

## An Empirical Study on Performance Evaluation of Commercial Banks in India

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### Abstract

The banking sector plays a decisive role in the growth and development of country's economy. Banks create money supply and facilitate allocation of resources from savers to investors. The present study focused on the performance evaluation of banks with reference to deposits, total expenditure and net profit after the second reform phase. The sample of sixteen private sector banks is taken for the study purpose during the period 1998-99 to 2012-13. The tools used to evaluate performance include simple growth rate, exponential growth rate (EGR), mean, standard deviation and coefficient of variation. The analysis reveals that among the private sector banks, the mean of deposits, total expenditure and net profit is highest for ICICI Bank followed by HDFC Bank and Axis Bank occupying the second and third rank respectively. But only in terms of total expenditure, Axis bank is at second rank and HDFC is at third rank. The deposits and total expenditure in terms of dispersion are more consistent with Development Credit Bank and Net profit in terms of dispersion is more consistent with Karnataka Bank. Furthermore among the private sector banks, the EGR of deposits and total expenditure is highest for HDFC Bank and EGR of net profit is highest for Federal

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Bank. The paper concludes with certain suggestions to improve the performance of banks.

**Keywords:** Co-efficient of Variation, Exponential Growth Rate, Performance Evaluation, Private Sector Banks, Second Reform Phase,

### INTRODUCTION

Banks plays a major role in meeting the financial needs of the country and also serves the economy by providing credit. An efficient banking system has significant positive externalities, which increases the efficiency of economic transaction in general. The technology has acted as catalyst for the growth and development of banking industry. The Indian banking system underwent five distinct phases of evolution. The Foundation phase started in 1950s and last till 1969. The Expansion phase began in the mid 1960s, but only to get impetus in 1969, after the nationalization of 14 private banks. This phase continued till 1984. The Consolidation phase started in 1985 when a series of policy initiatives were taken by the RBI which saw marked slowdown in the branch expansion. The Reform phase started in 1991 under the chairmanship of Sri M Narasimham, ex-governor of the RBI. The Second Reforms phase, i.e., Post Liberalization Era started in 1998-99. The second Narasimham Committee (Committee on Banking Sector Reforms) was appointed by P.Chidambaram as Finance Minister and widely came to be known as Narasimham-II Committee (1998).

The performance evaluation of banks is the vital area of concern for the development of banking sector. Therefore in the present study the attempt has been made to determine the performance of private sector banks after the second phase of economic reforms.

### REVIEW OF LITERATURE

Some of the important studies related to the performance of banks are reviewed here:

Sathye (2005) examines the effect of bank privatization on bank performance and efficiency. For this data published by IBA for five years i.e., 1998-2002 are analysed using the difference-of means test. The synchronic approach is used and comparison is made between India's gradual privatization strategy with that of

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