

FINANCIAL SOUNDNESS OF OLD PRIVATE SECTOR BANKS (OPBs) IN INDIA WITH A FOCUS ON KERALA-BASED OPBs (KOPBs): A RELOOK

MANOJ P K

Faculty Member (Finance / Econometrics), Department of Applied Economics,
Cochin University Science and Technology, Kochi, Kerala, India

ABSTRACT

Kerala state in the union of India has got an enviable track record of private sector banking in the entire country, even from the late nineteenth century. However, in the more recent history relating to the late twentieth century, there has been gradual decline in the number of private banks in Kerala because of bank failures, mergers and acquisitions. As against 8 such private banks as of 1985, the number has halved to just 4 in 2007, and this number may fall down further as some of these existing banks have already become takeover targets of stronger banks in the country. The intense competition in the banking industry in the ongoing era of financial sector deregulation initiated in the early 1990s, has put added pressure on the very survival of the old private sector banks (OPBs) in India. This competitive scenario in the reforms era has given another dimension to the declining prominence of Kerala-based OPBs (or, KOPBs, in short) in Indian private banking. In fact, since 2004 itself two KOPBs have succumbed to such competitive pressures.

A study by the present author in 2010 based on data up to FY 2009 data is sought to be relooked here using data up to FY 2013, in view of the drastic changes in the Indian banking in the recent past when two more OPBs have vanished from the scene because of their lack of competitiveness. In fact, the OPB rated lowest in the 2010 study had vanished in 2010 itself. Accordingly, this paper seeks to study the latest status of the financial soundness of OPBs in India and to benchmark the KOPBs with the 'Best in Class' at the national level as well as with the industry average. As in the 2010 study by the author, the rating model 'CAMEL' is used for this study too. It is noted that the position of KOPBs has deteriorated as of FY 2013 vis-à-vis FY 2009, while the 'Best in Class' position though maintained by the earlier OPB has to be shared with another OPB.

KEYWORDS: Operational Efficiency, Financial Soundness, CAMEL Model