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Research Paper

Performance Of Public Sector Bank & Private Sector Bank In The Current Scenario For The Need Of Privatisation (In The Context Of India) (2008-2020)

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Abstract
Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry. The main idea of this article is to make an evaluation of the need and efficiency of privatization of public sector bank by evaluating comparison between private and public sector banks. The reasons behind this are the downward performance and rapid increase in NPA of public sector banks and improving performance of private sector banks. So by selling the stake held by govt. it aims at generate revenue and also better functioning of those banks by private investors. For analyzing need of privatization of bank many factors are taken for comparing both banks concluding that why privatization needed.
Though it comes with mixed opinion. Mainly some committee members opposed this says that privatization is not the solution for NPA management, also some opposed for fear of job losses after privatization. But answering all this NITI Aayog may takes steps regarding safety of employees and also management. So main motto of privatization is to manage the huge asset which is in NPAs form which not making money.
Keyword: privatization, NPA, PSBs, private sector bank, NITI AAYOG

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I. Introduction:

The Indian banking system can be broadly categorized into nationalized (government owned), private banks and specialized banking institutions. For an emerging economy like India, it is vital to have sound financial intermediaries and commercial banking sector, which effectively mops up the saving available with the public and disburses credit to the productive sector in an efficient manner helping India to progress on the path of steady growth and prosperity. Recognizing this, banking sector reforms were initiated in India along with the economic reform.

Talking about banking reform, privatization is one of the major topics coming under discussion now-a-days. Though it comes with a mixed opinion. On the one hand, it considered as necessary for better functioning of public sector undertakings, and on the other hand, puts the PSUs under lots of financial shrink needing merger and closer of public sector banks.

As the business of government is not to be a business or not goods attract business, as work of government is not profit oriented. Like in AIR INDIA huge sink of tax smuggling happening continuously making losses to govt. so the reason is all type of intervention and non-commercial decision making which hurts the organizations social objectives ,employment etc. so it is much better to privatized banks which means to no interference in the commercial decision making. And also, because of the growth path we followed, government has huge assets which are underutilized and not making money that be in the form of non-performing assets NPAs. So this privatization would be done in a better manner, so that it released real values of these assets. And also it is the foremost reason for privatization to doing this actively under guidance of experts and committees.

Privatization means to no interference, so that private investors are more confident. Also government has small share in privatized bank, so it has lesser interference in decision making.

When bank employees went on a two-day strike last month, the Finance Minister had said that the decision to privatize banks was a well-thought one and the government wanted the banks to get more equity and to meet the aspirations of the country. She further said that the government would ensure protection of the rights and perquisites of the PSB staff, and that all earlier commitments made would be honored. So, the government is determined to go ahead.

Later on it was reported that the NITI Aayog kept public sector banks that were part of the last round of consolidation and State Bank of India out of the privatization plan. This means that six banks — Bank of Maharashtra, Indian Overseas Bank, Central Bank of India, Bank of India, Punjab and Sind Bank and UCO Bank — can be eligible for privatization.

As BOM and CBI are west focused banks, where public sector banks are already stronger, allowing for more private sector entry.

In Punjab & sind bank, govt. has infused Rs.5500 cr. Capital. So it takes a couple of time to be privatized.Bank Of India is a very large bank that creates problem for finding buyers at this time. With UCO Bank, govt. may like to have some presence of a state run bank on the eastern part. So we have remains three banks that are, Indian overseas bank, central bank of India and bank of Maharastra among of which 2 banks will privatized.The government has budgeted Rs 1.75 lakh crore from stake sale in public sector companies and financial institutions. The target, however, may turn out to be ambitious given the global and domestic economic scenario amid the second wave of Covid-19.As the government has not announced the names of the two banks that are to be privatized, there is speculation over the possible candidates.The decision to select the banks for privatization can be based on the following criteria.

