‘A Study of Selected Private and Public Sector Banks in India with regards to Advances to Loan Funds

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ABSTRACT:

A strong banking infrastructure is an impetus in supporting economic activity and meeting the financial needs of all the sections of society. The banking sector has contributed in the overall growth of the country. For the smooth flow of credit in an economy, it is important that banks should be financially sound so as to meet the various requirements of other fields. Advances to loan funds ratio is one of the measures which ensure the financial soundness of banks in absorbing a reasonable amount of loss. Capital adequacy requirements have existed for a long time, but the two most important are those specified by the Basel committee of the Bank for International Settlements. This study highlights the various components of regulatory capital and outlines the basics of Basel’s norms in respect to minimum capital requirements for banks. Moreover, the study analyzed the trend in Advances to loan funds for top private and public sector banks in India. The study found out that there is no significant difference between private and public sector banks as regards to advances and loan funds ratio.

Keywords: Advances, loan funds, Basel, soundness, international settlements.

INTRODUCTION:

Banking system occupies very important role in the economy of a nation. In fact, banking system of any country is the life blood of the economy. A banking institution is indispensable in the modern society. It plays important role in the economic development of a country and forms the core of the money market for the country. The banking sector performs three primary functions in an economy; firstly, the operation of the payment system, secondly, the mobilization of savings and finally, the allocation of savings to investment projects. The banking system that constitutes the core of the financial sector plays a critical role in transmitting monetary policy impulses to the entire economic system. An efficient banking structure can enhance greater amount of investment which can further help to achieve a faster growth rate of economy. Worldwide experience confirms that countries with well-developed and market oriented free banking system grow faster and very consistently.

The banking system is an integral part of any economy. It is one of the many institutions that impinges on the economy and affect its performance. Economists have expressed their opinions on the effectiveness of the banking systems in promoting or facilitating economic development. As an economic institution, the bank is expected to be more directly and positively related to the performance of the economy than most non-economic institutions. Banks are considered to be the mart of the world, the nerve centre of economies and finance of a nation and the barometer of its economic perspective. They are not just dealers in money but are in fact dealers in development. The role of banks in accelerating the economic development of a country like India has been increasingly recognized following the nationalization of fourteen major commercial banks in July 1969 and six more banks in April 1980. With nationalization, the concept of banking has undergone significant changes. Banks are no longer viewed as mere lending institutions. They are to serve the society in a much bigger way with a socio-economic Development oriented outlook. They are specially called up onto use their resources to attain social upliftment and faster economic development. Indian banking sector has emerged as one of the strongest drivers for India’s economic growth. The Indian banking system is among the healthier performers in the world. A diverse range of studies have been conducted by the researchers for measuring the performance of the banks, that present different perspective with regards to the performance of the banks in different countries. Traditional systems of performance evaluation of banks mostly use the factors like ROA and ROI for measuring the financial 4 performance of the banks. However, these days’ intellectuals and managers of organization find that traditional systems of performance evaluation have been typically based on financial views which are incomplete in evaluating overall performance of the organization and presenting an effective feedback. Excessive financial measurements may increase organization's short term profit, but bring about losing competitive situation and threatens long-term profit. Non-financial criteria like customer's satisfaction, employee’s satisfaction and corporate social responsibility can be necessary for strategic success of any bank. Customer satisfaction is the key to the profitability of retail banking, which is having a long term financial impact on the business of the banks. Performance of the banks depends upon the efficiency and level of satisfaction of its human resources. High level of human capital efficiency and employee satisfaction leads to the high performance of the banks. It has also been found by the researchers that the banks which adhere to be socially responsible in their routine activities, outperform in their financial performance. There is a positive relationship between the corporate social responsibility and the financial performance of the banks both in short and long run. Thus there are two main aspects from which one can measure the overall performance of the banks namely, financial aspects and human aspects. The dimensions of performance of a bank under human aspect are namely, customer satisfaction, employee satisfaction and Corporate Social Responsibility (CSR).

RESEARCH STATEMENT

'A Study of Selected Private and Public Sector Banks in India with regards to Advances to Loan Funds

PERIOD OF THE STUDY:

The study is covered for ten years from the year 2004-05 to 2013-14. This period is selected by the researcher for the study because it is a period after the submission of The Narsimham committee report II. The second phase of reforms process can be covered during this time period. Again this period is selected as it is the pre-demonetization period.

HYPOTHESIS:

1) There is no significant difference in Advances to Loan Funds among banks.

2) There is no significant difference in Advances to Loan Funds of private and public sector.

