance sheet as bank pays interest to the depositors. If a bank doesn't have enough deposits than it will slower loan growth or the bank might have to take on debt to meet loan demand which would be far more costly. Here, the total amount of deposits of State Bank of India is 14,585,379 crore and deposits of ICICI Bank is 3,407,425 crore. The deposits of State Bank of India is 328% more than ICICI Bank.



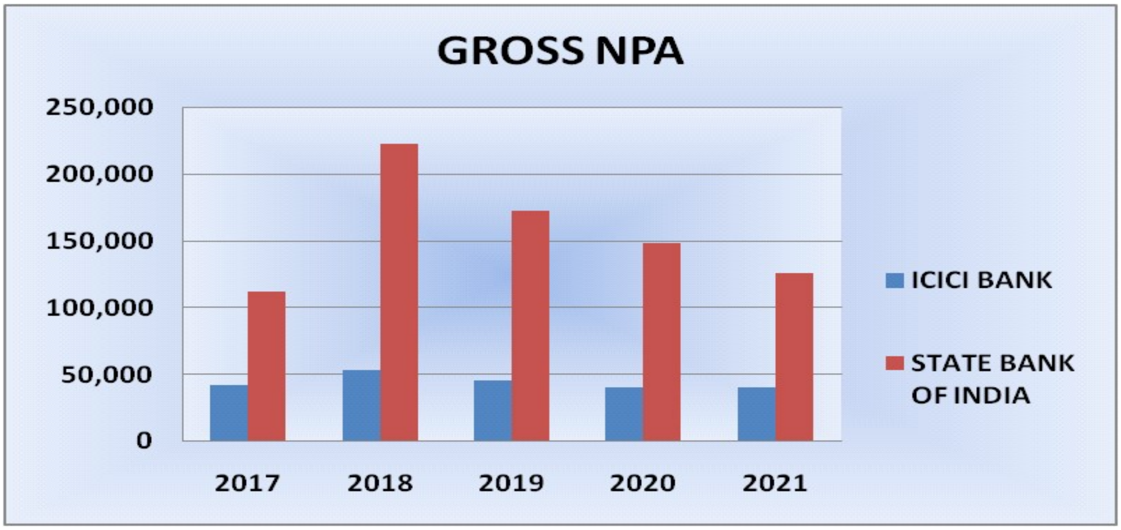
The above graph represents the equity share capital of State Bank of India and ICICI Bank from the year 2016 2021.The investment is the source of earning of profit, return and revenue for the company.



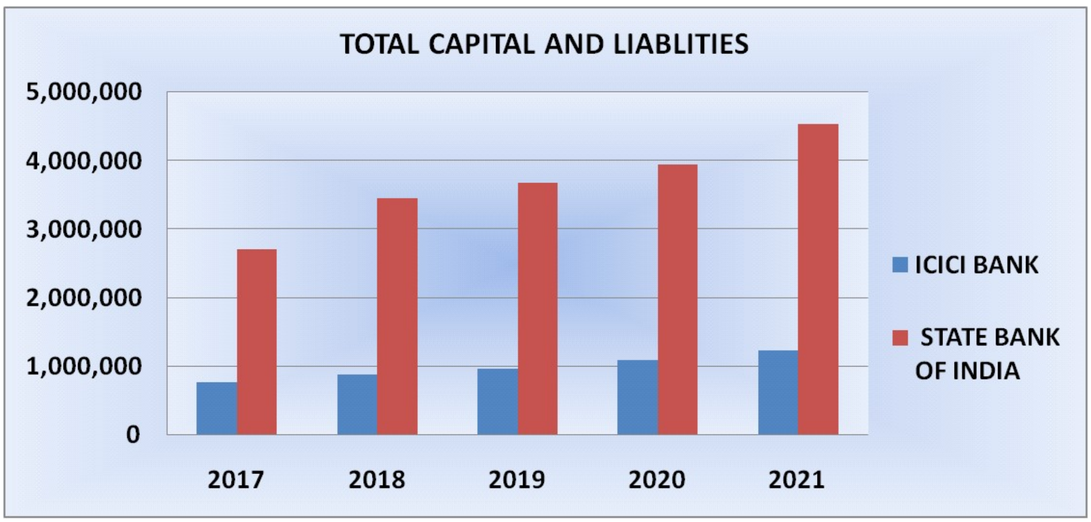
The above graph represents the equity share capital of State Bank of India and ICICI Bank from the year 2016 2021. The equity share capital represents the money contributed by owners and invstors towards the capital of the company.Equity share capital is also known as 'share capital, or simply equity'. The total amount of equity of State bank of India is 4,367 crore and equity of ICICI Bank is 6,419 crore.



