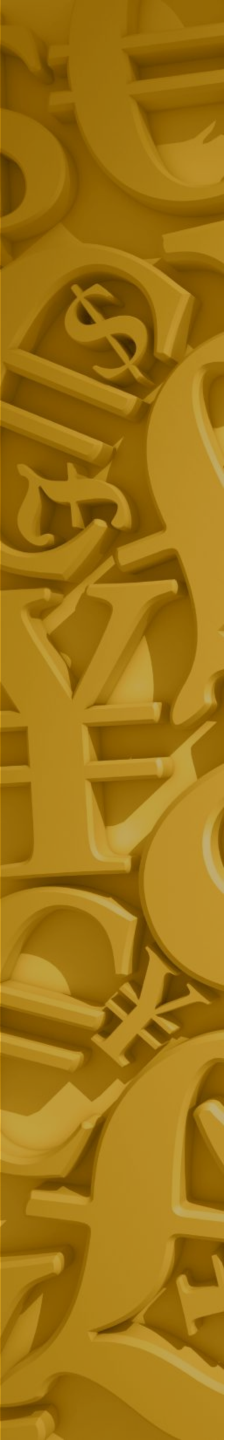

Public Vs Private Banks

Project 3
Group 6
Subject: Economics

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Introduction

- “A bank includes a body of persons, whether incorporated or not, who carry on the business of banking”
- “Bank is an institution, which deals in money and credit”

Process of Profit:

- Lends money at rates higher than the cost of the money they lend
- Collects interest on loans and interest payments from the debt securities they own, and pay interest on deposits, CDs, and short-term borrowings.

Banking history in India

First Banks: **Bank of Hindustan** (1770-1829)

The General Bank of India, estd. 1786.

SBI: Largest and oldest in India, estd. 1806

Reserve Bank of India: Country's national banking institution

Estd. 1935

Public Sector Banks

State Bank of India

Bank of Baroda

Canara Bank

Central Bank of India

Union Bank of India

Oriental Bank of Commerce

IDBI BANK

UNITED BANK OF INDIA

Public Sector Banks

- Major stack is held by the government (more than 50%)
- 27 Public Sector Banks in India
  - 19 Nationalized Banks
  - 6 State Bank Groups (SBI + 5 Associates)
  - IDBI
  - BMB (Bharatiya Mahila Bank)

Emergence of Public Sector Banks in India

- Nationalization is the process of transforming private assets into public assets by bringing them under the public ownership of a national government or state. Nationalization usually refers to private assets or assets owned by lower levels of government, such as municipalities, being transferred to the state.
- The main reason behind this is the nationalization process

Nationalization in 1969 By Govt. of India

- After independence the Govt of India adopted planned economic development for the country (India). Accordingly, five year plans came into existence since 1951. This economic planning basically aimed at social ownership of the means of production. However, commercial banks were in the private sector those days. In 1950-51 there were 430 commercial banks. The Government of India had some social objectives of planning. These commercial banks failed helping the government in attaining these objectives. Thus, the government decided to nationalize 14 major commercial banks on **19th July, 1969**. All commercial banks with a deposit base over Rs.50 crores were nationalized**. It was considered that banks were controlled by business houses and thus failed in catering to the credit needs of poor sections such as cottage industry, village industry, farmers, craft men, etc.**

- All nationalized banks are **Public sector** bank but all the public sector banks are not **Nationalization bank**.

Objectives of Public Sector Banks

- Social Welfare
- Controlling Private Monopolies
- Expansion of Banking
- Reducing Regional Imbalance
- Priority Sector Lending
- Developing Banking Habits

Demerits, Limitations - Bank nationalization in India

- The reasons were obvious lethargic working, lack of accountability, lack of profit motive, political interference, etc.
- Inadequate banking facilities
- Limited resources mobilized and allocated
- Lowered efficiency and profits
- Increased expenditure
- Political and Administrative Inference

Private Sector Banks

AXIS BANK

HDFC BANK
We understand your world

IDFC
IDFC BANK

SOUTH INDIAN Bank

kotak

ICICI Bank

YES BANK

FEDERAL BANK
YOUR PERFECT BANKING PARTNER

IndusInd Bank

Emergence of Private Sector bank in India

- Banking in India has been dominated by public sector banks since the 1969 when all major banks were nationalized by the Indian government. However, since liberalization in government banking policy in the 1990s, old and new private sector banks have re-emerged.

