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A STUDY ON PROFITABILITY OF BANKS IN THE e-BANKING ERA

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ABSTRACT:

Within the banking institutions, the role of commercial banks has occupied a new meaning and significance, in view of the changing structure and requirements of a developing economy. The increased horizon of commercial banks identifies itself with the problems and responsibilities for making banking an instrument for bringing about social and economic transformation of a developing country. Banks have become the prime movers and pace setters for the achievement of socio-economic objectives of the country.

The current stage is of e-banking, where all transactions are made electronically. Variety of products/services such as ATMs, Debit/Credit Cards, Smart Cards, EFTS, ECS,RTGS, I-banking, M-banking, Tele-banking etc. have been introduced to serve the customers and this system has made the delivery of services fast, cost effective and time saving as well as attracted the number of Customers by providing competitive advantage. Hence, Technology in

these days is a need not an option for every bank. Although our private sector banks have gained momentum share in the market with a tool of technology but still public sector banks except few ones, have still not accepted technology in totality. The present article has aimed at analyzing 77 banks among five different bank groups. The results were tabulated and analysed

Key Words: *Commercial banks, profitability, e-banking era .*

1. INTRODUCTION

The World Bank in its World Development Report in 1991 has asserted that:

"The challenge of development …….. is to improve the quality of life. Especially in the poor World's countries a better quality of life generally calls for higher incomes – but it involves much more. It encompasses as ends in themselves better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equality of opportunity, greater individual freedom and a richer culture life'.

Development, in the contemporary context, is a process whereby minimum progress at the socio-economic, political and technological level is ensured to fulfill the basic needs of human beings. It is also a relative phenomenon based on the comparison between some advanced and the underdeveloped countries.

Economic development, as it is generally understood includes the development of agriculture, industry, trade, transport, means of irrigation, power resource etc. It thus, indicates a process of developments. The sectorial improvement is the part of the process of development, which refers to the economic development.

BANKS AND ECONOMIC DEVELOPMENT

Banks assume an essential part in the monetary advancement of each country. They have control over a substantial part of the supply of cash available for use. Through their impact over the volume of bank cash, they can impact the nature and character of generation in any nation.

Financial advancement is a dynamic and ceaseless process. Banks are the backbone of the monetary advance of a nation. Since financial improvement profoundly relies on the degree of preparation of assets and speculation and on the operations proficiency of the different portions of the economy.

INDIAN BANKING SECTOR

Till 1990's Indian banking system was merely a monopoly of the government, which has erosion in the growth of banking in terms of profitability and productivity. But, with the process of economic liberalization in 1991, banking sector reforms were introduced with effective strategies to reduce government monopoly and to improve the working of banks. In 1993-94, RBI allowed the entry of private sector and foreign banks in the banking industry, which had lead to greater competition and proved to be better in performance with technology advancements. As these banks entered into market with attractive and innovative products and services, the public sector banks, having huge branch network and large number of employees, were forced to provide prompt and reliable customer services and offer a variety of hi-tech banking products/services.

The e-banking era

In the pre-LPG era, banks have performed all their functions manually with little support of computers. Earlier, the banks were labour-intensive bearing heavy establishment cost which eroded their profitability and even productivity and hence made them unable to compete in the global market. With the wave of LPG, banks have started their functioning to be computerized that resulted in reduced paper work, lesser burden of accounts maintenance and hence, improved database management. With the introduction of the IT Act, whole banking business is done electronically which is known as e-banking. E-banking has made our banks comparatively much better than before and enable them to compete in the global market with attractive innovative products and services.

2. NEED FOR THE STUDY

Form various studies, it is observed that with more and better use of technology, the efficiency of bank goes better and be able to complete successfully in the foreign Markets too. To face and survive in this cutting edge, competition, the banks have to deliver better quality services to the customers. Thus e-banking has an impact or the profitability of banks. Therefore, there is a need to evaluate the profitability of banks in the e-banking era.

3. OBJECTIVES OF THE STUDY

The present study analyses the profitability of selected banks in the e-banking era.

4. METHODOLOGY

A definite methodology has been followed for the analysis of data. For this purpose, the banks are classified into five groups.