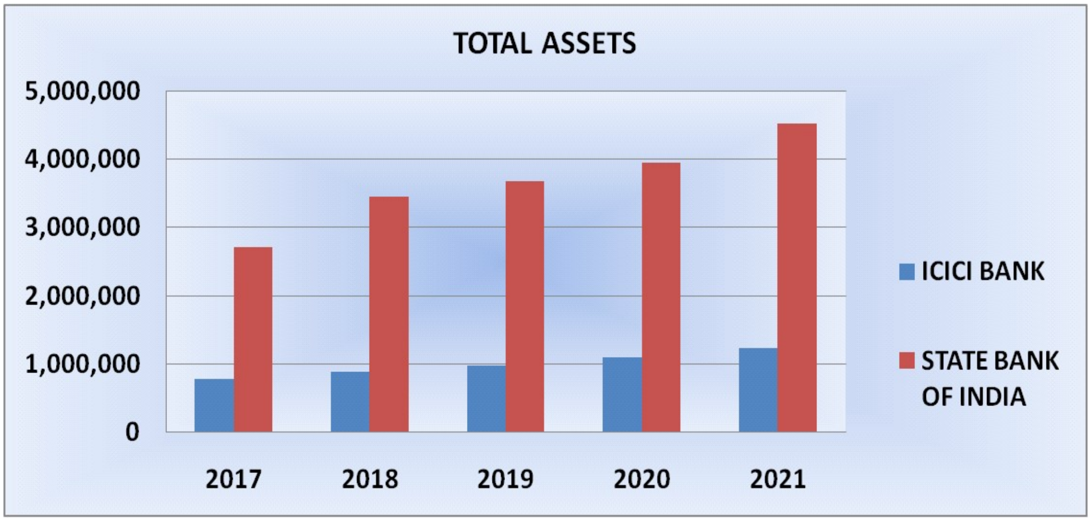
The above graph represents the equity share capital of State Bank of India and ICICI Bank from the year 2016 2021. The total number of branches of State Bank of India have22,219 and ICICI Bank have 5,275.The State Bank of India have 320% more branches than ICICI Bank and have a better reach in both rural and urban area.



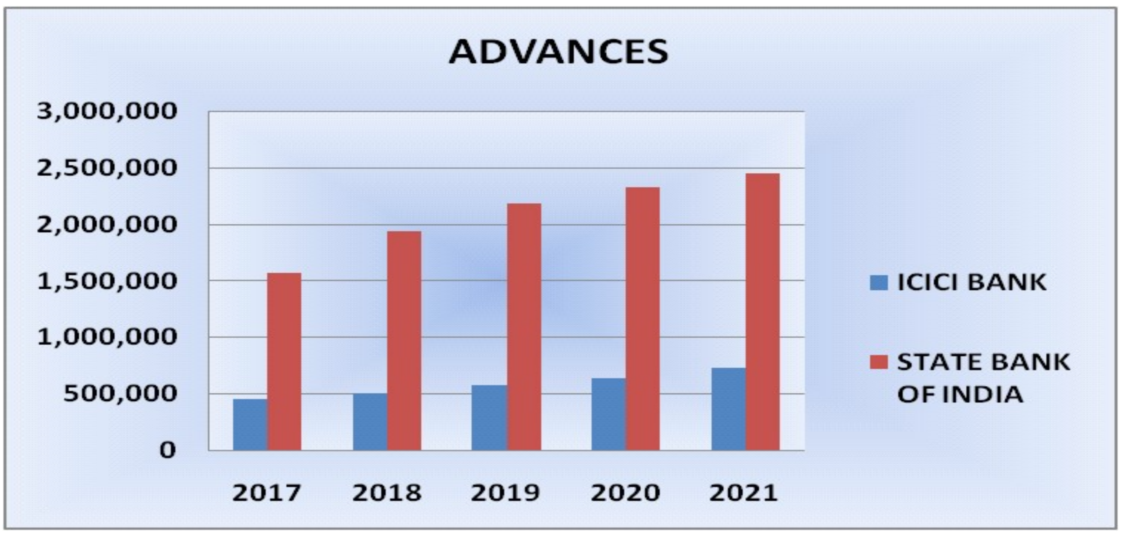
As shown in the diagram the total amount of NPA from the year 2016 2021,the total amount of NPA of State Bank of India is 784,005 crore and NPA of ICICI Bank is 222,746 crore.The NPA of State Bank of India is 250% more than of ICICI Bank.That means ICICI bank has performed better than State Bank of India.