II. History of privatization of banks:

Privatization has become a popular measure for solving the organizational problems of governments by reducing the role of the state and encouraging the growth of the private sector enterprises. However, privatization takes a number of forms and has been approached in various ways during the move away from government control to other forms of ownership in developing countries.In 1969, on 19th July, an event of great political significance took place when the then Government, headed by Smt. Indira Gandhi, nationalized 14 major Indian banks. On 15th April, 1980, six more Private Banks were nationalized.Beginning 2nd October, 1975, 196 Regional Rural Banks have been established in the country. After 31 years, the Government of India introduced a Bill in the Parliament on 13th December, 2000 providing for reduction in Government equity in the Public Sector Banks from existing "not less than 51%" to 33%.

This intent was no doubt in continuation of the process of liberalisation of the banking industry that began in the early 1990s. This liberalization was followed by the initiation of fundamental reforms in the banking sector in 1992. The banking sector reform was based on the recommendation of the Narasimham committee-I (1991), and Narasimham committee-(1998). Both committee advocate a more market oriented banking system, which would operate in an environment of prudential regulation and transparent accounting. Privatisation is a political process and has important economic and social implications that not only affect enterprise performance, but also social welfare and stability.The social effects have to be considered in any impact assessment, particularly those related to employment, social safety net measures, social privatization that results from the extension of share ownership to small investors and employees, and the role of public utilities and services in economic and social development.

In the course of banking liberalisation, Reserve Bank has so far granted licenses to 9 private sector banks up to March 2003. This apart, many foreign banks are allowed to set up branches / offices in India. Simultaneously banks were encouraged to go for mergers as in the case with Times Bank Ltd with HDFC bank and Bank of Madura Ltd with ICICI Bank Ltd.The new privatization policy also led to a large-scale reduction in the staff strength PSU banks.

B. Need of Privatization of bank: Why, How and When;

7.1: Why To Privatized Public Sector Banks: It is true that we have a large and often inefficient government owned banking sector. It is also true that the efficiency of these banks is partly hampered by the government ownership. Think of the many schemes like Jan Dhan and MUDRA that mostly public sector banks have executed.

Recapitalise, Reform and then privatise*:* Despite trying to maintain a stable stand amidst the strong current of the Covid-19 pandemic, the banking industry, particularly the PSBs are highly vulnerable to monetary and economic risks. Having private ownership of banks will bring changes in structuring incentives and accountability. This will give public banks the much needed push towards formulating more effective supervision and regulation, bringing into picture, a sense of market discipline.

So, is the privatization driven by the desire to reduce government influence on banking? Or is it simply driven by the need to reduce the proportion of government resources going towards banking. There are two main objectives regarding privatization. The government has to pick banks which have a meaningful share of the banking business. For instance, purely hypothetically, in that scenario, it would make sense to privatise a bank the size of a Punjab National Bank, Bank of Baroda or Bank of India. That would meaningfully bring down the share of government in banking.On the other hand, the objective is to reduce the drain of government resources on account of recapitalisation, and then the government's strategy has to be the reverse. It should pick the smallest and weakest lenders which need the most government support.

7.2: How To Privatized Bank: As part of the Budget speech, the Finance Minister had announced that the government budgeted ₹1.75-lakh crore from stake sale in public sector companies and financial institutions and this includes two PSU banks. The Chief Economic Adviser has said that the IPO of LIC of India may garner ₹1-lakh crore and the BPCL privatization may bring in ₹75,000-80,000 crore.

Though the name of the banks to be privatised have not been revealed, the two banks may be from the recommendation some months ago by the NITI Aayog for privatization of three PSBs — Bank of Maharashtra, Indian Overseas Bank, and Punjab and Sind Bank.

The government may sell the banks to an existing private bank by calling for bids. In such a scenario, the offer may be better for banks with branches which can be rationalised after merger. This may provide more business to the acquirer bank with fewer branches. The staff strength can also be a criteria that may decide the bidding price as the new entity has to take over the staff also with all the existing service conditions.

