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COMPARATIVE ANALYSIS OF PUBLIC AND PRIVATE SECTOR BANKS' CENTRAL BANKING SYSTEMS

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ABSTRACT

The comparative analysis of central banking systems in public and private sector banks is essential for understanding the dynamics and effectiveness of monetary policy implementation in today's financial landscape. This study delves into the central banking mechanisms of both public and private sector banks, examining their respective structures, roles, and operational strategies. Through an extensive review of literature and empirical data, this research aims to shed light on the similarities and differences between these two sectors, highlighting their strengths and weaknesses. By evaluating factors such as transparency, accountability, risk management, and the ability to respond to economic crises, this analysis seeks to provide valuable insights into how central banking systems operate within these distinct sectors. The findings of this study are expected to contribute to the ongoing discourse surrounding the governance and efficiency of central banking systems, offering policymakers and stakeholders a comprehensive perspective on the strengths and areas for improvement within public and private sector banks' central banking systems.

Keyword: Transparency, Accountability, Risk Structures, Roles and Operational Strategies

INTRODUCTION

Around the 1980s, bank customers in India began to express a desire for their institutions to use computer systems. The initial effort was done in the year 1981, and in the year 1984, it was expanded even more. The Indian banks got the procedure started at the level of the branches. This was accomplished with the assistance of computers running the Microsoft Disc Operating System, often known as MS-DOS. In an effort to bring India's antiquated banking system up to date, the Indian government established a number of committees at the national level.

Core banking was first deployed in 1988 by Dr. C. Rangrajan, who was then the Deputy Governor of the Reserve Bank of India (RBI). He did it with the assistance of a Total Branch Automation package that could either run on a local area network (LAN) or a UNIX operating system. This created the groundwork for capabilities like as telebanking, off-site ATMs, and client terminals to be developed in the future. When private sector banks and foreign banks were finally allowed entry into the Indian banking sector in the 1990s, a fundamental shift took place in the banking industry. There was a certain level of rivalry between the indigenous banks and the new generation of banks. As a result, the indigenous financial institutions were compelled to adopt the modern banking practises. Globalisation, liberalisation, and the establishment of the Telecom Regulatory Authority of India (TRAI) were some of the causes that contributed to the development that was made. Because of this, the Indian government and its regulators were able to provide technology to the country at a more affordable price. At this time, the majority of financial institutions are making progress towards undergoing a transition.

It is a well-known fact that the banking industry has reaped significant benefits from the rapid advancement of technology. The implementation of core banking solutions has had a significant impact on both the operations of banks and the business of managing money. The introduction of the core banking system was a significant turning point for the banking industry in India. The ever-present progression is indicative of an improving future. Core banking is only the beginning; analysts are starting to hint to India's eventual transition to a paperless and branchless banking system.

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The banking system is responsible for a substantial portion of the operation of the modern global financial system. The expansion of trade and industry, which both contribute significantly to overall financial development, is vitally reliant on the easy flow of currency via banks. This is because the smooth transit of cash through banks is very necessary. The existence of a compelling economic system in this manner is essential for the monetary growth of a country; and the Indian monetary development tale abundantly highlights the significance of a sound economic system throughout its many chapters.

BANK NATIONALIZATION ERA

A major step to control banking system happened in 1948, when the RBI was nationalized and became the establishment fully owned by the GOI. Further, the Banking Regulation Act was passed during 1949 which brought RBI under the control of the government and vested it with wide range of powers to administer and manage commercial banks (Goyal and Joshi, 2012). Under this Act, it was ensured that none of the banks can open a new branch and no new bank can be established without due permission and license from RBI (Rajesh and Sivagnanasithi, 2009).