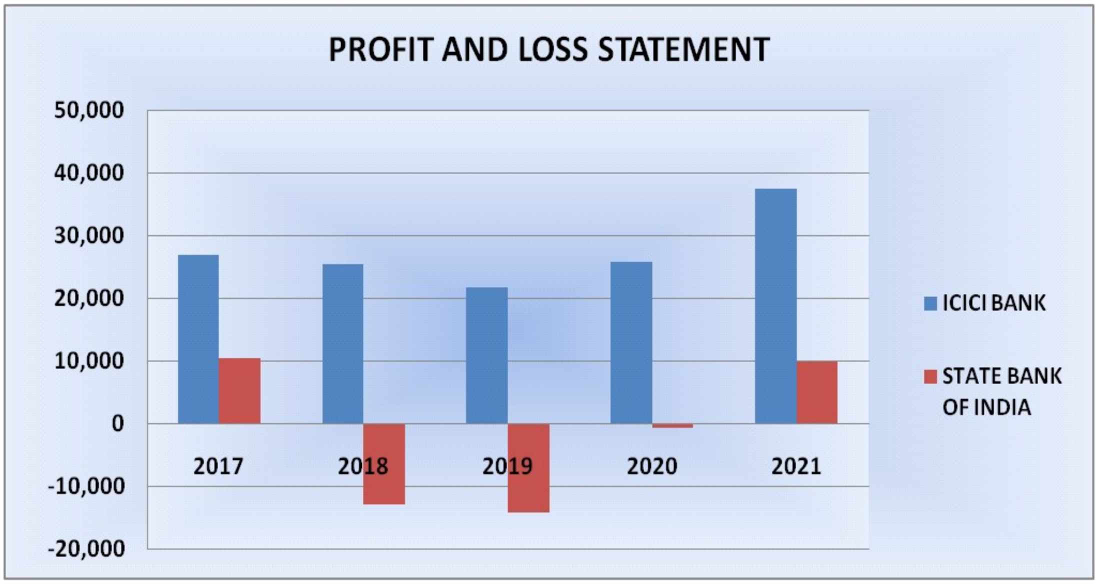
The above graph represents the total capital and liabilities of State Bank of India and ICICI Bank from the year 2016 2021.The total amount of capital and liabilities of SBI is 18,3127,454 crore and 4,944,236 crore of ICICI Bank.



