

“A Review of Public and Private Sector Banks' Performance in India Utilizing the CAMELS Model”

¹Mr. Ashish M. Vyas, ²Dr. Ashvin Solanki

¹Research Scholar, Department of Commerce & Business Administration, Saurashtra University, Rajkot

²Professor, Department of Commerce & Business Administration, Saurashtra University, Rajkot

Email - ¹vyas.ashoo@gmail.com, ²drashvinsolanki@yahoo.com

Abstract: Banks constitute a crucial element of any economy's financial framework, and a robust banking sector is imperative for sustained economic strength. With the intricate interconnection between India's financial system and its banking sector, ensuring the stability and strength of banks has become a top priority. If something goes wrong with the banks, it can cause problems for the whole financial system. It's like when one thing falls, it makes everything else fall too. Hence, it becomes imperative to assess and measure the strength of the banking industry to foster efficient economic growth. In this context, the CAMEL model has emerged as a pivotal tool for evaluating the performance of banks. This review paper aims to understand and investigate deeply the performance of banks, shedding light on the financial status of both private and public sector banks. Particularly, drawing from the prior research conducted by numerous scholars, the analysis suggests that Indian banks, whether in the private or public sector, are diligently prioritizing the maintenance of sufficient capital reserves. However, there remains a pressing need for continual efforts toward surpassing the mandated thresholds. Furthermore, the paper emphasizes the necessity for private and public sector banks to innovate and strategize in order to effectively channel funds, considering the distinctions of their risk exposure.

Key Words: Banks, Economy, Financial System, CAMEL Model, Capital Reserves, Risk Exposure

INTRODUCTION:

As India celebrates AMRUTKAL and an amazing growth as one of the fastest-growing economies in the world, one sector which has played a vital role in the prevention from failing economy is undoubtedly the banking sector. The banking sector's performance is seen as the exact copy of the economic activities of the nation as a healthy banking sector system acts as the basic facts of solid economic and industrial growth of a Nation.

The Indian banking system comprises 12 public sector banks, 21 private sector banks, 44 foreign banks, and 12 small finance banks. As of December 2023, India had 16,88,558 micro-ATMs, 1,26,205 on-site ATMs and Cash Recycling Machines (CRMs), and 93,671 off-site ATMs and CRMs. Banks installed 2,796 ATMs in the first four months of FY23, compared to 1,486 in FY22 and 2,815 in FY21. All new bank accounts in rural areas are now opened digitally, and BCG forecasts that digital payments will reach 65% by 2026.

In 2023, the total assets of public sector banks were US\$ 1686.70 billion, while private sector banks held assets worth US\$ 1016.39 billion. Public sector banks made up 58.31% of the total banking assets, including those of public, private, and foreign banks. Interest income for public banks was US\$ 102.4 billion, and for

private banks, it was US\$ 70 billion in 2023. India's digital lending market has grown at a CAGR of 39.5% over ten years, with the digital consumer lending segment expected to exceed US\$ 720 billion by 2030, accounting for about 55% of the projected US\$ 1.3 trillion digital lending market. As per the RBI, deposits in all scheduled banks reached Rs. 200.6 lakh crore (US\$ 2,414.15 billion) by January 26, 2024.

Concept of CAMELS Rating System:

Padmanabhan Working Group (1995) recommended two supervisory rating models named as CAMELS for rating of Indian commercial Banks and Foreign Banks. The CAMELS rating system is a comprehensive framework used to evaluate the overall health and stability of banks. This system assesses six critical components, each represented by a letter in the acronym CAMELS:

Capital Adequacy: This component measures a bank's capital strength, evaluating its ability to withstand financial stress and absorb potential losses. A strong capital base ensures the bank can continue operating even in adverse conditions.

Assets: This category examines the quality and risks associated with the bank's assets, including loans and investments. It assesses how well the bank manages its asset portfolio and the likelihood of those assets defaulting or losing value.

Management Capability: This component evaluates the competence and effectiveness of the bank's management team. It considers their ability to identify, measure, monitor, and control risks, as well as their ability to adapt to changing economic conditions.

Earnings: This category assesses the bank's profitability and ability to generate income. It examines the consistency and sustainability of earnings, which are crucial for the bank's long-term viability and growth.

Liquidity: This component measures the bank's ability to meet its short-term obligations without incurring unacceptable losses. It evaluates the availability of liquid assets that can be quickly converted to cash to cover withdrawals and other immediate needs.