Private Sector Banks

- A major part of Indian Banking System
- Significant parts of stake or equity are held by the private shareholders and not by government
- The private sector banks are split into two groups by financial regulators in India, **old** and **new**.

Old-Private Sector Banks

- The banks, which were not nationalized at the time of bank nationalization that took place during **1969 and 1980** are known to be the old private-sector banks.
- They were not nationalized due their small size or regional focus
- I.E.
  - City Union Bank
  - Federal Bank
  - ING Vyasya Bank
  - Jammu and Kashmir Bank
  - South Indian Bank
  - Federal Bank

New Private Sector Banks

- Banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called "new private-sector banks"
- Criteria of establishment
  - Bank should have min. net worth Rs. 200 Crores
  - promoters holding should be >25%
  - Bank should offer shares to public within 3 years
- I.E.
  - Axis Bank
  - Bank of Punjab
  - ICICI Bank
  - IndusInd Bank
  - Yes Bank
  - HDFC bank

Objectives of Private Sector Banks

The main objective of a private sector bank is to earn its profit.

They are also playing a part to improve economy too by helping the government to solves various issues of economy (not directly) .

Pros and Cons of (Private vs Public) bank

- More opportunities for promotion as the company grows.
- These jobs tend to pay higher.
- More prestige, and the private sector is supposedly more efficient.
- Less bureaucracy
- They are focused more in how to increase their own profit,rather than step up the country economy

- It’s determines the growth of a whole economy rather than just an individual’s company.
- The jobs tends to pay comparatively lesser than private banks,due to less expectation from an individual.
- Not all public sector banks are that much efficient.
- Comparatively more bureaucracy than Private sector bank
- The same opposite thing follows the public sector bank

Pros and Cons of (Private vs Public) bank

- Processing charges are higher.
- Interest rates are higher(One Attraction for the customers).
- Technological advancement.
- Heavy prepayment charges,like in loans
- Door to Door services have been provided by the private sector banks through their agents.
- As the management is totally under the hands of a private company the scope for the Jobs is higher for the relatives and for friends, it also play an essential role towards an unemployment.

- Processing charges are lesser.
- The profit is not that much due to that public sector bank always offer less interest rates(Not in all public sector banks).
- Not all public sector banks are fortunate to have advanced technology.
- Comparatively lesser prepayment charges.
- It’s not that much efficient the private sector banks.
- The chances of unemployment is lesser than private sector bank because here the government comes into the picture as a management.

Pros and Cons of (Private vs Public) bank

- The same thing can be apply in services too,because the one who gives the bank more profit he or she will definitely get benefits from the bank.
- They are more focusing on the profit due to that the rural area will not able to get the all services,and it lead to unbalanced growth.

- There are less chances for this kind situations.

- They are try to minimize the gap of urban and rural area so this kind of situation won't happen in public sector bank.

General case study of Loan

How to decide from which bank you should take loan?

Private banks or public banks?

Processing Fees

- Most of private banks are dependent on their agents to get the loans to their doorstep
- Methods for charging fees
  1. Specific Percentage on total loan amount
- Normally private banks charge 0.5%-1% as processing fees of any loan
- Public sector are not aggressive in entertaining agents and hence have their processing fees generally low starts from 0.25% or fixed amount.

Paper work, efficiency and turnaround time

- Better management and faster processing times than their counterparts. Their DSA's have strict sales target every month and hence move faster to improve their performances.

- They are NOT bother about their performances most of the time. So, they move a bit slow but they are steady in their process.

Interest rates fluctuation

- Interest rate increases in private banks as soon as RBI increases its REPO rate, but do not decrease with same speed when the REPO rate decreased at least for the existing loan customers.
- But this is not the case in public sector banks.They provides same interest rate policy for all the customers.
- As competition increased rapidly, private sector banks also started floating type interest rates for all the customers.