7.3.: When To Be Privatized A Bank:

Finance Minister Nirmala Sitharaman while presenting the budget for 2021-22 announced that the government would privatise IDBI and two other public sector banks in the current financial year. The government further clarified that three to four banks would be continued in the public sector while all others will be privatised. The government's justification is that for the last seven years it has infused around five lakh crore capital in public sector banks in order to comply with the regulatory requirements on capital and now budgetary constraints did not permit the government to do so. It also says that this is not affordable since despite repetitive infusion of capital the same is getting eroded due to continued losses.It is true, but the government's contention is that those banks are creators of the crisis.According to RBI reports, banks lent 55% of total credit to the big business of which 80% has become Non-Performing Assets (NPA).Thus, even though banks are in operative profit, banks ultimately had to book the net loss due to huge provisions on account of NPA. In March 2021, the operative profit of the banks together was Rs. 1.75 lakh crore but since had to provide for NPA amounting to Rs. 2 lakh crore, it ended up with a net loss of Rs. 25,000 crore. It is clear that the main culprit in spoiling the banking is big business and now in the process of privatization, the government wants them to be the owners of the bank

Comparing financial performance of public and private sector banks

In terms of financial performance, PSU banks lag behind. When comparing most of the parameters like non-performing assets or NPA and net interest margins, private sector banks tend to be much better placed. For example, some of the private sector banks like HDFC Bank and IndusInd Bank have very low level of non-performing assets, as compared to the public sector or government owned banks. Some of the banks like Bank of Baroda from the government or public sector have reported record losses.

Losses from the steel sector has aggravated the non-performing assets of the public sector banks in India. Share prices of these banks is also on a higher side. On NPA front, to combat the issue of ballooning NPAs in the public sector banks, an ordinance to amend the Banking Regulation Act has been cleared which empowers RBI with more powers such that now banks are directed to take prompt action against bad debts. Another important factor is that in terms of capital adequacy as well, public sector banks are lagging behind, their private sector banking peers. Only recently the government of India decided to infuse fresh capital in some of the government owned banks such that they are solvent and at the same time are fully compliant with Basel III, global capital adequacy norms.

The recapitalisation of the banks shall be done under the Center's exclusive Indradhanush 2.0 scheme. An infusion to the tune of Rs. 10,000 crore is earmarked for the sector in the F.Y 2017-18 and 2018-19. It is hoped that there would be some recovery in the losses and the public sector banks would be able to compete with the private sector banks in India.

Public sector banks offer lesser opportunities but job prospects are bright here with job security as well as pension benefits that are gained post-retirement. Excluding pension benefits, private sector banks do offer other retirement benefits including gratuity.

A. DATA ANALYSIS AND HYPOTHESIS TESTING

After analyzing the concept and need of privatization of banks theoretically, the concept will be described in data form, through the comparative type of research methodology as follows. The factors through which private sector bank's performance compare with the public sector banks is as below;

I. GROSS NON-PERFORMING ASSET: The foremost reason for the urgent need of privatization is the increasing NPAs. **India has the second highest ratio of NPAs among the major economies of the world**..

Nonperforming assets (NPAs) are recorded on a bank's balance sheet after a prolonged period of non-payment by the borrower. NPAs place financial burden on the lender; a significant number of NPAs over a period of time may indicate to regulators that the financial health of the bank is in jeopardy.