Sensitivity: This category assesses the bank's exposure to market risks, such as interest rate fluctuations and other external financial factors. It examines how sensitive the bank's earnings and capital are to these risks.

The CAMELS rating system uses a scale from one to five for each of these components:

- A rating of one indicates the highest level of performance and lowest level of risk.
- A rating of five signifies the poorest performance and highest level of risk.
- A composite rating is then assigned to the bank based on these individual assessments, providing an overall indicator of its financial health and stability.

OBJECTIVES:

- ✓ To understand the CAMEL model concept from a research perspective
- ✓ To assess the applicability of the CAMEL model
- ✓ To identify the appropriate research methodology

REVIEW OF LITERATURE:

Hanumatha Rao and Subhendu (2013) conducted a study analysing the Return on Assets (ROA) for public and private sector banks in India. Their research indicated that public sector banks dominate the industry, yet private sector banks excel in ROA performance. The study examined 22 banks from both sectors over the period from 2009-2010 to 2011-2012. Key factors affecting ROA included provisions, spread ratio, contingencies, non-interest income, CD ratios, operating expense ratios, capital adequacy ratios, and investment deposit ratios. It was found that the CD ratio did not influence ROA for public sector banks, whereas it had a positive impact on ROA for private sector banks.

Karthikeyan and Shangari (2014) utilized the CAMEL model to evaluate the financial health of selected private-sector banks in India. The study aimed to showcase the comparative financial status and performance of each bank over a five-year span from 2009 to 2013. Focusing on six private sector banks, the researchers examined statistical data including net profit, total assets, and market capitalization, particularly for the year 2013. This analysis provided a comparative assessment of the banks' financial performance.

Nathwani (2015) conducted a study examining three public sector banks State Bank of India, Bank of Baroda, and Punjab National Bank and three private sector banks Axis Bank, HDFC Bank, and ICICI Bank. Data for these banks was collected over a ten-year period from 2005 to 2015. Using the CAMEL model, the study focused on various ratios to evaluate overall profitability. The results indicated that public sector banks were less profitable compared to private sector banks.

Srinivasan and Saminathan (2016) applied the CAMEL model to assess and rank the financial performance of banks. Their study included public sector banks, private sector banks, and foreign banks, covering the period from 2012 to 2014. The analysis revealed significant differences in the mean values of CAMEL ratios across the three categories of banks, indicating variations in financial performance and overall health among public sector, private sector, and foreign banks during the study period.

Kaur and Priya (2017) analysed the financial performance of Bank of Baroda and Punjab National Bank using the CAMELS model. They used secondary data from a five-year period, 2011-12 to 2015-16, and

calculated six ratios based on the CAMELS framework. To evaluate the financial performance of these banks, they employed the t-test as their statistical tool. The data analysis was conducted manually, without any software assistance. The study concluded that Bank of Baroda exhibited better financial performance compared to Punjab National Bank.

Purohit and Bothra (2018) assessed the performance of two major banks, SBI and ICICI Bank, using the CAMEL parameters. The study aimed to evaluate different operational aspects of these banks. The researchers concluded that ICICI Bank should focus on enhancing its capital adequacy and asset quality. Conversely, they identified that SBI needed to improve its management efficiency, earning quality, and liquidity. These findings point out specific areas where each bank can work to improve their overall performance.

Panboli and Birda (2019) evaluated the performance of selected private and public sector banks. They analysed five private sector banks ICICI, HDFC, Axis, YES, and Kotak Mahindra—and five public sector banks—SBI, PNB, BOB, UBI, and Canara Bank. The data spanned five years, from the 2012-2013 to 2016-2017 financial years. Using the CAMEL rating system, they found that HDFC and Axis Bank outperformed the others, while PNB and Canara Bank were among the lower performers. The study ultimately concluded that, across all CAMEL parameters and their sub-parameters, private sector banks performed better than their public sector counterparts.

Gupta and Singhal (2020) conducted a study to evaluate the financial health and performance of 21 Indian public sector banks over a ten-year period, ranking them based on their performance. The findings revealed that 13 banks in the sample achieved a Capital Adequacy Ratio (CAR) higher than the RBI's required 12% for public sector banks, with the other banks averaging around 11%. Bank of Baroda excelled with an average CAR of 13.33%, earning the top position in capital adequacy. This indicates that most public sector banks are striving to maintain sufficient capital, highlighting the importance of all banks exceeding the regulatory threshold in the future. However, public sector banks still face significant challenges with Non-Performing Assets (NPAs), which constitute nearly 75% of the total NPA burden. The NPA growth rate reached 22% per annum, illustrating the substantial obstacle NPAs present to the growth of public sector banks.