SAMPLE DESIGN:

In this study, selected banks from the public sector and private sector in Indian banking sector are covered. Three banks selected for the research purpose in each sector are the largest three banks in their respective sector. The selected banks in Indian banking sector are divided in following two groups from the year 2004-05 to 2013-2014:

Sr. No	Public Sector Bank	Private Sector Bank
1	State Bank Of India	ICICI Bank
2	Bank Of Baroda	Axis Bank
3	Punjab National Bank	HDFC Bank

ADVANCES TO LOAN FUNDS RATIO:

The CAMEL model of analysis of financial performance of bank identifies five major aspects that are capital adequacy, assets quality, management efficiency, earnings quality and liquidity. To study the capital adequacy of banks some of the important ratios to be considered are capital adequacy ratio, advances to total assets ratio and advances to total debt ratio. In this research paper I have studied advances to loan funds ratio. This ratio measures the proportion of banks advances against its loan funds. Following table shows the advances to total assets ratio of banks for 10 years.

$$\textbf{Advances to loan Funds Ratio} = \frac{\textbf{Total Advances}}{\textbf{Loan Funds}}$$

TABLE-1
ADVANCES TO LOAN FUNDS RATIO OF THE SELECTED BANKS

	Axis	ICICI	HDFC	SBI	BOB	PNB
2014	73.29	73.26	82.33	82.04	71.78	75.06
2013	71.53	71.68	81.76	82.25	72.22	76.32
2012	72.29	69.94	79.19	78.01	78.07	77.17
2011	76.16	68.53	79.34	77.19	78.56	78.98
2010	72.96	58.57	77.24	74.22	77.38	77.31
2009	73.87	69.86	78.87	78.34	81.35	80.15
2008	75.89	72.67	71.93	78.31	75.67	76.19
2007	69.07	77.72	71.41	76.16	74.49	72.04
2006	58.5	84.89	68.75	65.66	66.04	64.26
2005	56.76	76.65	68.21	56.35	55.35	61.93

SOURCE: Computed and obtained from IBA bulletins and www.capitaline.com

H1: There is a significant difference of Advances to Loan Fund Ratio among various banks

Descriptive

Advances to loan Funds Ratio

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Axis	10	70.0320	6.85717	2.16843	65.1267	74.9373	56.76	76.16
ICICI	10	72.3770	6.85111	2.16651	67.4760	77.2780	58.57	84.89
HDFC	10	75.9030	5.32435	1.68371	72.0942	79.7118	68.21	82.33
SBI	10	74.8530	7.99227	2.52738	69.1357	80.5703	56.35	82.25
BOB	10	73.0910	7.57813	2.39642	67.6699	78.5121	55.35	81.35
PNB	10	73.9410	6.13994	1.94162	69.5488	78.3332	61.93	80.15
Total	60	73.3662	6.81880	.88030	71.6047	75.1277	55.35	84.89

Test of Homogeneity of Variances

Advances to loan Funds Ratio

Levene Statistic	df1	df2	Sig.
.100	5	54	.992

Significant value is 0.992 > 0.10, So Levene test accept the assumption of equal variance of Advances to Loan Fund Ratio among various banks.

One-Sample Kolmogorov-Smirnov Test

Advances to loan Funds Ratio

N		60
Normal Parameters[a]	Mean	73.3662
	Std. Deviation	6.81880
Most Extreme Differences	Absolute	.137
	Positive	.078
	Negative	-.137
Kolmogorov-Smirnov Z		1.062
Asymp. Sig. (2-tailed)		.209

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a. Test distribution is Normal.		

From One sample Kolmogorov – Smirnov test of normality concluded that given variable distribution is normal. Henceforth for testing hypothesis parametric test should be used.

So ANOVA as a parametric test should be used to identify the significant differences of Advances to Loan Fund Ratio between public and private sector banks.

ANOVA					
Advances to loan Funds Ratio					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	211.475	5	42.295	.902	.487
Within Groups	2531.795	54	46.885		
Total	2743.270	59			

