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GROWTH OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA: A COMPARATIVE ANALYSIS

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Abstract

Banking is the lifeline of every economy. Banking has been in India since Vedic times, but banking and its structure have evolved over time to its present form. At the time of independence, all 648 banks were privately owned. Consolidation and mergers of banks followed in the post-independence period. 14 Indian banks were nationalised in 1969 and 6 later in 1980. Banking reforms in the early 1990s were a real breakthrough. Thus, banking developed to suit the requirements in the changing times. This paper tries to compare the growth of Indian public sector banks vis-a-vis private sector banks in the 5 decades post-nationalisation. The secondary data about various parameters of growth like deposits, credit, profit and offices has been collected from RBI publications viz. Statistical Tables relating to banks in India and Basic Statistical Returns. The study shows that there has been a phenomenal growth of both public as well as private sector banks in the past 50 years. However, after the banking reforms in the early 1990s, the growth of private sector banks has outplayed the growth of public sector banks. The last decade has been a testing time for the public sector banks as they grappled with subdued growth and dismal financial performance, resulting into huge collective losses, compared to profits earned by their counterparts in the private sector. It is suggested that the government and the RBI should frame policies so as to rid the public sector banks of their inefficiencies and make Indian banks globally competitive.

Key words*: Public sector banks, private sector banks, growth, deposits, credit, profit*

1. INTRODUCTION

Banking is the lifeline of any modern economy. An efficient, sound, solvent well-developed banking system plays a vital role in promoting economic growth, intermediating financial flows, supporting the payment system and in the conduct of monetary policy.

Though banking in India is believed to have its origin since the Vedic period, modern commercial banking started in the 18^{th} century. After the British established banks in the early 19^{th} century, it was followed by establishment of banks with Indian ownership, banks with limited liability and co-operative banks. Banking in India has come a long way since then. Nationalization of banks and establishment of regional rural banks were targeted to increasing the outreach of banks. Establishment of small finance banks and payment banks recently has brought a change in the way we look to banking. Consolidation of banking through mergers and amalgamations has led to gradual changes in the structure of banking in India.

When India attained independence in 1947, there were 648 banks, all privately owned and with a regional focus, and a majority of them non-scheduled. The number of banks reduced gradually to 86 in 1968, as a number of small banks failed and many others were consolidated through amalgamations and mergers. However, the number of offices as well as their business increased during the same period.

The first instance of nationalization was the conversion of the Imperial Bank of India into the State Bank of India (SBI) in 1955. 8 subsidiaries of SBI were nationalized in 1960. In order to promote balanced economic growth and to provide organized banking services to rural areas and other neglected sections of the society, the Indian Government nationalized 14 banks in 1969 and further 6 in 1980. Thus, the public sector banks comprised of two groups – SBI and its associates, and nationalized banks. However, with the merger of the subsidiaries with SBI on April 1, 2017, now all these banks are categorized as public sector banks. Private sector banks comprise of old private sector banks, which were in existence since long but not nationalized, and new private sector banks, which came into existence after the banking reforms in the early 1990s.

On 31st March 2019, 20 public sector banks including SBI, 22 private sector banks and 7 small finance banks were operational in India. Also, 45 foreign banks had their branches in India (Data compiled from annual publications of RBI retrieved from www.rbi.org.in). There are many other regional rural banks, state co-operative banks, urban co-operative banks, and payment banks operating in India. This paper studies the growth trajectory of public and private sector banks in the five decades post-nationalisation.

The rest of the paper has been divided into five sections. Section II provides a brief review of the studies related to the growth of banking in India. Section III states the objectives of this paper. Section IV describes the methodology adopted for this paper. Section V describes the analysis of growth of banks and its results. Section VI describes the summary and conclusion of the paper.