Group I – Nationalized Banks

Group II	–	State Bank of India and its Associates
Group III	–	Old private sector Banks
Group IV	–	New private sector Banks
Group V	–	Foreign Banks

4.1 Sampling Design

For the present study on profitability of selected banks in the post reforms era, representative sampling technique has been adopted. The total banks of all groups were 77 was taken for analysis.

Group I	– Nationalised banks	-19 banks
Group II	State Bank of India and its Associates	-7 banks
Group III	Old private sector Banks	- 15 banks
Group IV	New private sector Banks	- 8 banks
Group V	Foreign Banks	- 28 banks
		---------------
		77 Banks
		-----------------

5. DATA SOURCES

For the present study secondary data was used to analyse the profitability of selected Banks in the post reforms era. The data base of various banks was obtained form IBA – Bulletin, performance Highlights of Banks (various issues) and the RBI web site.

6. TOOLS FOR ANALYSIS

For analyzing the data of the present study simple average has been used as tools for analyzing the data.

7. FINDINGS OF THE STUDY

Of all the Nationalised banks which were analysed, the Punjab National bank revealed the highest average profit of Rs.5745 crores (Table 1). It can be opined that the Nationalised banks which showed highest profitability were Canara Bank, Bank of India, Bank of Baroda etc. The Nationalised Banks which earned the least profits were Punjab and send Bank (Rs.381 crores) followed by Bank of Maharashtra and Dena Bank.

Table 1 :NET PROFIT OF NATIONALIZED BANKS

Banks	2001 - 02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Average
AHB	409	515	877	1073	1023	1100	1479	1902	1047.25
AB	426	755	930	993	703	931	1057	1288	885.375
BOB	1310	1718	2486	2302	1917	2415	2928	4306	2422.75
BOI	1397	2029	2242	1461	1701	2395	3701	5457	2547.875
BOM	416	521	521	547	364	603	672	794	554.75
CB	5752	1997	2857	2585	2551	2913	2960	3964	3197.375
CBOI	704	924	1528	1609	1195	1266	1268	1436	1241.25
Corp.B	624	854	907	1058	953	1139	1252	1796	1072.875
DB	335	494	710	447	601	636	687	726	579.5
IB	307	590	802	959	894	1358	1660	2228	1099.75
IOB	616	795	1325	1336	1346	1560	2002	2523	1437.875
OBC	917	1162	1534	1233	1192	1296	1219	1684	1279.625
P&SB	164	280	150	258	268	472	728	728	381
PNB	1474	2317	3121	2708	2918	3617	4007	5745	3238.375
SB	355	619	1019	995	1007	1382	1467	1746	1073.75
UB	476	624	798	820	763	944	954	1201	822.5
UBI	869	1304	1482	1574	1467	2001	2581	3082	1795
UNBI	238	555	613	689	643	720	466	678	575.25
VB	253	433	866	789	633	696	662	899	653.875

Source :RBI Bulletin, 2001-2008.

With regard to the State Bank Group, the state Bank of India revealed a paramount profit of Rs. 10,835.63 crores followed by the State Bank of India.

Table 2 NET PROFIT OF SBI & ITS ASSOCIATES BANKS

Banks	2001 - 02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Average
SBI	6044	7776	9553	10991	11300	9999	13107	17915	10835.63
SBB &J	391	441	681	730	481	679	661	893	619.625
SBH	599	758	1013	713	737	1002	991	1302	889.375
SBID	342	421	532	352	926	1249	1795	2253	983.75
SBM	234	352	424	452	439	471	567	653	449
SBP	564	750	1003	853	732	789	779	966	804.5
SBT	322	454	701	802	675	712	709	1056	678.875

Source :RBI Bulletin, 2001-2008.

Table 3 reveals that, of the banks taken up for analysis, the Federal Bank ranks first with regard to profitability. (ie average profits Rs. 576.87 crores). The other bank which yields the highest profits was Jammu & Kashmir Bank.