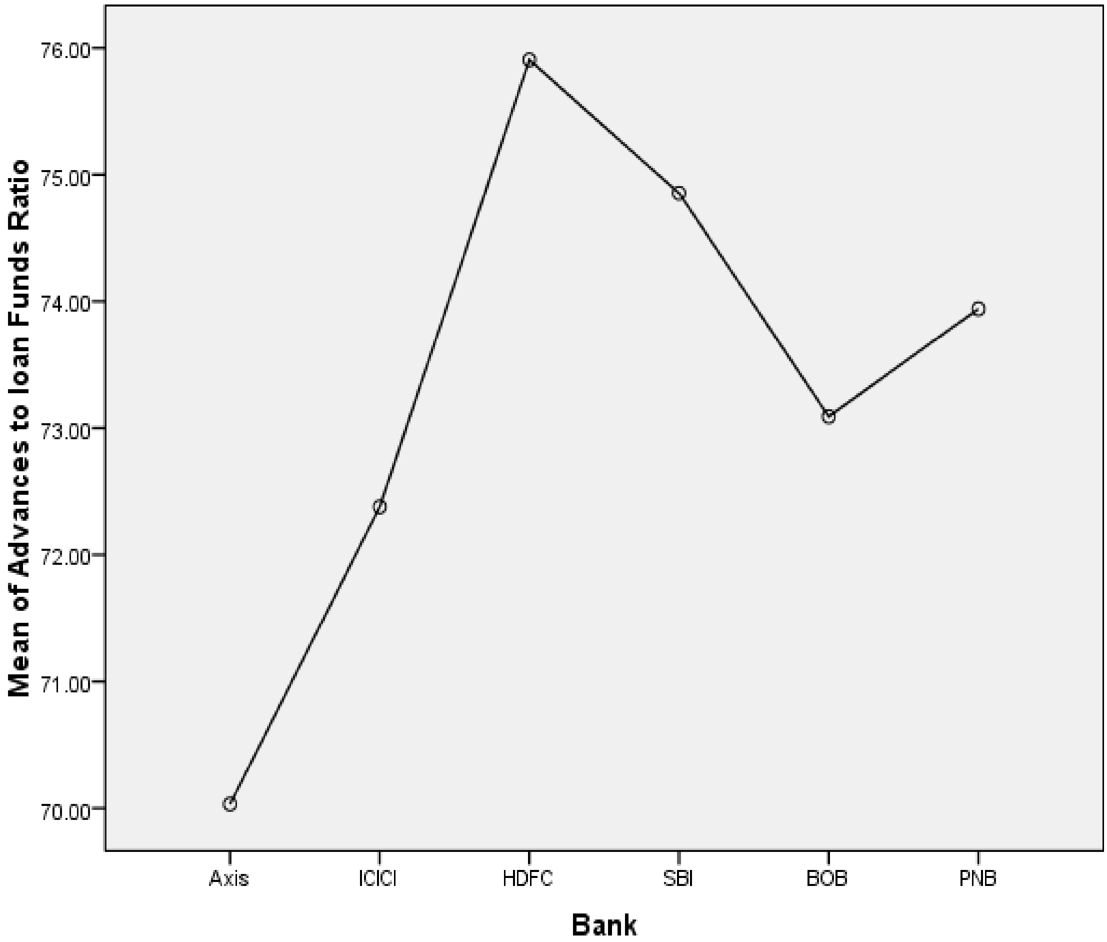
It is interpreted that the significant value is 0.487 > 0.05, Null Hypotheses is not rejected and concluded that there is no significant difference of Advances to Loan fund Ratio among various banks

Robust Tests of Equality of Means				
Advances to loan Funds Ratio				
	Statistic[a]	df1	df2	Sig.
Welch	.944	5	25.119	.470
Brown-Forsythe	.902	5	50.811	.487
a. Asymptotically F distributed.				

It is clear from Welch statistics significant value (0.470 > 0.05) and supported by Brown- Forsythe (0.487 > 0.05) that there is no significant difference of Advances to Loan fund Ratio among various banks.

FIGURE:1

MEAN PLOTS OF ADVANCES TO LOAN FUNDS RATIO



H1: There is a significant difference of Advances to Loan fund Ratio between private sector and public sector banks.

Descriptive								
Advances to loan Funds Ratio								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Private sector Bank	30	72.7707	6.63178	1.21079	70.2943	75.2470	56.76	84.89
Public sector Bank	30	73.9617	7.06267	1.28946	71.3244	76.5989	55.35	82.25
Total	60	73.3662	6.81880	.88030	71.6047	75.1277	55.35	84.89

Test of Homogeneity of Variances			
Advances to loan Funds Ratio			
Levene Statistic	df1	df2	Sig.
.219	1	58	.642

Significant value is 0.642 > 0.10, So Levene test accept the assumption of equal variance of Advances to Loan fund Ratio between private and public sector banks.

Normality Test:

One-Sample Kolmogorov-Smirnov Test		
Advances to loan Funds Ratio		
N		60
Normal Parameters[a]	Mean	73.3662
	Std. Deviation	6.81880
Most Extreme Differences	Absolute	.137
	Positive	.078
	Negative	-.137
Kolmogorov-Smirnov Z		1.062
Asymp. Sig. (2-tailed)		.209
a. Test distribution is Normal.		

From One sample Kolmogorov – Smirnov test of normality concluded that given variable distribution is normal. Henceforth for testing hypothesis parametric test should be used.

So T Test as a parametric test should be used to identify the significant differences of Advances to Loan Fund Ratio between public and private sector banks.

T Test:

Group Statistics					
Advances to loan Funds Ratio	Bank Type	N	Mean	Std. Deviation	Std. Error Mean
	Private sector Bank	30	72.7707	6.63178	1.21079
	Public sector Bank	30	73.9617	7.06267	1.28946

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Advances to loan Funds Ratio	Equal variances assumed	.219	.642	-.673	58	.503	-1.19100	1.76882	-4.73168	2.34968
	Equal variances not assumed			-.673	57.77	.503	-1.19100	1.76882	-4.73198	2.34998

From the above table, significant value 0.503 > 0.05 henceforth it is concluded that there is no significant different of Advances to Loan Fund Ratio among private sector and public sector banks.

FINDINGS OF THE STUDY:

1) There is no significant difference in Advances to loan funds among banks.
2) There is no significant difference in Advances to loan funds among private and public sector banks.

SIGNIFICANCE OF THE STUDY:

The study will help the researcher to understand important aspect of financial performance appraisal of banks. The researcher can use this study to further enhance his study in the post demonetization period. The study can be used to compare the performance of the same banks in pre and post demonetization period,

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