But in general interest rate is lesser in public sector bank than private sector bank.

Prepayment charges

- Private sector banks generally charge you 2% of the OUTSTANDING loan.
- If you have an outstanding loan of 10 lakhs and you are making a prepayment of 2 lakhs, you need to pay them 2% of 8 lakhs as prepayment charges!! That’s a whopping Rs. 16,000 penalty to reduce your loan by 2 lakhs.

- Public sector banks do NOT charge you a penny to prepay (read their terms and conditions). So, they score a plus point for the customer here.

Prepayment Period

- Normally, they put up a clause that you cannot prepay any amount before completing 180 day (6 months) of your loan.
- This period differ from private bank to private bank.

- In public bank also you can’t prepay any amount before completing 6 months, so one can easily say that the prepayment period is fixed for all public sector banks.

Pre-payment Amount

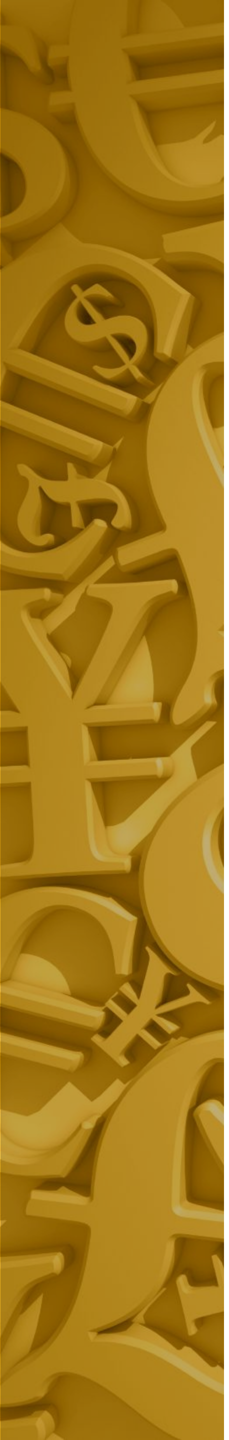
- They are too concerned about pre-payments as it is a loss of income. Generally, a customer cannot pre-pay more than 25% of outstanding loan in a single year.

- Again, no such clause here. customer can pre-pay any amount which he or she like.
- This is helpful if customer has some lump sum amount from some other sources of income and he or she wants to reduce his or her loan.

But now because of competition private bank removes prepay amount limitation.

Conclusion

- After all, a loan is a product that the bank is selling to its customer i.e. you. They need to make profit out of it else, it does not make any sense to do business for them!
- But as a customer, you should try to buy a product whose cost is as low as possible in both short and long term manner. So, make a wise decision considering the above facts.
- It is differ from a customer to customer from where he/she wants to buy a product.



Case Study On Saving account

- **Axis Bank vs SBI**

Case Study of saving

Axis Bank :-

- 1) Axis Bank offers multiple Savings Bank accounts to suit different needs. Some of them are "Easy Access" Savings Account, Pension Savings Account, Youth Account, Women's Savings Account, Future Stars Saving Account, Trust/NGO Savings Account, Senior Privilege Savings Account, etc.
- 2) Transaction Limit :- It allowed up to 20 transactions every month at any Axis Bank branch, free of charge. Transactions include cash withdrawals / deposits and requests for demand drafts / pay orders.
- 3) Special Prime plus Saving Account :-Holder is entitled to higher transaction limits, entertainment, pricing and reward benefits and the flexibility of maintaining an average monthly balance of ₹ 1 lakh in their savings account.

- 4)Interest Charge : - Axis Bank customers can earn an attractive interest of 4% on their savings accounts.
- 5)Minimum balance required to be maintained   :-

Savings Account Type	Minimum Balance Amount
EasyAccess Savings Account	Rs.10,000
Prime Savings Account	Rs.25,000
Future Stars Savings Account	Rs.2,500
Prime Plus Savings Account	Rs.1,00,000
Women's Savings Account	Rs. 10,000
Senior Privilege Savings Account	Rs. 10,000
Basic Savings Account	Nil

- 6)Benefits of Senior privilege Saving account :- Special bill payment facility at all Axis Bank branches, 20-60% discount at over 600 diagnostic centers for health check-ups, 15% discount on purchases from Apollo Pharmacies, a special senior’s Id card for emergency purposes, and many more such benefits.