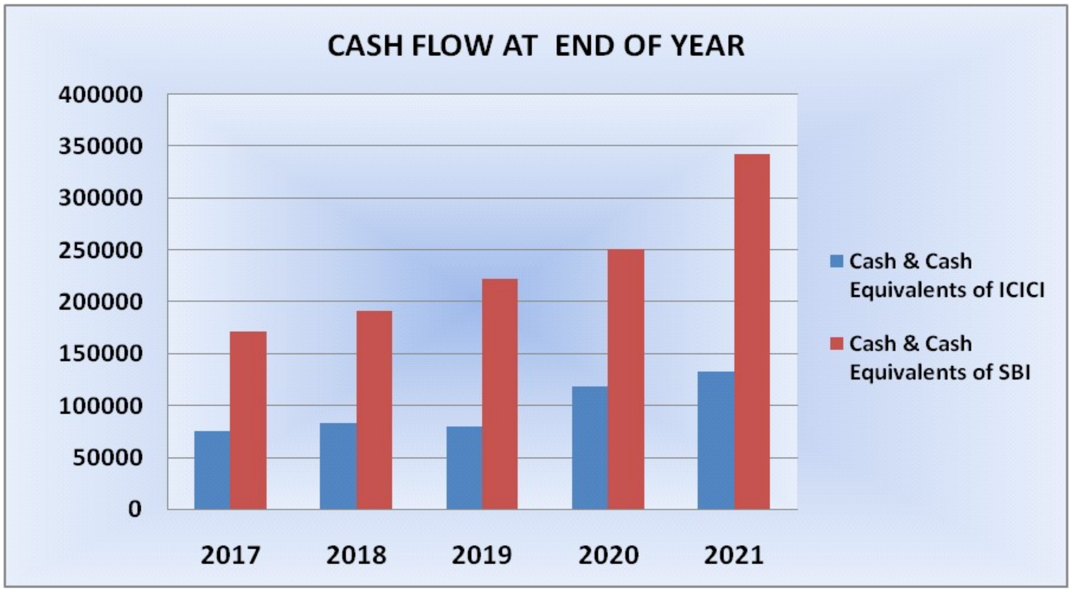
The above graph represents the total assets of State Bank of India and ICICI Bank from the year 2016 2021.The total amount of assets of SBI is 18,3127,454 crore and 4,944,236 crore of ICICI Bank. Which shows that SBI is 270% more than ICICI bank and have more assets.



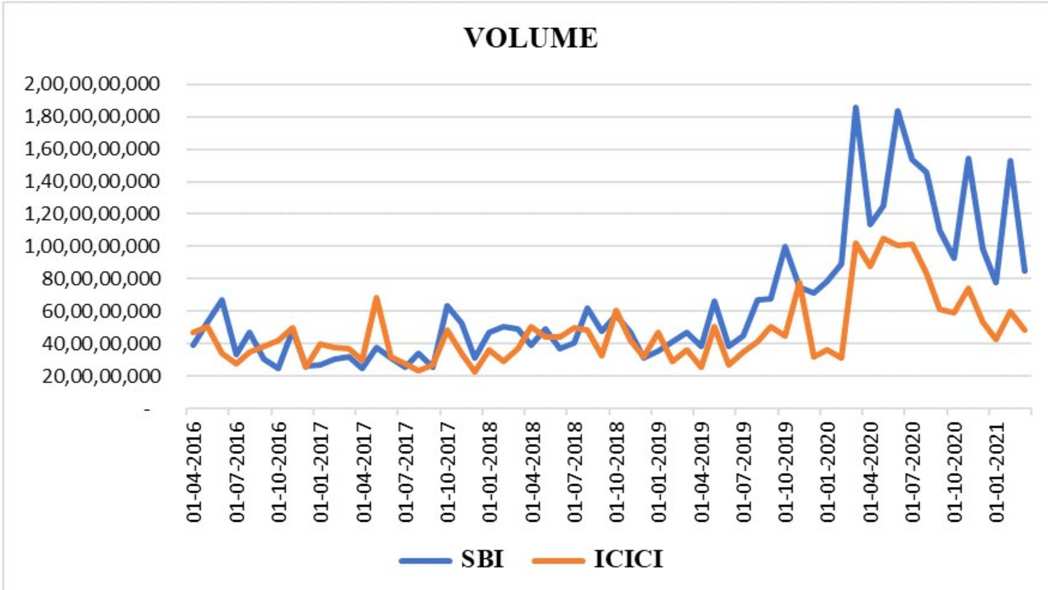
The above graph represents the advances of State Bank of India and ICICI Bank from the year 2016 2021.The advances means that funds provided by bank to an entity for a specific purpose, to be repayable after short duration.The total amount of advances of State Bank of India is 10,466,623 crore and advances of ICICI Bank is 2,942,293 crore.The advances of State Bank of India is 255% more than of ICICI Bank.That means State Bank of India has performed better than ICICI bank.