SECTION II: LITERATURE REVIEW

Few researchers have studied the growth of the banking industry in India. Gupta (2012) analyzed the growth of commercial banks in India during the post reforms period from 1990-91 to 2007-08 in terms of population group-wise offices, deposits, credit and business and observed that the growth in private banks was larger than that in public sector banks. However, the growth was more in urban areas and metros, as compared to rural and semi-urban areas. Bhavsar and Patel (2016) studied the growth of Indian banking in the post-independence period. Their study found that there had been a phenomenal growth after independence and more so after nationalization and banking reforms. Tripathy and Pradhan (2014) concluded from their study that banking sector development caused economic growth in the Indian economy, especially in the post-independence period from 1960 to 2011. Ghosh (2010) examined the interconnection among credit growth, bank soundness and financial fragility using data on Indian banks for 1996 to 2008, and found that credit growth had been rapid in public sector banks and new private banks. The analysis indicated that higher credit growth amplifies bank fragility and so it was important to closely supervise rapidly growing banks to ensure that these banks have adequate risk management systems in place to contain the potential risks associated with rapid credit growth. Kumbhakar and Sarkar (2003) analyzed the relationship between deregulation and total factor productivity (TFP) growth in the Indian banking industry for 27 public and 23 private banks from 1985 to 1996 covering both pre and post regulation periods. They found that private sector banks had improved their performance in the post regulation period mainly due to the freedom to expand output, but public sector banks had not responded well to the deregulation measures. Majumder, Majumder and Correa (2001) studied the Indian banking sector while it was undergoing major restructuring under the impact of deregulation and prudential regulation and the first wave of the information technology revolution. They hinted that radical changes in the structure of the banking system as well as risk management skills will be required with the necessity to adopt new and advanced technology as internet banking.

SECTION III: OBJECTIVE

The objective of this paper is to study and compare the growth of public sector banks and private sector banks in India in the post-nationalization period from 1969 to 2019.

SECTION IV: METHODOLOGY

This paper analyses various parameters of growth of banks viz. number of offices, amount of deposits, amount of credit and amount of profit, in order to understand how public sector and private sector banking in India has grown and reached the stage at which it is today. Secondary data from 1969 to 2019 has been collected from various RBI publications. Data regarding offices, deposits and credit of public sector and private sector banks has been compiled from various issues of Basic Statistical Returns, whereas data regarding profit has been taken from Statistical tables relating to banks in India. Decadal growth rates have been calculated for the period from 1969 to 2010, whereas annual growth rates and average annual growth rates have been calculated for the period from 2010 to 2019.

SECTION V: ANALYSIS AND RESULTS

The growth of banks can be measured on the basis of various parameters like number of offices, amount of deposits with banks, amount of credit by banks and profit earned by banks. The growth of public sector banks and private sector banks in India with reference to these parameters has been discussed below.

(A) Growth of Public Sector and Private Sector Banks in India from 1969 to 2010

The key indicators of growth of public sector and private sector banks from 1969 to 2010 viz. number of offices, amount of deposits and amount of credit, have been presented in Table No. 1. Growth in number of offices of public sector and private sector banks, amount of deposits with these banks and amount of credit by these banks has been calculated. Decadal growth rates have been calculated for the periods 1969-1980, 1980-1990, 1990-2000 and 2000-2010. A summary of these rates has also been presented in Table No. 1.

Table No. 1:
Growth of Public Sector and Private Sector Banks from 1969 to 2010

Year	Public Sector Banks			Private Sector Banks		
	No. of offices	Deposits (₹ in crores)	Credit (₹ in crores)	No. of offices	Deposits (₹ in crores)	Credit (₹ in crores)
1969	6669	3897	3035	1518	768	574
1980	25828	30245	20236	3849	2915	1957
1990	41874	152088	90550	3961	7117	3911
2000	47104	645542	351383	5131	97001	56877
2010	60826	3384263	2511454	10291	806569	585998
Decadal Growth Rates (%):						
1969-1980	287.28	676.13	566.85	153.56	279.50	240.77
1980-1990	62.13	402.84	347.46	2.91	144.12	99.84
1990-2000	12.49	324.45	288.06	29.54	1262.96	1354.43
2000-2010	29.13	424.25	614.73	100.57	731.50	930.28

Data Source: RBI, Basic Statistical Returns
Growth Rates: calculated

Number of offices

Public sector banks witnessed highest growth with regards to the number of offices during the first decade after nationalization. The number of offices of public sector banks almost became four times from 6669 to 25828 during the period 1969-1980, showing a 287.28% growth. During the decade 1980-1990, the number of offices increased further by 15946 to 41874, suggesting a growth of 62.13%. The growth during the decade 1990-2000 was a moderate 12.49% and during the first decade of the 21st century, the growth was 29.13% and the public sector banks had 60826 offices in 2010.

The number of offices of private sector banks also increased from 1518 in 1969 to 3849 in 1980, showing a growth of 153.56% during this period. However, there was a marginal growth during the decade 1980-1990, when the number of offices increased by only 2.91% from 3849 to 3961. During the last decade of the 20th century, the number of offices increased from 3961 to 5131 (29.54% growth), as new private banks were established. During the decade 2000-2010, private sector bank offices doubled to 10291 with the expansion of the new private sector banks in India, showing a decadal growth rate of 100.57%.

