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Analysis Between Public Sector Bank V/S Private Sector Bank

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Abstract- The banking sector plays a fundamental role in the financial infrastructure of any economy. It acts as an intermediary between depositors and borrowers, mobilizing savings and allocating funds for productive use. As economies globalize and digitize, the banking industry has undergone rapid transformation, shifting from traditional banking to a tech-enabled, customer-centric model. In India, this transition has been accelerated by regulatory reforms, market liberalization, and the rise of financial technology.

I. INTRODUCTION

1.1 Background

The banking sector plays a fundamental role in the financial infrastructure of any economy. It acts as an intermediary between depositors and borrowers, mobilizing savings and allocating funds for productive use. As economies globalize and digitize, the banking industry has undergone rapid transformation, shifting from traditional banking to a tech-enabled, customer-centric model. In India, this transition has been accelerated by regulatory reforms, market liberalization, and the rise of financial technology.

The Indian banking system is broadly categorized into public sector banks (PSBs) and private sector banks (PVBs). While PSBs have a long-standing presence, especially in rural and semi-urban regions, private banks have carved a niche through better customer service, quicker decision-making, and advanced use of technology.

1.2 What is Bank?

A bank is a financial institution licensed to receive deposits and make loans. In India, the definition of banking is laid down by the Banking Regulation Act of 1949, which states that banking involves accepting public deposits for the purpose of lending or investment, repayable on demand or otherwise.

Banks are categorized based on ownership (public/private), structure (commercial/cooperative), and function (development, agricultural, savings, central). They provide essential services such as savings accounts, loans, fund transfers, investment options, and digital transactions. They also perform agency and utility functions like issuing credit cards, lockers, and managing foreign exchange.

1.3 Privatization of Indian Banking

Privatization refers to the transfer of ownership from public to private hands to improve efficiency and competitiveness. In the Indian context, privatization of banking began as part of the broader economic reforms in 1991. The Narasimham Committee recommended reducing government stake in banks and enhancing operational autonomy.

Private banks like HDFC, ICICI, and Axis Bank emerged as leading players by adopting modern infrastructure, customer-centric approaches, and technology-driven services. While PSBs faced challenges like high NPAs and outdated systems, privatization pushed the sector towards modernization and market-driven practices.

1.4 Indian Banking System

The Indian banking system operates on a multi-tier structure headed by the Reserve Bank of India (RBI). It includes:

- Scheduled Commercial Banks (Public, Private, Foreign, and Regional Rural Banks)
- Co-operative Banks
- Development Banks

This system supports savings mobilization, credit expansion, and economic development. It also plays a role in implementing monetary policy, ensuring financial stability, and promoting financial inclusion.

1.5 Reserve Bank of India

The RBI is the apex regulatory authority for banking in India. Its core functions include:

- Formulating and implementing monetary policy
- Issuing currency
- Regulating and supervising financial institutions
- Managing foreign exchange under FEMA
- Acting as banker to the government and other banks

RBI's role is pivotal in maintaining liquidity, controlling inflation, and fostering confidence in the banking system.

1.6 Classification of Banks

Banks in India are classified as:

- Public Sector Banks: Majority-owned by the government, trusted for security and stability.
- Private Sector Banks: Owned by private stakeholders, known for innovation and efficiency.
- Co-operative Banks: Community-based banks catering to local needs.

Further, they are divided into Scheduled and Non-Scheduled Banks based on inclusion in the RBI Act's Second Schedule.

1.7 Technological Development in Banking

Technological advancements have revolutionized Indian banking. Services such as Internet Banking, Mobile Banking, ATMs, NEFT, RTGS, and UPI have improved accessibility, speed, and convenience. Both public and private banks are investing in AI, blockchain, cybersecurity, and digital onboarding to enhance customer experience and operational efficiency.

1.8 Future of Banking Technology

Future banking will rely heavily on automation, biometrics, AI, and machine learning. Physical branches will reduce as digital-only banking gains momentum. Innovations like voice banking, robo-advisors, and smart kiosks will define the next generation of customer interaction.