Post Reform Era

With reference to these backdrops, Narasimham Committee-I introduced economic and financial sector reforms in 1991 with an aim to make Indian banking sector more efficient, strong and vibrant. The fundamental reform measures recommended by the Committee changed the appearance and prospects of banking industry. The period between 1992-97 witnessed numerous reform measures like reduction in reserve requirements, capital adequacy norms, and deregulation of interest rates, improving competitiveness and strengthening of bank supervision (Ramasastri and Samuel, 2006). Customer satisfaction is a dynamic concept and at present it is an important issue to be addressed by the banks. Customers, at present, are more demanding and expect prompt services and thus a customer centric view has replaced the earlier product centric view in banking. Keeping in view the above scenario, present study was conducted to measure the performance of public and private sector banks taking into consideration the three major aspects viz. financial performance, financial inclusiveness and customer satisfaction with regard to services provided by banks. An attempt was made to compare the public and private sector banks on the selected aspects as briefly discussed hereunder.

FINANCIAL PERFORMANCE

Productivity is a vital indicator of economic performance and it shows relationship between the output and the inputs used to produce it (Bansal, 2010). Productivity of banking sector, as pointed out earlier, is important for economic growth of a country.

It is believed that strong and well organized banking system leads to faster economic growth (Singla, 2013). Although the banking sector has made good progress in tangibles but there still are challenges and banks would have to continuously take note of the same. Therefore, evaluation of performance has become important for the banks because it helps in protecting the banking operations from the continuous risk associated with capital market (Hays et.al. 2009).

Financial Inclusion

Financial inclusion may be defined as the “process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost” (Rangarajan Committee, 2008). The Reserve Bank of India (2011) gave a wider definition stating that “financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players”. Despite the financial inclusion drive being the pivot in development of financial system, regional disparities are still observed. For example, financial inclusion is very low in the North Eastern Region of the country. The regional average is only 37.3 percent of the population which comes under the domain of financial inclusion; this is significantly low as compared to the national average of 59.2 percent.

Customer Satisfaction

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Customer satisfaction is said to be the measure of how products and services provided by any organization meet the expectation of a customer. The efficiency of the banking sector depends on how it delivers the services to its customers. To survive in this competitive environment, it is important for banks to provide fast and efficient services to its customers. People working in banks are the first ones to know about the specific needs of the customer and act as a bridge between the bank and customer.

REVIEW OF LITERATURE

This chapter presents a broad review of existing literature and research completed in the various aspects of banking. Results of various studies undertaken on financial performance, financial inclusiveness and customers' satisfaction have been summarized below:

1. **Shetty (1978)** in his study on "Performance of Commercial Banks since Nationalization of major Banks- Promise and Reality" had highlighted the level achieve by banks to achieve the objectives determined during the nationalization of banks. It was concluded that composition of deposits remained unchanged and creditdeposit ratio had shown no improvement over the period. Further, it was reported that rural areas were neglected for opening of new branches.
2. **Divatia and Venkatechalam (1978)** proposed to create a composite index by studying operational efficiency and profitability of individual banks using factor analysis technique. Total 15 public sector banks were studied using eighteen indicators of productivity, profitability and social objectives. The indicators chosen for the study were divided into productivity, social objectives and profitability.
3. **Varghese (1983)** analyzed the profits and profitability of Commercial Banks in India for the period from year 1970 to 1971 using operating results, operating margins, growth yield on assets and spread ratios.
4. **Kumar and Rajesh (2009)** in their study titled, "Whether Today's Customers are Satisfied? – A Study with Banks", evaluated and compared the level of satisfaction on the basis of quality of service provided by the banks. It was found that there is no significant difference between overall customer satisfactions in the banks. Further it was suggested that to increase the level of satisfaction banks should concentrate on implementation of core banking solutions and development of techno savvy products. Banks also need to determine the best time to offer the most relevant products.
5. **Khatri and Ahuja (2010**) in "A Comparative Study of Customer Satisfaction in Indian Public Sector and Private Sector Banks", compared the customer satisfaction level of public and private sector banks using SERVQUAL method. Study was based on five key dimensions i.e. tangibles, reliability, responsiveness, assurance and empathy. A structured questionnaire was used to collect the primary data of 122 respondents from Delhi and North Capital Region (NCR) using judgmental sampling method. The analysis of the information was done in SPSS using statistical tools like mean, standard deviation and T-test.
6. **Singh and Arora (2011)** conducted the Comparative Study on Banking Services and Customer Satisfaction in Public, Private and Foreign Banks of Delhi. Using multistage sampling technique 6 banks (State Bank of India, Punjab National Bank and Canara Bank from Public sector; ICICI Bank and Centurion Bank of Punjab from Private Sector and Standard Chartered from Foreign Banks) were selected for the study. Primary survey of randomly selected 60 respondents was conducted using structured questionnaire. It was discovered that the customers of public banks were not much satisfied with the behavior of employee and infrastructure facilities provided by banks, while customers of private and foreign banks were not much satisfied with charges, approachability and communication.
7. **Uppal (2011)** examined customer's delightedness from different banking services. A sample size of 384 customers of Public, Private and Foreign Banks of District Ludhiana was studied using a well-structured questionnaire and the same was analyzed with the help of percentage and ranking methods. Using these statistical tools it was concluded that customers of private and foreign