Savings Accounts

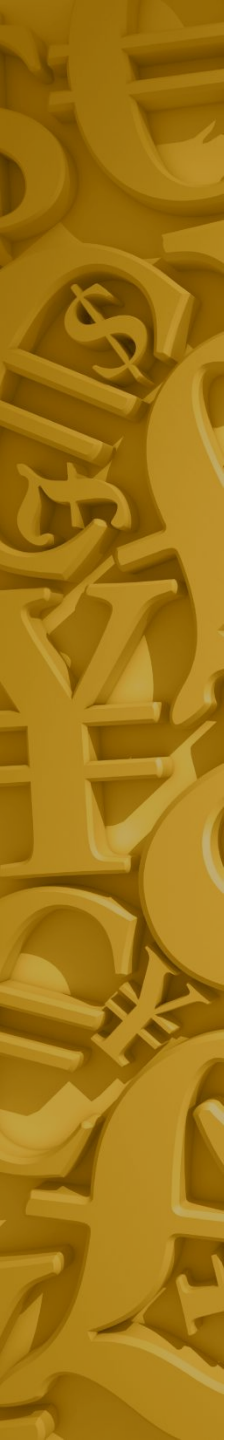
SBI Bank :-

- 1) SBI offers various types of accounts like Savings plus, yuva saving, Basic saving, Small savings, Savings account for minors.
- 2) SBI gives 4% interest rate for all savings account.
- 3)There is no upper bound for deposit and withdrawal but for security purpose we have to provide PAN card for transaction above ₹ 50,000. lower bound is ₹ 50.
- 4) SBI provides salary accounts with special features and benefits to employees of corporates, universities, colleges, schools, Government establishments, railways, police and defence personnel, and so on.

- 5)Minimum balance required to maintain :-

Savings Account	Minimum Balance Required	Debit Card Issued
Savings Plus Account	INR 25,000	Basic ATM-Debit Card
Yuva Savings Account	Not Required	Multiple variants
Basic Savings Account	Not Required	Basic ATM-Debit Card
Small Savings Account	Not Required	ATM cum Debit Card
Savings Account For Minors	Not Required	Photo ATM cum Debit Ca

- 6)Special features :-savings account does not require a minimum balance and provides ATM/Debit card, net banking and mobile banking facilities.



Case Study on Current account

ICICI vs SBI

Case Study of Current Accounts

ICICI Bank

- Provides Regular(Turnover<2Cr), Premium(for bigger domestic business) and Trade (for import/export like business) current accounts according to need
- Unlimited free on value(Base Location)
- Combined free limit up to 12 times of maintained MAB(Monthly Average Value) during transaction month or Rs 12.0 Million whichever is lower.
- No Overdraft facility available.
- Debit card charges Rs.250/Yr.
- You have to pay Rs. 5 per page for statement of account issued as per requirement through fax (Daily/ Weekly / Fortnightly / Monthly).
- Account transaction notification via mobile is available free

Current Accounts

SBI

- Provides only one type of current account type.
- No restrictions on number of Payments / Withdrawals
- Overdraft facility Available
- Free ATM / Debit Card in the 1st year; charge from 2nd year onwards.
- Free statement of account is issued as per requirement (Monthly/Quarterly/Half-Yearly/Yearly) via E-Mail.

Cotd.

- No mobile alerts Available
- For pension drawing accounts, a 50% concession is allowed both in minimum balance requirements as well as in service charges.
- Minimum balance required to be maintained in a Current Account :-

	Metro	Urban	Semi-urban	Rural
1.Individual Accounts	Rs 5000/-	Rs 5000/-	Rs 5000/-	Rs 2500/-
2.Non-Individual accounts	Rs 10000/-	Rs 10000/-	Rs 10000/-	Rs 5000/-

Customer Satisfaction

- If we group the Indian Customers according to wealth we find four classes of people:-
  - Poor Class
  - Lower Middle Class(With low income)
  - Upper Middle Class(With Medium Income)
  - Rich Class People
- Now if we qualitatively analyze this situation we can draw some Interesting inferences:-
  - Poor class people generally don't have bank accounts, so we cannot measure customer satisfaction level for them.
  - The remaining three class provides us with some meaningful comparison.