Banks	2001 - 02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Average
BR	82	148	185	82	19	192	170	195	134.125
CSB	91	111	123	78	37	63	73	79	81.875
CUB	64	81	117	81	109	131	181	226	123.75
DB	50	63	66	19	23	39	43	87	48.75
FB	305	351	437	403	452	613	794	1260	576.875
ING	205	242	261	100	101	227	-9692	426	-1016.25
J&KB	462	553	629	355	429	556	651	774	551.125
KB	250	252	329	341	329	356	389	479	340.625
KVB	161	197	215	199	229	274	308	417	250
LVB	78	80	91	54	39	74	90	109	76.875
NB	11	11	20	22	28	39	-248	64	-6.625
RB	26	20	14	10	13	7	34	47	21.375
SBI Com	14	-283	26	10	19	6	13	11	-23
SBI	173	216	242	172	156	252	271	359	230.125
TMB	121	136	170	174	194	232	224	–	178.7143

Source :RBI Bulletin, 2001-2008.

It can be inferred from Table 4 that of the NGPSB taken up for analysis, the bank with highest profitability was ICICI Bank (Rs. 4400.5 Crores) followed by HDFC Banks (Rs. 2136.5 crores).

Table 4 NET PROFIT OF NEW PRIVATE SECTORS BANKS

Banks	2001 - 02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Average
AXB	411	410	687	556	994	1362	2225	3725	1297.5
CBP	14	22	12	31	173	269	353	–	124.8571
DCB	104	60	53	-5	-20	41	110	75	52.25
HDFC	544	711	1008	1343	1978	2564	3765	5179	2136.5
ICICI	545	2571	2481	2956	38889	5875	7961	8926	4400.5
IB	252	325	445	401	187	171	197	368	293.25
KMB	–	–	125	133	211	326	669	680	357.3333
YB	–	–	–	-4	99	174	351	527	229.4

Source: RBI Bulletin, 2001-2008.

With regard to the profitability of foreign Banks, Table 5 reveals that SCB has the highest profitability (Rs. 1899 crores), followed by CIB Bank, HSBC Bank, ABNB Bank, Dutch Bank.

Table 5 NET PROFIT OF FOREIGN BANKS

Banks	2001 - 02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Average
AB	5	4	5	1	6	5	5	8	4.875
ABNB	273	294	358	441	581	1039	915	1411	664
ADCB	17	13	13	5	4	11	18	20	12.625
AEB	135	107	100	370	–	–	–	-44	133.6
ADB	–	3	11	13	13	31	37	43	21.57143
BII	1	-2	–	–	1	2	-3	–	-0.2
BOA	178	272	201	166	235	290	347	432	265.125
BB&K	49	45	27	21	17	19	23	32	29.125
BC	9	4	6	7	7	7	8	11	7.375
BNS	79	75	61	68	69	120	170	286	116
BTM	40	35	95	64	43	86	150	163	84.5
BB	36	86	116	117	220	156	177	755	207.875
BNP	-22	2	36	56	79	139	283	414	123.375
CB	–	13	-2	-12	79	146	255	298	111
CCB	6	5	6	4	4	-4	-2	4	2.875
CIB	853	868	1233	1172	1285	1841	3170	4135	1819.625
DBS	18	15	12	12	46	151	120	452	103.25
DB	240	347	506	218	325	415	872	1158	510.125
H&SBC	478	470	772	966	1277	1924	2843	4132	1606.625
JPMSB	32	31	26	90	173	253	503	865	246.625
	2	2	1	1	6	2	4	3	2.625
MB	16	14	6	4	5	9	12	9	9.375
MCB	4	4	8	9	12	25	35	73	21.25
OIB	-14	-7	-1	0	-4	-2	-2	3	-3.375
SG	-2	3	19	10	23	27	35	49	20.5
SB	1	1	1	2	1	1	1	2	1.25
SCB	788	1116	1376	1096	1723	2337	3019	3756	1898
SBM	18	17	21	10	12	11	11	11	13.875

Source : RBI Bulletin, 2001-2008.

CONCLUSION

We may conclude that in the post-reform period the new private sector banks and foreign banks made tremendous progress. Normally, it is due to intensive use of IT and having branches in the selected high potential areas. Foreign banks have not even a single branch in the rural sector of India. But on the other hand Public Sector Banks due to social objective have more branches in the rural areas. Some of them are showing very poor performance and RBI has declared them as weak banks. The Indian Banking System has stood the rest of time and having inherent strength to change itself to the changing environment. Proper direction is needed coupled with motivation and innovative spirit of bankers. They are able to turn challenges into opportunities as is evident from the performance of the bank groups under study.

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