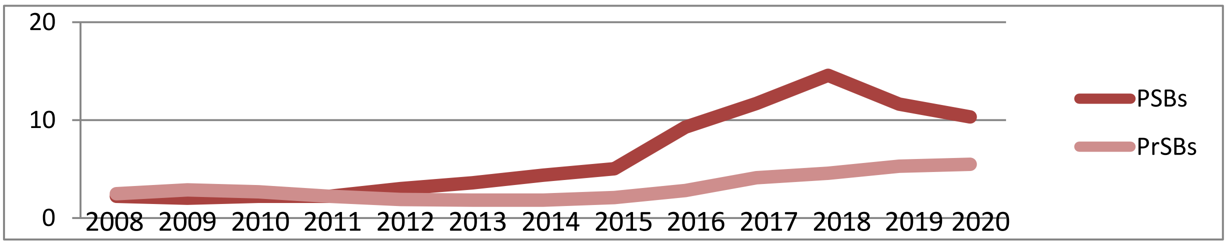


TABLE:9.1- GROSS NPA	IN %	
year	PSBs	PrSBs
2008	2.2	2.5
2009	2	2.9
2010	2.2	2.7
2011	2.2	2.2
2012	3	1.9
2013	3.6	1.8
2014	4.4	1.8
2015	5	2.1
2016	9.3	2.8
2017	11.7	4.1
2018	14.6	4.6
2019	11.6	5.3
2020	10.3	5.5
mean	6.315384615	3.092307692
st.deviation	4.504968767	1.326939799
correlation	0.809959645	
variance	20.29474359	1.760769231
f test	11.5260667	F critical value=3.2773
p value under T TEST	0.006295388	0.05 level of sign.

As shown in above table from 2008 financial crisis, GNPA of both banks increase but variance in public sector bank is more than that of private sector banks. The large and increasing levels of non-performing assets (NPAs) of the Indian banking industry, especially of the public sector banks (PSBs), has been dominating headlines for quite some time now. Incidences of bad loans are essential to the trial and error process required for development and are normal in dynamic financial markets, i.e., some amount of occurrence of NPAs is natural and expected in the banking business. Reason behind rising NPAs is With 2008 financial crisis, corporate profits decrease, govt. banned mining projects. The situation become serious with substantial delay in environmental permits affecting the infrastructure sector, results in rising prices of raw materials and a shortage of supply. So that NPA increases.

II. CREDIT DEPOSIT RATIO:

It is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending, the main banking activity. A higher ratio indicates more reliance on deposits for lending and vice-versa. It means loan amount to private sector increase which causes a profitable condition for private sector banks, as these banks using there fund for profit basis and making more money.

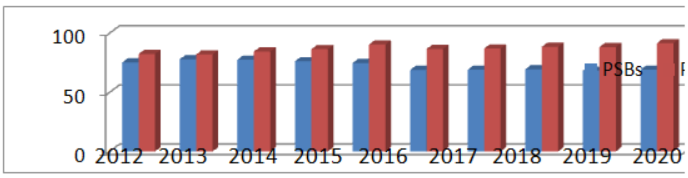


TABLE:9.2- CREDIT DEPOSIT RATIO IN %

FINANCIAL YEAR	PSBs	PrSBs
2012	75.14	82.28
2013	77.85	81.9
2014	77.42	84.37
2015	76.12	86.36
2016	74.63	90.3
2017	68.78	86.54
2018	68.96	86.9
2019	69.43	88.3
2020	68.2	88.1
Mar-21	69	91.4
MEAN	72.553	86.645
ST. DEVIATION	3.999258403	3.12207641
correlation	-0.621504121	
VARIATION	15.99406778	9.747361111
F TEST	0.472148938	F critical value=4.0260
T TEST (P VALUE)	6.77844E-05	

RETURN ON ASSETS:

