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Analysis of Revenue Efficiency of Scheduled Commercial Banks in India

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ABSTRACT

The objective of the research paper is to analyses the revenue efficiency scores of commercial banks in India divide across its ownership. Return to scale (RTS) of public, private and foreign banks is measured in this paper. The banks were categorized as highest score and lowest score as per the revenue efficiency and its components. In the above research paper the revenue efficiency, allocative efficiency and technical efficiency of public, private and foreign banks are analyzed.

KEYWORDS :- Banks, Revenue, allocative and technical

INTRODUCTION

The efficiency, effectiveness and performance of the banks indicate the success of strategic objective and goal of the firm. Efficiency is elaborated as choice of alternatives that produces the largest output by the application of available or given resources by using the minimum inputs to produce the given output. (A, 1994). Here the research is focus on financial efficiency whereas in existing research maximum of author focus on the technical efficiency of the banks. Prices also need to be taken into consideration to measure the financial stability of the banks as mere input and output relation does not provides the useful information. Financial stability includes – cost, revenue and profit efficiency with consideration of prices. Focus is relatively on cost efficiency input side. cost efficiency tells the relatively performance of the banks as against the best practice firm who produced the same output at the lowest operating costs under the similar technological conditions faced by the concern firm. (L, 2004)

Indian Banking sector which has witnessed many changes during liberalization, globalization and privatization phase. Since 1991 many reforms were introduced in the country like branch relicensing, entry deregulation, change in the interest rate structure, reducing the CRR and SLR rates. On the other hand Indian Banking Sector is dominated by Public Sector banks. Public sector banks were accounted 91 % of total assets of the banking during the year 1992-93. Later on with liberalization of financial sector this share decline with entry of Private sector and foreign banks. Competition among this banks gradually became intense over a period of time.

LITERATURE REVIEW

Aparna Bhatiya(2018) compared the revenue efficiency of Public, private and foreign banks over a span from 1991 to 2013 by using the Data envelopment Analysis technique. In terms of ownership wise result of revenue efficiency and its components public sector banks are in first position in reformatory area, follow by foreign banks and then private banks. During post reform period private sector banks seemed to have picked up their performance in comparison of public and foreign banks. (Mahendru, 2018)

Ram Mohan and Ray (2004) compare the productivity growth and efficiency in Indian Banking : A comparison of Public, Private and Foreign Banks for the period 1991-92. From the result it was found that that public sector banks were comparatively better revenue efficiency and technical efficiency score than private sector banks. (Ray, 2004)

MehruMahendra (2015) In their research study entitled Cost, revenue and profit efficiency analysis of Indian scheduled commercial banks: Empirical evidence across ownership analysis the cost, revenue and profit efficiency and determines the link between efficiency and ownership. It is concluded from the study that Indian commercial banks have not been able to maintain their input output synchronization in terms of cost, revenue and profit. (Bhatia, 2015)

Only these three studies so far from the literature review that consider revenue efficiency of the banks which were mention above in literature review. Only these three studies evaluate the revenue efficiency at point of time in year 2000-01,2004-04,2008-09 and 2012-13. The study cover a period upto only 2012-13 whereas even after this period the banking sector has gone through many transformation. The effect of reforms on revenue efficiency is not analyses in maximum of the research and research were lacking in giving result holistically. Utilization of inputs to give maximum output is one of the objectives allotted to the banks. Therefore by studying the output side along with the revenue efficiency is important.

Research Objectives

- To measure the revenue efficiency score of Public, Private and Foreign Banks.
- To assess the return to scale score of Public, Private and Foreign Banks.
- To identify the banks operating as highest and lowest performing according to the revenue efficiency and its components.

Data and Methodology

The study analyses the revenue efficiency of the banks for 25 years. For deriving more meaningful analysis, the period of 25From 1991-92 to 2016-17.There are few of the banks who merged during this duration. So the number of observation changes as per the ownership during this period.

The paper is based on the secondary data. The data has been collected from banks annual reports, website of RBI and from journals.

Result and Discussion

Revenue efficiency of scheduled commercial banks through its ownership

Here the revenue efficiency score for each bank is calculated over the duration of 1991-92 to2016-17.