Deposits

The first decade after nationalization saw a huge surge in deposits with public sector banks as the amount of deposits grew at 676.13% during 1969-1980 from ₹ 3,897 crores to ₹ 30,245 crores. Later too, deposits grew phenomenally every decade registering decadal growth rates of 402.84% during 1980-1990, 324.45% during 1990-2000 and 424.25% during 2000-2010 as the total amounts of deposits with public sector banks reached a level of ₹ 33.84 lac crores by 2010.

During the period from 1969 to 2010, deposits with private sector banks also increased from ₹ 768 crores in 1969 and became 1050 times to ₹ 8.07 lac crores in 2010. The decadal growth rates were 279.50% during 1969-1980 and 144.12% during 1980-1990. The decade from 1990-2000 witnessed the highest growth rate of 1263%, probably due to the establishment of new private sector banks. The decade from 2000-2010 also saw a steep growth rate of 731.50% in deposits.

Credit

The amount of credit by public sector banks became 6.5 times at ₹ 20,236 crores in 1980 from ₹ 3,035 crores in 1969, showing a growth of 566.85% during this period. The decadal growth rates during 1980-1990 and 1990-2000 were 347.46% and 288.06% respectively. During 2000-2010, the credit by public sector banks increased by 614.73% to reach a level of ₹ 25.11 lac crores in 2010.

In 1969, the amount of credit by private sector banks was ₹ 574 crores which grew by 240.77% during 1969-1980. Then it almost doubled to ₹ 3,911 crores in 1990. The credit growth during the decade 1990-2000 was a staggering 1354.43% and that during 2000-2010 it was 930.28%. The total amount of credit by private sector banks in 2010 was ₹ 5.86 lac crores.

(B) Growth of Public Sector and Private Sector Banks in India from 2010 to 2019

For the period from 2010 to 2019, the growth of public sector and private sector banks in India has been studied and compared by taking into account key indicators such as number of offices, amount of deposits, amount of credit, and amount of profit. These indicators have been presented in Table No. 2. Annual growth rates have been calculated for understanding the growth for the period from 2010 to 2019, and the average annual growth rate (AAGR) has then been derived. A summary of these rates has also been presented in Table No. 2.

Table No. 2:
Growth of Public Sector and Private Sector Banks from 2010 to 2019

Year	Public Sector Banks				Private Sector Banks			
	No. of offices	Deposits*	Credit*	Profit*	No. of offices	Deposits*	Credit*	Profit*
2010	60826	3384263	2511454	39257	10291	806569	585998	13111
2011	64154	4018945	3052063	44901	11764	972151	725911	17712
2012	70027	4528069	3561759	49514	13825	1097849	886543	22718
2013	75501	5213154	4071101	50583	15962	1313493	1053768	28995
2014	83718	5880219	4598076	37019	18393	1496794	1221334	33754
2015	89711	6502500	4928311	37540	20434	1757315	1433422	38735
2016	91304	6780960	5125917	-17993	22511	2068069	1812921	41314
2017	94142	7447569	5204931	-11389	24423	2471231	2127062	42204
2018	92362	7646037	5543261	-85371	26198	2903710	2567037	41783
2019	91445	7992549	5921172	-66608	29564	3617071	3220462	27621
Annual Growth Rates (%)								
2010-11	5.47	18.75	21.53	14.38	14.31	20.53	23.88	35.09
2011-12	9.15	12.67	16.70	10.27	17.52	12.93	22.13	28.27
2012-13	7.82	15.13	14.30	2.16	15.46	19.64	18.86	27.63
2013-14	10.88	12.80	12.94	-26.82	15.23	13.96	15.90	16.41
2014-15	7.16	10.58	7.18	1.41	11.10	17.41	17.37	14.76
2015-16	1.78	4.28	4.01	-147.93	10.16	17.68	26.48	6.66
2016-17	3.11	9.83	1.54	36.70	8.49	19.49	17.33	2.16
2017-18	-1.89	2.66	6.50	-649.61	7.27	17.50	20.68	-1.00
2018-19	-0.99	4.53	6.82	21.98	12.85	24.57	25.45	-33.89
AAGR	4.72	10.14	10.17	-81.94	12.49	18.19	20.90	10.67

Data Source: RBI, Basic Statistical Returns and Statistical Tables relating to Banks in India
Growth Rates: calculated

AAGR: Average Annual Growth Rate
*The figures of Deposits, Credit and Profit are in ₹ crores.