Factors affecting Customer’s Satisfaction

- Banking Technology.
- Behaviour of Banking Staff.
- Banking Services.
- Banking Schemes.
- Number of Branches all over the nation.

Contd.

So, we have taken data from a research paper:-

http://indianresearchjournals.com/pdf/APJMMR/2013/July/13.pdf

Let’s see the data:-

They did survey of 120 peoples of different demographics as shown below:-

Parameters	No. of Respondents	Percentage (%)
Gender		
Male	83	69.16
Female	37	30.84
Total	**120**	**100**
Age Group		
Below 25	58	48.34
Between 25-35	19	15.83
Between34-45	16	13.33
Above 45	27	22.5
Total	**120**	**100**
Occupation		
Business	26	21.67
Service	19	15.83
Self-employed	14	11.67
Others (Stu. HWs etc.)	61	50.83
Total	**120**	**100**
Qualification		
Under Graduate	31	25.83
Graduate	49	40.84
Post Graduate	39	32.5
Others	1	0.83
Total	**120**	**100**
Annual Income		
Below 1,50,000	69	57.5
Between 1,50,000-3,00,000	26	21.67
Between 3,00,000-5,00,000	22	18.33
Above 5,00,000	3	2.5
Total	**120**	**100**

Contd.

They did survey on following Factors:-

- Reliability-The bank provides reliable and error free services and assistance.
- Responsiveness-The bank employees are always ready to help and consult the customers when need arises
- Assurance-Customer's confidence on the transactions and financial services provided by the bank
- Empathy-Conveniency provided to the customer.
- Tangible-Appearance of bank properties and employees

Based on the above factors the data gathered is as Shown Below:-

Sr. No.	Service quality	Public Sector Bank (Mean)	Private Sector bank(Mean)
	Reliability		
1	When my bank promises to do something by a certain time, it does so.	2.2833	4.0333
2	When I have problem, my bank shows sincere interest in solving it.	2.65	4.0166
3	My bank delivers error free records	3.0666	3.6666
	Responsiveness		
4	Employee in my bank gives prompt service.	1.8666	3.8666
5	Employees in my banks are always willing to help me.	3.15	3.85
6	Employee in my bank will tell me exactly when the service will be performed.	2.35	3.9
	Assurance		
7	The behavior of employees in my bank will instill confidence to me.	3.05	3.4166
8	I feel safe in my transaction with my bank.	3.8833	3.35
9	Employees in my bank are consistency courteous with me.	3.55	3.85
10	Employees in my bank have the knowledge to answer my questions	3.25	3.5166

Sr. No.	Service quality	Public Sector Bank (Mean)	Private Sector bank(Mean)
11	The employee of my bank understands my specific need.	3.20	3.1833
12	My bank has operating hours convenient to all its customers.	2.6333	3.75
13	My bank gives me individual attention.	3.0833	3.45
	Tangible		
14	My bank has modern looking equipments.	2.7666	3.9833
15	My bank's employees are neat appearing.	2.8166	4.1166
16	My bank's physical facilities and amenities are satisfactory.	2.95	4.1333

Inference

From this data we Infer that:-

- A customer gives highest importance to reliability dimension.
  - Within this dimension they focuses more on how fulfillment of bank’s promise to work and their interest to do work.
- Further customers give more second and third most importance to the responsiveness and assurance factors respectively.
- So, the banks should give more focus on improving reliability, responsiveness and assurance factors, and give training to staffs according to that.
- And at last we find that generally the customers are more satisfied from private banks though they charge more for their services.