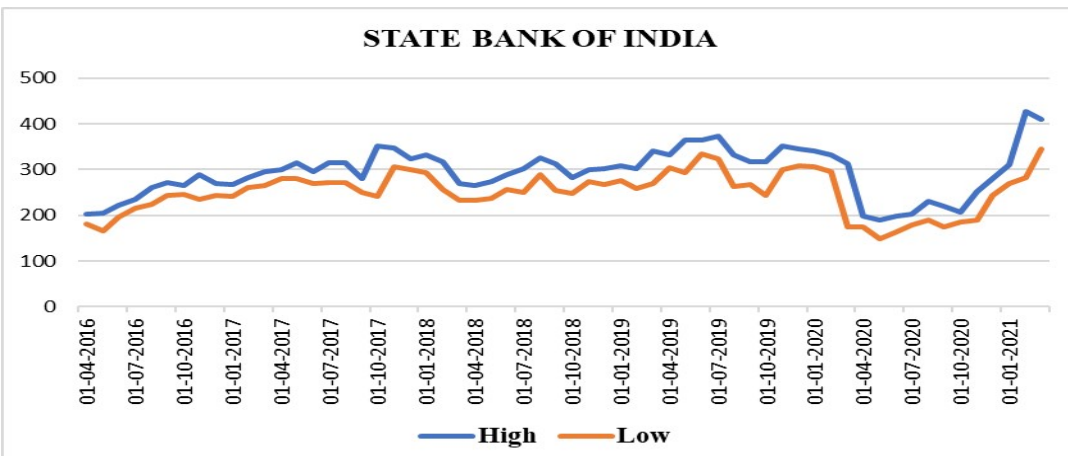
The above graph represents the profit and loss statement of State Bank of India and ICICI Bank from the year 2016 2021.The profit and loss statement is a financial statement that summarizes the revenues, costs and expenses incurred during the year. The total amount of profit and loss of ICICI Bank is 137,645 crore and profit and loss of State Bank of India is 7,513 crore. This states that ICICI bank has performed better than State Bank of India.

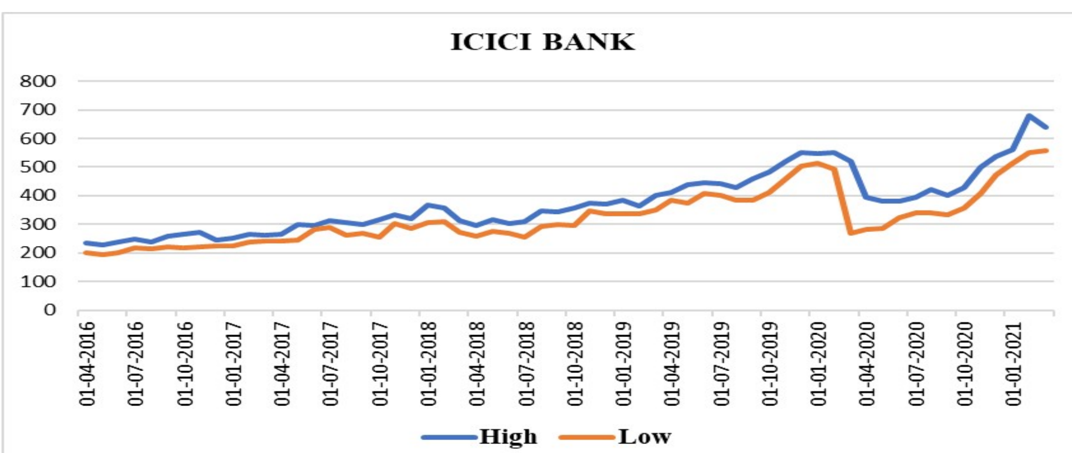


The above graph represents cash flow of State Bank of India and ICICI Bank from the year 2016 2021.The cash flow statement is a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities and investments during the year. The total amount of cash flow of State Bank of India is 1,180,496 crore and cash flow of ICICI Bank is 492,463 crore. The cash flow of State Bank of India is 140% more than of ICICI Bank. This states that State Bank of India has performed better than ICICI Bank.