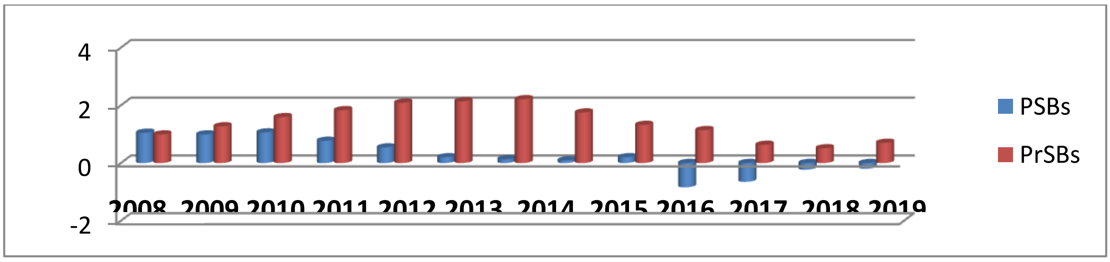


TABLE-9.3: RETURN ON ASSETS IN %

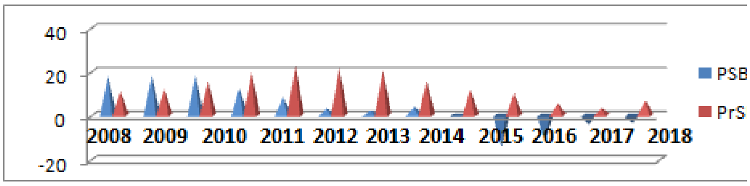
YEAR	PSBs	PrSBs
2008	1.05	0.99
2009	0.99	1.27
2010	1.06	1.59
2011	0.77	1.83
2012	0.54	2.09
2013	0.2	2.138
2014	0.13	2.21
2015	0.09	1.75
2016	0.2	1.32
2017	-0.84	1.14
2018	-0.65	0.63
2019	-0.23	0.51
2020	-0.2	0.7
mean	0.239230769	1.397538462
standard deviation	0.62401204	0.588378084
CORRELATION	0.382571246	
variance	0.389391026	0.346188769
f test	1.12479393	F critical value(3.2773)
T test(P value)	4.6298E-05	

Return on Assets is defined as net income divided by average total assets. It shows bank's efficiency in managing its assets to generate earning. It is also called as return on investment, which tells us what earning was created from invested capital or assets. From following table it shows that return on asset of PSBs continuously falling and from 4 years it creates negative income from assets that means making losses. While private sector banks are creating relatively lesser from previous years but still creates positive income.

A. RETURN ON EQUITY:

TABLE 9.4: **RETURN ON EQUITY IN %**

financial year	PSBs	PrSBs
2008	17.81	10.84
2009	18.29	11.93
2010	18.08	15.72
2011	12.3	19.49
2012	8.32	22.7
2013	3.3	22.04
2014	2.26	20.74
2015	3.95	15.98
2016	0.43	11.8
2017	-14.62	10.12
2018	-11.44	5.45
2019	-4.16	3.3
2020	-3.5	6.7
mean	3.924615385	13.60076923
St. deviation	10.81990343	6.427502705
CORRELATION	0.4439292	
variance	117.0703103	41.31279103
F test	2.83375457	F critical value(3.2773)
T test	0.004004202	



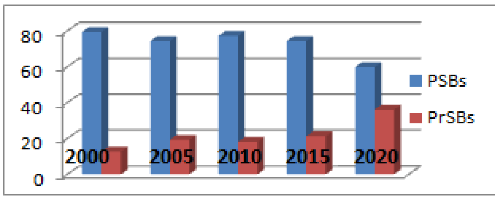
Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. Return on equity (ROE) measures a corporation's profitability in relation to stockholders' equity. Whether an ROE is considered satisfactory will depend on what is normal for the industry or company peers.PSU banks lost 250 bps market share in FY2018 alone. However, the loss in branch share is far less at around 450 bps since FY2011 and 200 bps in FY2018. This demonstrates superior performance by private banks and partly reflects strong growth in loans for private banks, which requires them to focus more on deposits," Kotak said.

II. MARKET SHARE IN LOANS-

TABLE-9.5 **Market share in loans in %**

financial year	PSBs	PrSBs
2000	79.41	12.56
2005	74.25	19.21
2010	77.24	18.08
2015	74.28	21.26
2020	59.8	36.04
mean	72.996	21.43
st. deviation	7.689384241	8.779362164
CORRELATION	-0.9884226	
variance	59.12663	77.0772
F test	1.30359535	F CRITICAL VALUE (7.1464)
T test	0.00216683	

The proposed privatization of two public sector banks (PSBs) in FY22 could accentuate the already declining market share of PSBs in loans, with the share of private sector banks (PrSBs) expected to go up further.