Article analysis

How PSU banks lose out to private peers

Tamal Bandyopadhyay, live mint, E-paper, Mon, Jun 08 2015

Statistics provided in the article

- Among 39 listed banks in India—both private and public—four recorded net losses in the March quarter, and three of them are public sector banks.
- They are Bank of India, Oriental Bank of Commerce and Punjab and Sind Bank.
- At least nine other public banks recorded a drop in net profit compared with the year-ago quarter; and for a few of them, the drop has been pretty sharp.

Statistics provided in the article

- For instance, Punjab National Bank (PNB) posted a 62% drop in net profit; for Dena Bank, United Bank of India (UBI) and Indian Overseas Bank (IOB), the drop in net profit was even sharper—between 70% and 87%.
- Two private banks that posted a drop in the March-quarter net profit are Jammu and Kashmir Bank Ltd and South Indian Bank Ltd.

Reason for the drop in net profits

- The sole reason for the losses and the drop in net profits is ballooning bad assets, for which banks need to set aside money.
- Fourteen Indian banks now have at least 5% or more gross bad loans and, barring two, all are public sector banks.
- UBI's gross bad loans are 9.49% of loan assets and those of IOB, 8.33%.
- Similarly, the seven banks that have between 4% and 5% bad assets are all public sector banks.
- Of the five banks that have 3-4% gross bad assets, four are from the public sector.

•ICICI Bank Ltd is the lone private sector entry into this segment. After setting aside money for such loans, 13 banks have at least 3% or more net non-performing assets (or NPAs) and barring one, all are from the public sector.

•Provisions on account of bad assets have eaten into their net profit, even though not too many banks have shown a drop in their operating profit.

• For instance, PNB's provision for bad loans rose 161% in the March quarter over the December quarter—from Rs.1,468 crore to Rs.3,834 crore; for Punjab and Sind Bank, the rise has been 150% and for Syndicate Bank, 146%. Among others, IDBI Bank Ltd.'s provision rose 80%, that of Bank of Baroda 44%, and Bank of India 43%.

“Separating the men from the boys.”

- Analysis by Ashwin Ramarathinam and Ravindra Sonavane from *Mint*’s research wing which focused on 14 listed private banks and 25 listed public sector banks.
- In almost every parameter, private banks are doing better than their peers in the public sector and their market share has been growing.
- In fiscal year 2014, private banks’ operating profit was almost flat, but in 2015, it rose 19%.
- In contrast, public sector banks’ operating profit dropped close to 6% in 2014 and rose about 8% in 2015.

•After setting aside money for bad loans, private banks' net profit rose 17.66% in 2014, while in 2015, the growth was 18.11%.

•Public banks' net profits dropped a little more than 26% in 2014 and just about 1% in 2015.

•Public banks' gross NPAs grew close to 25% in 2015 after surging 37% in the previous year, while gross NPA growth for private banks was 30% and 15% in those two years respectively, albeit on a lower base.

• Post provisions, net NPAs of public banks grew 42% in 2014 and 26% in 2015. The comparable figures for private banks are 45% and 43%—again on a relatively smaller base.

- What is more interesting to note is that public sector banks are lagging behind private banks both in deposits and advances growth.
- In 2015, public sector banks' business growth has been almost half that of private banks.
- For instance, public banks' deposit growth has been 9.13%, against private banks' 16.16%; similarly, private banks' advances grew close to 19%, compared to 8.13% for public banks.

The outcome

- As a result, private banks' market share has been growing steadily.
- In the past two years, their share in operating profit has grown from 29.13% to 32.59%, while that of net profit has jumped from close to 35% to more than 50.5%, even as their deposits and advances continue to remain one-fifth of public sector banks' despite steady growth.
- Public sector banks' market share of deposits in the past two years has slipped from 81.82% to 80.92%, and that of loan advances from 80.72% to 78.72%.

- In other words, with roughly one-fifth of market share in bank deposits and advances, private banks account for more than half the net profit of the industry.
- This is possible because their market share of gross NPAs is a shade less than 10% and net NPAs around 7%. Incidentally, the 14 listed private banks' total net profit is about 25% more than their gross bad assets, while the 25 listed public sector banks' gross bad assets are almost seven-and-a-half times their net profit.

Thank you