Number of offices
After 2010, the overall growth in the number of offices of public sector banks was moderate. The number of offices increased at a rate of 5.47%, 9.15%, 7.82%, 10.88% and 7.16% respectively from 2010 to 2015. The growth in the number of offices in 2016 and 2017 was negligible at 1.78% and 3.11% respectively. However, there has been a marginally negative growth rate in 2018 and 2019. The number of offices reduced from 94142 in 2017 to 91445 in 2019. The AAGR in the number of offices of public sector banks for the period 2010-2019 stands at 4.72%.

During the period from 2010 to 2015, the number of offices of private banks increased steadily from 10291 to 29564, implying an AAGR of 12.49%. The annual growth rates during the same period ranged from 7.27% to 17.52%.

Deposits
From 2010 to 2015, the total amount of deposits with public sector banks almost doubled and were ₹ 65.03 lac crores in March 2015 from ₹ 33.84 lac crores in March 2010. During this period the AAGR was almost 14%. However, post 2015, the deposits have been increasing but at a lower rate than the previous years. The total amount of deposits in March 2019 stood at ₹ 79.92 lac crores. The AAGR for the period 2015 to2019 was just 5.33%. The average annual growth rate of deposits for the entire period of 2010 to 2019 is 10.14%.

The growth rate of the total deposits in private banks has been very consistent and impressive. There has been a double-digit growth rate in all the years ranging from 12.93% to 24.57%. This comes to an AAGR of 18.19% which is significantly higher than that of public sector banks.

Credit
The amount of credit of public sector banks has increased each year for the period 2010 to 2019. However, the growth rate has been declining every year. It came down from 21.53% growth during 2010-11 to a marginal 1.54% during 2016-17. The growth in credit picked up and was 6.50% and 6.82% in 2018 and 2019 respectively. The AAGR for the entire period is 10.17%.

The amount of credit of private sector banks has been increasing consistently at an AAGR of 20.90% which is more than double than that of public sector banks. The total credit increased five-fold from ₹ 5.85 lac crores in 2010 to ₹ 32.20 lac crores in 2019.

Profit
The profits of the public sector banks have been highly fluctuating, with losses being incurred in 4 out of the 9 years. The public sector banks collectively have been making losses every year since 2016. The worst years have been 2018 and 2019 where in the losses are ₹ 85,371 crores and ₹ 66,608 crores respectively.

The private sector banks together have been profitable in all the years. However, the growth rate in the amount of profits has been diminishing every year. The growth rate of profit was about 35% during 2010-11, which came down to 2.16% in 2017. In 2018 and 2019, although the banks have made profits, the growth rate has been negative. In 2018, the profits reduced by 1% and in 2019, they further reduced by almost 34%. The AAGR in profits of private sector banks for the period 2010 to 2019 is 10.67%.

SECTION VI: SUMMARY AND CONCLUSION

The study shows that public sector banks as well as private sector banks in India have witnessed a phenomenal growth during the last five decades which suggests that banking services have been available to a large portion of Indian population, including the less fortunate and those in the earlier unbanked rural areas. Nationalization of 14 banks in 1969 and other 6 in 1980 sent the ball rolling for the growth of public sector banks in India. During the five decades of nationalization, there has been a huge growth in public sector banks as regards number of offices and the amount of deposits and credit. During the same period, private sector banks also saw huge growth, but the growth of private banks after the banking reforms in the early 1990s was stupendous with the establishment of new private sector banks, use of technology in banking and innovative services provided by these banks. As private banks became aggressive in the market attracting customers, especially the educated urban youth, through their competitive customer services, there was a marked growth in the number of offices, deposits as well as credit. Public sector banks too responded by offering new services and one-stop solutions for all investment needs. Still, however, private sector banks outplayed the public sector banks after 1990 so far as growth rates of offices, deposits and credit are concerned. The growth of public sector banks during the last decade has been subdued. Their financial performance has been dismal, with profits reducing year after year since 2013 and consistent losses since 2016, despite growth in deposits and credit. While public sector banks were grappling with huge collective losses in 2019, private sector banks, with half the business as compared to public sector banks and only one-third offices, were relatively better off with decreased profits. This points out to efficiency and better fund management in private sector banks. However, in spite of good growth, private sector banks have lagged behind the public sector banks in absolute numbers, probably because people feel safe and secured with state guarantees in public sector banks. The study shows that there has been a phenomenal growth in both public as well as private sector banks decade after decade and year after year. However, inefficiency and poor fund management in public sector banks are areas of concern. It is suggested that the government and the RBI should frame such policies that these bottlenecks are taken care of to further accelerate the growth of Indian banks and make them more efficient and globally competitive.

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