Revenue efficiency score of scheduled commercial banks through ownership in India from 1991-92 to 2016-17

	Public Sector Banks			Private Sector Banks			Foreign Banks		
Year	RE	AE	TE	RE	AE	TE	RE	AE	TE
1995-96	0.83	0.9	0.92	0.74	0.89	0.83	0.81	0.84	0.97
1996-97	0.76	0.8	0.95	0.69	0.78	0.89	0.81	0.83	0.98
1997-98	0.83	0.89	0.93	0.71	0.8	0.89	0.81	0.84	0.97
1998-99	0.86	0.91	0.94	0.73	0.85	0.86	0.82	0.85	0.97
1999-2000	0.84	0.95	0.88	0.72	0.89	0.81	0.82	0.9	0.91
2000-01	0.84	0.92	0.91	0.73	0.9	0.81	0.79	0.89	0.89
2001-02	0.83	0.89	0.93	0.66	0.79	0.84	0.65	0.76	0.86
2002-03	0.77	0.84	0.92	0.72	0.8	0.9	0.72	0.78	0.92
2003-04	0.81	0.86	0.94	0.72	0.8	0.9	0.64	0.73	0.87
2004-05	0.75	0.83	0.9	0.63	0.75	0.84	0.70	0.83	0.84
2005-06	0.73	0.78	0.93	0.65	0.73	0.89	0.59	0.67	0.88
2006-07	0.70	0.8	0.88	0.64	0.76	0.84	0.53	0.63	0.84
2007-08	0.75	0.81	0.93	0.69	0.74	0.93	0.54	0.63	0.86
2008-09	0.73	0.79	0.93	0.63	0.68	0.92	0.61	0.67	0.91
2009-10	0.51	0.64	0.8	0.56	0.69	0.81	0.47	0.59	0.79
2010-11	0.84	0.88	0.96	0.85	0.89	0.96	0.69	0.77	0.9
2011-12	0.78	0.86	0.91	0.86	0.91	0.94	0.67	0.72	0.93
2012-13	0.69	0.79	0.87	0.77	0.86	0.89	0.76	0.79	0.96
2013-14	0.54	0.67	0.81	0.75	0.85	0.88	0.72	0.76	0.95
2014-15	0.65	0.72	0.9	0.72	0.82	0.88	0.67	0.77	0.87
2015-16	0.59	0.74	0.8	0.65	0.82	0.79	0.61	0.68	0.9
2016-17	0.53	0.59	0.89	0.67	0.82	0.82	0.59	0.65	0.9

2017-18	0.48	0.61	0.78	0.62	0.78	0.79	0.52	0.6	0.87
2018-19	0.37	0.51	0.72	0.59	0.75	0.79	0.57	0.65	0.88
2019-20	0.38	0.5	0.75	0.57	0.72	0.79	0.65	0.7	0.93
2020-21	0.37	0.51	0.73	0.58	0.73	0.79	0.58	0.72	0.81
Minimum	0.37	0.50	0.72	0.56	0.68	0.79	0.47	0.59	0.79
Maximum	0.86	0.95	0.96	0.86	0.91	0.96	0.82	0.90	0.98
SD	0.16	0.13	0.07	0.08	0.07	0.05	0.10	0.09	0.05
Mean	0.68	0.77	0.88	0.69	0.80	0.86	0.67	0.74	0.90

Source :- Calculated on basis of RBI Statistics Note :- RE :- Revenue Efficiency, AE – Allocative Efficiency & TE :- Technical efficiency

From the above table it can be seen that there is similar trends in revenue efficiency of public and private sector banks over a span period of time. Still private sector banks are leading in revenue efficiency. On the other hands in Allocative efficiency of public sector banks are0.77, private sectors were 0.80 and foreign banks were 0.74. In terms of technical efficiency foreign bank has highly efficient compare to public and private sector banks as per the statistics.

CONCLUSION

The result indicates that private banks were more efficient in terms of revenue efficiency and public and private sector banks were lacking in that. It concluded that deviation in revenue efficiency is highest in public sector banks as the objective of this banks were more on serving to the society than generating revenue. Whereas private and foreign banks were more focus on primary goal of revenue generation. Allocative efficiency of private sector banks werehigh follow by public sector banks and foreign banks. In terms of technical efficiency it is concluded that foreign banks were leading. From the above study it can be concluded that public sector banks has to focus on how they can increase their revenue efficiency as well as technical efficiency in the competitive era.

Conflict of interest statement

Authors declare that they do not have any conflict of interest.

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