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sector banks were more delighted than the customer's public sector banks. Gender-wise females and occupation wise agriculturist were found to be more satisfied.

8. **Virk and Mahal (2012)** analyzed the customer satisfaction level of Public and Private Sector Banks by conducting a comparative study in Chandigarh City. The sample of 160 customers who were selected from both public sector (State Bank of India, Punjab National Bank, Oriental Bank of Commerce) and private sector banks (ICICI Bank, HDFC Bank, and Axis Bank) using convenient sampling method. Independent sample T-Test was conducted at 5% and 1% level of significant to examine whether the differences between all variables were significant or not. Data collected was analyzed and compared using Independent sample T test.

OBJECTIVES OF THE RESEARCH

- To study public sector banks v/s private sector banks from the core banking perspective.
- To assess the customers' and bank employees' satisfaction level with the current banking facilities.
- To find the most important factor that is inducing people towards core banking.
- To understand the benefits core banking as compared to traditional banking, in terms of cost, efficiency, time, secrecy, quality of service and complaint resolution, from both the customers' and the employees' perspective.
- To investigate whether core banking is cost effective for both the banks and the customers or not.

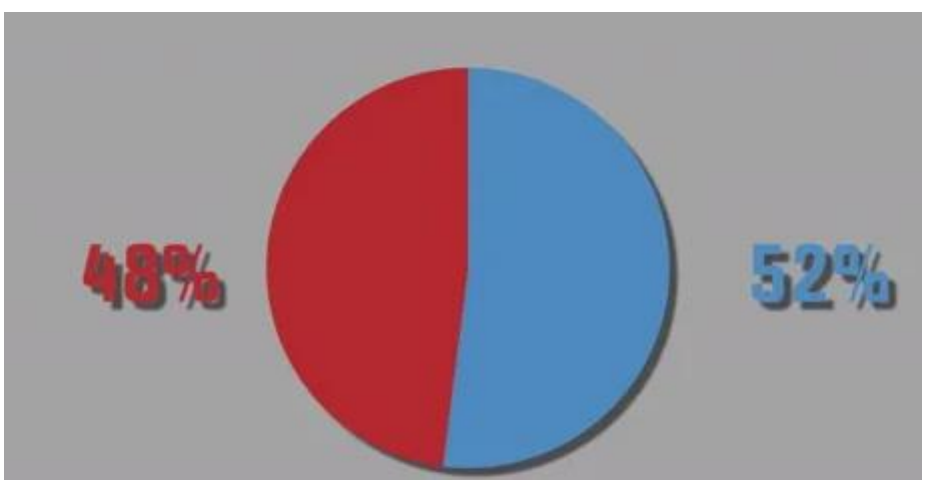
RESEARCH METHODOLOGY

The study is based on primary data and secondary data. Primary data and secondary data have been collected from books, magazine, journals, newspapers and websites. This is a comparative study on the core banking service of both public and private sector banks and the banks selected for this study are State Bank of India, representing the Public Sector and HDFC Bank, representing the Private Sector, mainly on two criterions, the first being the convenience during the research, mainly from the same city..