1.9 Reforms in the Banking Sector

Post-1991 reforms aimed to improve bank efficiency, competitiveness, and financial health. Key changes include:

- Deregulation of interest rates
- Introduction of prudential norms
- Strengthening of NPAs management
- Enhanced autonomy for banks
- Increased entry of private players

1.10 Future of Banking Reform

Ongoing reforms focus on improving capital adequacy, reducing bad loans, boosting financial inclusion, and encouraging mergers and consolidation. Initiatives like Jan Dhan Yojana, Digital India, and bank recapitalization are central to shaping a resilient banking system.

1.11 Statement of the Problem

Despite reforms, challenges persist in the Indian banking sector. Public sector banks struggle with:

- High levels of NPAs
- Inefficient operations
- Lack of innovation

Private banks, while technologically advanced, face concerns around aggressive lending and customer data protection. This study aims to understand how both sectors are perceived by customers, their service delivery standards, and their financial soundness in a competitive landscape.

1.12 Objective of the Study

- To analyze and compare public and private sector banks' performance
- To assess service quality, customer satisfaction, and use of technology
- To study financial indicators using the CAMEL model
- To provide recommendations for improved efficiency and public trust

1.13 Nature and Scope of the Study

The study covers a comparative analysis of 10 public sector banks and 10 private sector banks in India, over the period 2007–2016. It evaluates 31 financial and 11 operational ratios, and incorporates 18 qualitative factors like ATM services, mobile banking, and customer satisfaction to provide a holistic performance review.

II. LITERATURE REVIEW

A number of researchers have studied the evolution, performance, and challenges of the Indian banking sector. The literature below offers valuable insights into the comparative functioning of public and private sector banks.

SL Gupta & Arun Mittal (2008)

In their comparative research on promotional strategies used by public and private sector banks, published in the *Asia-Pacific Business Review*, the authors concluded that while public sector banks are perceived as more reliable, private sector banks lead in terms of innovation and service quality. This highlights the trade-off between trust and modern service delivery.

Bhallabh (2002)

The author examined the outcomes of banking sector reforms and emphasized that globalization and technological advances require banks to continually adapt to survive in a changing environment.

Kumar (2006)

Kumar noted that the nationalization of banks marked a significant shift towards mass banking. His research highlighted the challenge of financial inclusion and identified it as both an opportunity and a corporate social responsibility.

Laxman, Deen, and Badiger (2008)

They discussed how the Indian banking industry is undergoing a paradigm shift due to advancements in information and communication technology. The study points out how technology is reshaping the operational environment of banks.

Nair (2006)

Nair explored the role of technology in rural banking, indicating a need for innovation to serve the underserved population. The study emphasized the importance of responsiveness and adaptability in a tech-driven market.

Singh (2003)

Analyzed profitability trends across different categories of banks, finding that deregulation had a negative impact on profitability. His study included public, old and new private, and foreign banks.

Singla (2008)

Focused on the financial health of 16 banks over a six-year period, demonstrating a gradual improvement in profitability. The study emphasized strong capital positions as a buffer against economic shocks.

Ram Mohan & Ray (2004)

Utilized a Revenue Maximization Efficiency approach to compare public, private, and foreign banks. The findings suggested that public sector banks performed better due to higher technical efficiency, though not necessarily better than foreign banks.

Bansal (2005)

Assessed the impact of liberalization (1991–2002) on PSBs' productivity. His study found mixed trends, with some banks showing improved profitability and others experiencing a decline due to narrowing interest spreads.

Business India (2006)

Held a panel discussion to identify top-performing banks across public, private, and foreign categories. Key criteria included operational success, stock performance, and management quality

III. RESEARCH METHODOLOGY

This chapter outlines the research design, data sources, sampling methods, and analytical tools used in the study titled "Customer Satisfaction: A Comparative Study of Public and Private Sector Banks in India."

3.1 Research Design

The research employs a descriptive design, aiming to describe, compare, and analyze customer satisfaction levels and service quality between public and private sector banks. It focuses on interpreting statistical data and highlighting trends in performance and perception.

The study utilizes both primary and secondary data and covers a five-year period from financial year 2012 to 2017.

3.2 Area of Study

The primary data collection was conducted in Chandigarh city, a modern urban center with a diverse demographic. It was chosen for its blend of traditional and modern banking clientele, providing a balanced perspective across public and private banking services.