Joshi et al. (2021) study the financial health of the Indian banking industry, a critical component of the nation's economic growth, was examined through a study focusing on the two largest private and public sector banks in India. The analysis included key financial indicators such as net profit margins, liabilities, assets, income, expenses, and return on equity ratios, covering data from 2015 to 2019. The results indicated that private-sector banks outperformed their public-sector counterparts. Notably, HDFC Bank excelled over ICICI Bank among private banks. In the public sector, State Bank of India (SBI) showed stability and delivered consistent returns to investors, whereas Bank of Baroda exhibited greater volatility with more variable returns.

Gautam and Kanoujiya (2022) explores the impact of rural local banks on digital literacy. The results show that these banks play a significant role in enhancing India's economic growth and technological proficiency. Improving financial and technological literacy can help alleviate poverty and stimulate economic development. Raising awareness and providing training on digital banking usage can greatly benefit rural communities.

Suman and Swati (2023) assess the performance of 12 commercial banks, including 7 from the public sector and 5 from the private sector, by examining fifteen financial ratios. The evaluation involves calculating a six-year average for each bank using the arithmetic mean, followed by ranking them. The analysis is based on secondary data sourced from the Statistical Tables related to banks in India. Descriptive statistics are utilized, and a one-way ANOVA is conducted to determine if there are significant differences in the CAMEL ratios between public and private sector banks. The results indicate that private sector banks outperform public sector banks, with Kotak Bank ranking third and Bank of India ranking last among the banks analysed.

CONCLUSION:

This study highlights public and private sectors bank's crucial role in sustaining economic growth. Through systematic evaluation, aspects like capital adequacy, asset quality, and management capability are assessed, aiding stakeholders in informed decision-making. Both sectors strive to maintain capital reserves, though improvements are needed for profitability. Innovation and strategic planning are emphasized for effective fund management and risk mitigation. Private banks exhibit superior performance, signalling the benefits of agility in operations. Overall, the banking sector's stability is paramount for India's financial health, necessitating collaborative efforts from policymakers, regulators, and stakeholders to ensure resilience and prosperity.

REFERENCES:

- Gautam, R. S., & Kanoujiya, J. A. G. J. E. E. V. A. N. (2022). Role of regional rural banks in rural development and its influences on digital literacy in India. *Iconic Research and Engineering Journals*, 5(12), 92-101.
- Hanumatha Rao, P., & Subhendu, D. (2013). ROA analysis of public and private sector banks in India: A comparative study. *Amity Business Review*, 14(2), 67-74.
- Joshi, D., Thakkar, S., Machhi, R., & Chauhan, D. (2021). Financial performance analysis of the banking sector in India. *European Journal of Molecular & Clinical Medicine*, 8(3), 3129-3136.
- Karthikeyan, P., & Shangari, B. (2014). Calibrating financial soundness among selected private sector banks in India by using the CAMEL model. *International Journal of Multidisciplinary Research and Review*, 4(4), 449-454.

- Kaur, M. R. P. (2017). Evaluating the performance of public sector banks "Bank of Baroda and Punjab National Bank": An application of the CAMEL model with capital and earning parameter. *Asian Journal of Research in Business Economics and Management*, 7(5), 258-270.
- Nathwani, D. B. (2015). Financial performance appraisal of the Indian banking sector: A comparative study of selected public and private sector banks in Gujarat.
- Panboli, S., & Birda, K. (2019). CAMEL research of selected private and public sector banks in India. *International Journal of Innovative Technology and Exploring Engineering (IJITEE)*, 8(12).
- Purohit, A. P. B. (2018). A CAMEL model analysis of selected public and private sector banks in India. ASAR International Conference.
- Singhal, P. K. (2020). An analysis of public sector banks' performance using the CAMEL rating model. *International Journal of Financial Management*, 10(September), 24-37.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3691543
- Srinivasan, S. (2016). A CAMEL model analysis of public, private, and foreign sector banks in India. *Pacific Business Review International*, 8(9), 45-57.
- Suman, S., & Swati, S. (2023). Comparative performance analysis of selected commercial banks in India: CAMEL model. <https://doi.org/10.4108/eai.16-12-2022.2326178>
- <https://www.ibef.org/industry/banking-india>