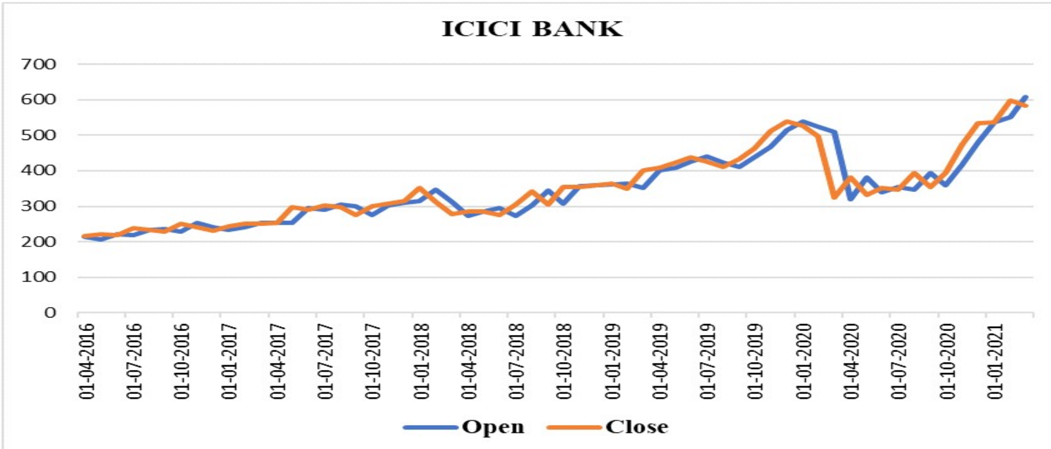


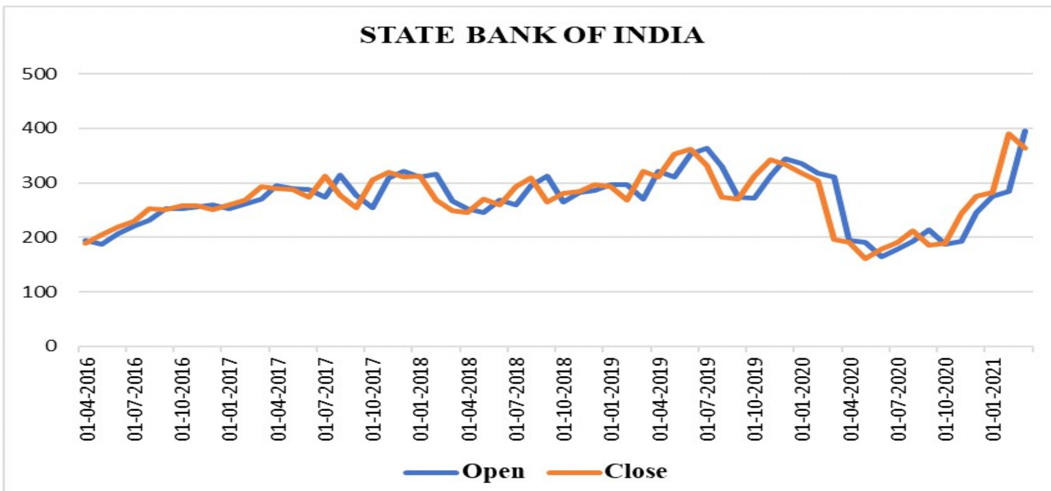
The above figure shows the volume of share in State Bank of India and ICICI bank. In above figure volume of share at initial phase (2016 17) ICICI bank was performing better than SBI but at end phase (2020 21) is performing better. The SBI is 22% approx. more than ICICI bank.





The above figure shows high and low share price of State Bank of India and ICICI bank where at the biggening of financial year 2016 17 the share price(high) of SBI is Rs. 203 and share price(high) in financial year 2020 21 is Rs. 409 which shows the increase of Rs. 206 i.e.,102%. Where as at the biggening of financial year 2016 17 the share price(high) of ICICI is Rs. 234 and share price(high) in financial year 2020 21 is Rs. 638 which shows the increase of Rs. 404 i.e., 173%. Thus from figure its clear that ICICI bank has more share price value than SBI and more profitable from the point of investor.





The above figure shows open and close share price of State Bank of India and ICICI bank where at the biggening of financial year 2016 17 the share price(close) of SBI is Rs. 189 and share price(close) in financial year 2020 21 is Rs. 365 which shows the increase of Rs. 176 i.e.,93%. Where as at the biggening of financial year 2016 17 the share price(close) of ICICI is Rs. 215 and share price(close) in financial year 2020 21 is Rs. 582 which shows the increase of Rs. 367 i.e., 171 %. Thus from figure its clear that ICICI bank has more share price value than SBI and more profitable from the point of investor.

