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A comparative study of public and private sector banks in India: An experimental analysis

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Abstract

Public sector and private sector banks are major participants in playing a very significant role in the growth of the Indian economy. The current research paper made an attempt to analyse and compare the financial performance of selected public and private sector banks in India during the period 2016-17 to 2023-2024. It collected data relating to five-year public sector banks, namely Bank of Baroda, Punjab National Bank, and Central Bank of India, and private sector banks, including ICICI bank, HDFC bank, and Axis bank, from their official websites and annual reports. Only secondary data was used for this study. For the present study, financial ratios of banking sector will be used. The study has chosen variables such as Cash deposits, Assets, and Credit deposits to determine the financial position of some selected sample banks. In general, the results manifest that the overall performances of private sector banks are better compared with public sector banks.

Keywords: Return on assets, profitability, public sector banks, private sector banks

1. Introduction

The Indian economy stands on the threshold of a big transformation, with expectations that policy initiatives will get implemented in banking sector reforms. Notwithstanding this, still positive business sentiments, improved consumer confidence, and more controlled inflation should help boost economic growth of the country. Higher spending in infrastructure coupled with speedy implementation of projects and continuation of reforms will provide further impetus to growth of nation. Besides the growth, with better technology emerging, new products such as mobile - Banking and internet banking services have come to the fore. Banks in India are now increasingly gearing to provide their clients with better services quality and have started upgrading their technology infrastructure used in Banks, which could help in providing improved experience to customers and, therefore, provide a competitive edge to the banks, as mentioned in www.ibef.org. It all adds up to long-term growth in the banking sector as well, since burgeoning business resorts to banks to finance their credit needs and hence grows at a very fast pace. The banking sector in India is largely and generally the public sector banks. The public sector banks in India themselves account for about 78 percent of the total advances of the Indian banking industry. The concept of private banking was introduced about a score years back. These are the banks that do not have any government stakes. The private banks are accountable for a share of 18 percentage of the Indian banking industry. Private Banks have gained quite a strong foothold in the Indian banking industry over the last few years especially because of optimum use of technology (business maps of India). The operations of all the banks in India are controlled by the RBI. All the Indian banks are under the governance of the RBI. This governing body undertook the task of regulating the Indian banks in a formal manner in the year 1935. The reserve bank of India was declared an official central authority for the smooth monitoring of the banking sector in India. Banks in India have been divided into 2 broad categories namely, Public sector banks and Private sector banks. Public sector banks are under the control and management of the government of India. Public sector banks are in operation for over a period of more than a century and they are well known for providing cheap and at the same time excellent services.

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Review of relevant literature

(Demirguc - Kunt *et al.*, 2018). In this research work mainly focused on financial performance of Banking Company in India. Some scholars have looked into efforts to spread financial inclusion through such initiatives as microfinance, mobile banking, and policies targeting the unbanked in developing countries. Public sector banks are under the control and management of the government of India. Public sector banks are in operation for over a period of more than a century and they are well known for providing cheap and at the same time excellent services.

(Hill *et al.*, 2019). Public sector banks are under the control and management of the government of India. Public sector banks are in operation for over a period of more than a century and they are well known for providing cheap and at the same time excellent services. Studies examine governance structures in banks, including board composition, executive compensation, risk oversight mechanisms, and their influence on financial performance and stakeholder confidence

(Acharya *et al.*, 2020 and Financial Stability Board, 2021). Higher spending in infrastructure coupled with speedy implementation of projects and continuation of reforms will provide further impetus to growth of nation. It conducts research related to systemic risk in banking systems, including institutional interconnectedness, contagious effects, and measures designed at enhancing resilience and mitigating systemic crises.

(European Central Bank, 2021). Literature reviews pertaining to the Dodd-Frank Act (USA) and Basel Accords (global), among others, and their relation or impact on banking operations, risk management practices, and market stability. Higher spending in infrastructure coupled with speedy implementation of projects and continuation of reforms will provide further impetus to growth of nation.

Objective of the study

1. To study the financial performance and position of selected Private and Public sector Banks in India.
2. To comparative study highlight the overall profitability of Banks with selected variables.

Research Methodology

Research is the science of investigation. In other words, it is a scientific and systematic search for relevant information on a particular topic. The logic behind taking research methodology into consideration is that one can have knowledge regarding the method and procedure adopted for achievements of objective of the project. With the adoption of this others can also evaluate the results too. The methodology adopted for studying the objective of the project was by surveying the bank account holders of Patna in Bihar. Therefore, keeping in view the nature of the requirement of the study to collect all relevant information regarding the comparison of public sector banks with the private sector banks, a direct personal interview method with the help of a structured questionnaire was adopted for the collection of primary data. The secondary data have been collected through various magazines and newspapers and by surfing on the internet and also by visiting the website of the Indian Banking Association. Keeping in mind all the constraints, the size of the sample of our study was

selected as 80. State bank of India, Mani and Town branch in Bihar. We have also visited various branches of SBI, IOB, ICICI, AXIS etc. at Patna in Bihar as a part of our study oriented nature

Data Collection

Three leading public sector banks, namely Bank of Baroda, Punjab National Bank, and Central bank of India, and three private sector banks, namely ICICI bank, HDFC bank, and Axis bank, of India have been selected for this study. Data purely based on secondary sources has been used and the same has been obtained from the annual reports and official records of the banks.