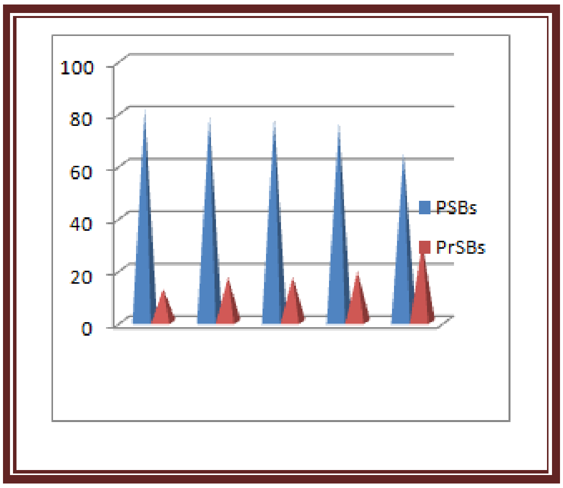


III. MARKET SHARE IN DEPOSITS

TABLE:9.6- Market share in deposits in %

Financial year	PSBs	PrSBs
2000	81.29	12.63
2005	78.16	17.12
2010	77.68	17.31
2015	76.26	19.44
2020	64.75	30.35
mean	75.628	19.37
St. deviation	6.352367275	6.620026435
CORRELATION	-0.995665232	
variance	40.35257	43.82475
F test	1.08604	F critical value(7.1464)
T test	0.000630313	

Public banks controlled over 70 per cent of the market till a few years ago. Private sector banks have gained even as public sector banks are focused on stabilizing the balance sheet, which has been impacted sharply due to higher credit cost. "PSU banks have lost 770 bps market shares in deposits since FY2011, with the loss gradually picking pace in the past few years PSU banks have lost 770 basis points (bps) market share in deposits since FY11, with the loss gradually picking pace in the past few years. PSU banks lost 250 bps market shares in FY18 alone. However, the loss in branch share is far less at 450 bps since FY11 and 200 bps in FY18. This demonstrates superior performance by private banks and partly reflects strong growth in loans for private banks, which requires them to focus more on deposits.



IV. SUGGESTIONS:-

a) . **Alike PSBs, private sector banks are also suffering due to NPA, however, they are more successful in managing NPA. so** The government needs to understand why banks are running into losses and then frame the policies accordingly.

b) **Post Privatization security schemes:** Two state-owned banks selected by the government for privatization are likely to come out with an attractive voluntary retirement scheme (VRS) to get rid of extra flab, sources told PTI. So like this if many scheme launched regarding safety of employees of banks to be privatized or on the way to privatized. Then no one opposed to privatization of bank regarding fear of unemployment.

c) Public sector banks performance should to be increase which is good at work. So as no need of further privatization of bank is required. Only those banks should be privatized which perform low.

V. CONCLUSION:-

Privatization of bank is a concept that comes with a mixed point of view nowadays. Though all arguments for and against of privatization of bank given, besides this govt. decided to privatized two banks along with one insurance company. The reason for this is the revenue earned and also handed the management of NPAs to private sector bank. So in my point of view everything has some limitations. So besides these limitations privatization of bank needed for nowadays of pandemic situation in the economy, through takes appropriates steps regarding not hampering the economy indirectly. Because argument says that, government will not protect the public money and win the public confidence. Another point is that profit will not be revealed by such companies. It is doubtful obligation to the society. But this cannot be considered as failure of banking sectors. Only a part of the weaker section will affect the success of the sectors. So steps to be taken to search about the downward performance of PSBs and managed without any disturbance.

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