3.3 Period of Study

The field research was conducted over six months, allowing ample time to engage with a wide range of bank customers and ensure the reliability of responses.

3.4 Sample Design

The sample includes 160 respondents, selected using a convenience sampling method. These respondents were evenly distributed across six banks—three public sector and three private sector:

- Public Sector Banks: State Bank of India, Punjab National Bank, Oriental Bank of Commerce
- Private Sector Banks: ICICI Bank, HDFC Bank, Axis Bank

All respondents held savings accounts and represented a cross-section of varied socio-economic backgrounds, which added depth and relevance to the data collected.

3.5 Data Collection Methods

Primary Data

Collected via structured questionnaires administered to customers at selected bank branches. The questionnaire included 11 questions focusing on customer experience, service quality, satisfaction, and use of banking facilities.

Secondary Data

Gathered from:

- RBI reports
- Bank annual reports
- Journals and publications
- Financial statements (P&L and Balance Sheet)
- Online databases and government portals

3.6 Parameters Studied

The study analyzed performance using a set of financial and operational ratios, including:

- Credit-Deposit Ratio

- Interest Income to Total Income
- Interest Expenses to Total Expenses
- Other Income to Total Income
- Net Profit Margin
- Net Worth Ratio
- Percentage Change in Net Profits, Total Income, Total Expenditure, Deposits, and Advances

These were supported by qualitative data on customer satisfaction and technological services like ATMs, internet banking, and mobile banking.

3.7 Analytical Tools

Data was interpreted using:

- Graphs and charts
- Comparative tables
- CAMEL model analysis (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity)

3.8 Limitations of the Study

- The study relies partly on secondary data, which may not reflect the real-time performance due to possible window dressing in reports.
- The sample size was limited due to time and resource constraints.
- Respondent bias may exist, as not all participants were equally cooperative or informed.
- Only data from 2012 to 2017 was considered, which may not reflect the most recent performance trends.

IV. ANALYSIS AND INTERPRETATION OF DATA

This chapter focuses on analyzing the primary and secondary data collected to evaluate customer satisfaction, service usage, and operational differences between public and private sector banks.

4.1 Findings of the Study

Based on the analysis of responses and data gathered from the selected public and private sector banks, the key findings are summarized below:

- Type of Account: The majority of respondents in both public and private sector banks hold savings accounts, indicating a common preference for basic banking services across sectors.
- Public Sector Bank Staff Behavior: Respondents reported a need for improvement in staff behavior and customer handling in public sector banks. Customers expect more professionalism and prompt service.
- Promotion in Private Banks: Many respondents noted that private banks need to strengthen their promotional activities, especially in rural and semi-urban areas, to improve awareness about services.
- Most Used Banking Facilities:
  - In public sector banks, the ATM/Debit card was the most availed service. However, services like Demat accounts and foreign fund transfers were least used.
  - In private sector banks, internet banking and mobile/phone banking emerged as the most utilized facilities, showing higher digital engagement among their customers.
- Loyalty to Banks: A significant portion of respondents across both sectors stated they do not intend to switch their current banks, indicating either satisfaction or inertia in banking relationships.

4.2 Classification of Banks

Banks were classified based on ownership:

- Public Sector Banks: Owned and operated by the Government of India.
- Private Sector Banks: Owned by private individuals or entities.

The banking industry has grown rapidly, offering career opportunities and modern services. However, the work culture and customer handling practices vary notably between the sectors.

4.3 Conceptual Differences Between Public and Private Sector Banks

Private Sector Banks:

- Known for technological innovation, aggressive marketing, and competitive service delivery.
- Employees face higher performance pressure but may receive better compensation and faster growth opportunities.
- Customer experience tends to be more digital and personalized.

Public Sector Banks:

- Offer job security and a structured work environment.
- More focused on mass banking, social schemes, and financial inclusion.
- Service may lag in innovation but benefits from trust and wide outreach, especially in rural areas.

4.4 Interpretation of Customer Responses

From the questionnaire-based survey:

- Customers of public sector banks expressed dissatisfaction in areas like queue management, staff courtesy, and response time.
- Private sector bank customers showed higher satisfaction with ease of use in mobile/internet banking and customer service responsiveness.

Both sectors were equally appreciated for basic facilities like ATM networks.