Duration of study

This study covers five year's period from 2018-19 to 2023-24.

Data Analysis

The collected information has been tabulated, analysed and interpretation has been arrived on the basis of statistical analysis. Data processing and analysis have been done both manually and by using computer. Tabular method and ratio analysis tools have been used.

Results of the study

I. Socio-economy profile

The findings of the study are divided into two broad sections, *viz.*: socio-economic profile and variables related to their influence on the Public and Private Banking sectors.

- Majority of the respondents whether public sector or private sector banks have saving banks account in their respective banks.
- People want a change in the behaviour of the staff towards customers in public sector banks.
- From the above study it can safely said that public sector banks wins over the private sector banks but they also need to improve a lot.
- There needs to be more awareness regarding the trust factor in private sector banks and the amount deposited there in this part of country.
- People are more satisfied with the public sector banks in this part of country. The main reason for their satisfaction is Trust factor and the Location of the branch.
- The facility that was availed most was the ATM/Debit card facility whether in private sector bank or in public sector bank.
- Majority of the respondents do not want to shift from their current bank.
- The most favoured bank in this part of country is the SBI and UBI.
- From the above study it is clear that the respondents of public sector banks have chosen the respective banks due to adequate branches i.e. location and due to the trust factor.
- From the above study it can be assured that BANCASSURANCE is still not a part in this part of the country. Negligible amount of respondents has shown their interest in this services along with mobile banking and credit card facility.
- As the public sector banks working under the financial

inclusion policy of RBI hence they have got more number of customers because they have “no frill account “now a day’s called BSBDA (Basic saving bank deposit account).

- More number of people has account in public sector banks.

II. Select variables and level of influence of public and private banking sector

To examine the association between the select variables and level of influence of public and private banks in the Bihar, the Chi-square test has been employed.

| Variable considered | D.F | Calculated value | Table value | Remarks |
|--|-----|------------------|-------------|-----------------|
| Services | 4 | 28.41% | 9.48 | Significant |
| Preferred | 6 | 14.71 | 12.5 | Significant |
| Reason | 6 | 5.87 | 12.5 | Not significant |
| Satisfaction level | 4 | 13.90 | 9.48 | significant |
| Reason for choosing private sector banks | 4 | 7.22 | 9.48 | Not significant |
| Reason for choosing public sector banks | 4 | 9.41 | 9.48 | Not significant |

Significant at five per cent level

Among the selected total six variables for testing, three variables are found to be associated with the level of influence of public and private banks. Of them, services, preferred, and satisfaction level are found to have significant association with the level of influence of public and private banks at a five per cent level.

Recommendation

A) For public sector banks

- As far as possible the bank should reduce the documentation process while providing loan.
- Computerization should be done in banks at all levels and the operators should be properly trained.
- Quick services should be provided.
- Bank staff should be customer friendly and highly motivated to serve the normal customers.
- Token system should be introduced so as to reduce the waiting line in the bank.
- Proper ambience in the banks can develop a healthy work culture.
- Should be flexible in providing interest of the deposited money.

B) For private sector banks

- 24 hours banking should be introduced so as to facilitate the customers who don’t have time in day time or week days.
- Should advertise extensively regarding their operations and services to garner faith in them.
- More ATM coverage should be provided for convenience of the customers.
- Should reduce the amount while opening a new saving bank account.
- Should enhance the number of branches in rural areas to attract more customers.
- Should maintain a proper recruitment policy like the PSU to attract genuine talent to work for the customers. Rather than recruiting on internal recommendation they should follow the IBPS for recruitment to get better talent and better services from their employees.

Conclusion

I can conclude from the above study that people of Bihar have more faith in PSU Banks than Private Sector Banks. Since Bihar is a most rural state place, the number of private sector banks here is less and so the trust factor in private sector banks. Whereas for Private Sector Banks they are

working under the financial inclusion policy of the RBI and thus have an adequate number of branches in this place which Private Sector Banks do not. Hence with respect to this place it is the Private Sector Bank mainly revealed in our study which is far ahead of the Private Sector Banks with respect to customer base. As the banking industry is going to spread vastly in the next few years, it is left to the private sector banks to increase their number of branches at the Patna in Bihar State to attract customers of that staid place. The Private Sector Bank, to sustain the large customer base, has to change their view regarding the customer relationship management (CRM). They need to change the behaviour and attitude of the employees in relation to their customers so that they can serve customers with whole-heartedness and willingly.

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