OPERATIONAL EFFICIENCY OF BANKS IN INDIA

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ABSTRACT

The present study contributes to the ownership-performance by analyzing the private and foreign banks operating in India, from the view point of their operating activities, to identify the critical factors affecting the efficiency of banks, and to analyze the gap between efficient and inefficient banks and banking sectors. In an effort to promote efficiency in the banking industry and after a period of worldwide liberalization and deregulation which marked the beginning of a new phase of re-regulation, Indian banks are by large yet to adopt model based approaches to assessing the Capital adequacy needs. The study focuses on the two important ratios – Capital Adequacy Ratio (CAR) and Cost Income Ratio (CIR) and finding out the impact of those ratios on the banks performance measure in the profitability ratios – ROA and ROE. The study identifies ways in which the ratio can reflect factors such as differing bank structures, rather than necessarily being a measure of bank performance. The latter part of the paper explores conceptual relationship between Cost-Income ratios and profitability and comparing the public, private and foreign sector banks in relevance with their operational efficiency and profitability of those banks. For measuring the bank's profitability and measuring the efficiency, few financial ratios such as ROA, ROE, interest rate spread, and Equity asset ratio, and Total asset ratio, size of the bank, aggregate growth, and business per employee are being used to evaluate and regress the impact of cost to income ratio on the profitability ratios of banks.