Findings

The starring role of financial reportage in banks is of vital importance for the efficiency of banks operations. Objective: In that regard, we have assessed the financial status of the SBI bank and ICICI bank intended for an accounting period of seven years 2016 17 to 2020 21. Method: We have used financial ratio analysis and graphs to assess the financial status of the SBI bank and ICICI bank. Result: This study reveals that there is significant increase in the credit deposit ratio, the other income to total income, net profit margin, the total assets turnover ratio, the dividend payout ratio, the debt equity ratio and significant decrease in the interest income to total income in ICICI bank as compare with SBI bank. We observe significant difference in growth in the net profit, the total income, the total expenditure, the total advance and the total deposit among SBI and ICICI Bank. Conclusion: Based on the findings, during this operating period, the study reveals that the performance among NPA, equity share capital, share price value and profitable ratio ICICI bank has a better financial soundness as compare with SBI bank.

Managerial Implications of the Study

The Banking system is a very important part of the economy of a country. It plays the role of an intermediary between the people who save and the people who spend. Other than traditional parameters, customer satisfaction does play an important role in the financial performance of a bank. Two commercial banks i.e State bank of India and ICICI Bank have been selected for the study.

The data is collected using a structured questionnaire. Descriptive statistics like standard deviation, mean and percentage are used. MANOVA is used to assess the service quality and customer satisfaction of the chosen banks. The hypotheses have been framed on the dimensions of Reliability, Responsiveness and Assurance. The study finds and concludes that the customers of ICICI Bank are more satisfied than that of State Bank of India in terms of the chosen.

Social Implications of the Study

The concept of donations, helping others has existed since the inception of mankind on earth. There had been instances across every part of the world that the richer have come forward to help the underprivileged, to provide basic requirements, to help in developmental activities, building of hospitals, schools and may such activities.

There was no such concept as Social Responsibility, during those days the developmental activities were usually carried out only by the government and the richer section of the society. In the banking sector, several international initiatives are there which are present to ensure adoption of CSR practices in normal business operations and to which India is no exception, several norms, rules and guidelines were passed thereafter.

The present study is intended to highlight the various guiding principles for banks in India with special reference to CSR and at the same time the areas focused by banks for implementation of CSR activities. The study is confined to one public sector bank, SBI and one private sector bank, ICICI and comparison of CSR activities of these two banks.

Conclusion

- State Bank of India (SBI) and ICICI Bank are the two largest banks in India in public and private sectors
- To compare the financial performance of the banks, various ratios and graphs have been used to measure the banks' profitability, solvency position, and management efficiency. According to the analysis, both the banks are maintaining the required standards and running profitably.
- The comparison of the performance of SBI and ICICI Bank indicates that are significant difference between performance of SBI and ICICI Bank in terms of Deposits, Advances, Investments, Net Profit, and Total Assets.
- SBI comes with the new services and attract to the customers. By analysis of the financial performance of SBI and ICICI bank we can say that the ICICI Bank is financially sound as compare to the SBI bank. ICICI Bank have more profitability ratio because it enters into the industry as well as commercial market also and regularly it improving their service quality level.
- The ICICI bank and State bank of India both have trustworthy customer so they both are competitor to each other.
- On the part of NPA, again SBI has more bad debts as compare to ICICI the reason can be that SBI has more customers and branches both rural and urban area so the loan granted by them is more than ICICI bank so it shows more NPA.
- The data also reveals that SBI has circulated more advances to the customers as compare to ICICI, this also one reason which increases the bad debts of SBI.
- From the point of investor perspective ICICI bank is giving more return than of SBI the reason can be the policies and services given by ICICI is more effective than SBI.

Future scope of the study

- The main purpose of this study is to make the readers aware of the findings emerging from the study, and its shortcomings. The shortcomings or the research gap guide future researchers on a domain that they must consider to save time and avoid repetitive outcomes.
- This study also gives guidelines to researchers on other dimensions and critical estimation from which the study can be explored.
- The study is based on current data of public and private banks i.e., State Bank of India and ICICI Bank so it will be easy for the upcoming researchers to analyse it and explore more further regarding the study.
- As the study is based on quantitative data so it will be easy for the researcher to identify the effect.
- The study will help the reader and researcher to compare the financial position and performance of public sector bank (SBI) and private sector bank (ICICI) in India.

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