Analysis of Data Collected:

The respondents were asked about which category of the banks do their consider as most technologically advanced.

Bank sectors	No. of respondents	%age
Public banks	24	48%
Private banks	26	52%



Source- primary data

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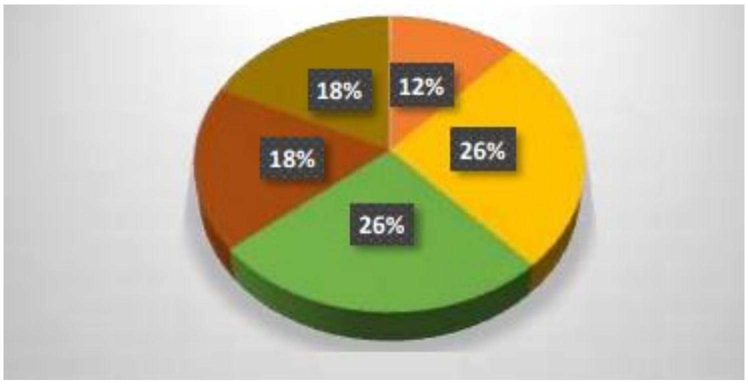
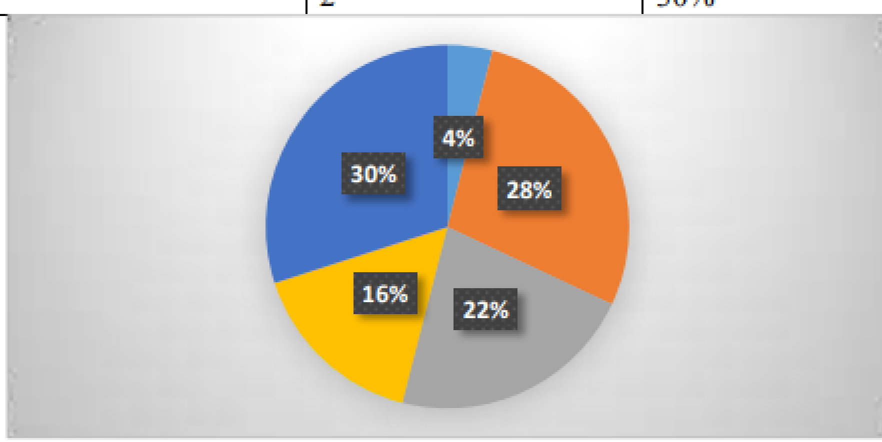
INTERPRETATION: It was found that most of the respondents were availing the most technologically advanceses of private banks while those of the public sector banks were less as compared.
The respondents were asked about which attributes of the bank do their value the most.

Reasons	No. of respondents	%age
Quality of service	6	12%
Technology used	13	26%
Trust	13	26%
Location	9	18%
Type of the bank	9	18%



INTERPRETATION: By analyzing this graph, we can conclude that most of the people is influenced by the technology used and trust provided by the bank and quality of service is given less preference than others.
The respondents were asked about how familiar are they with computer usage level of their bank.

Reasons	**No. of respondents**	**%age**
No knowledge of computer	15	4%
Beginner	14	28%
Average knowledge	11	22%
Advance computer knowledge	8	16%
Expert	2	30%



Conclusion:-
It is obvious that the core banking system has come a long way. However, it is still evolving, and the world can expect better and improved features in the near future. With the newer technological innovations like blockchain, Artificial Intelligence and more, it is certain that the banking sector will

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undergo another revolution of sorts. It is just a matter of time, core banking will be the only way of banking. In India, almost all private and public sector banks have adopted this system. However, there are some regional rural and cooperative banks that still lack the convenience of the core banking system. In the era of digitization, RBI is aiming at 100% implementation of the core banking system of banks in India.

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