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A Comparative Financial Performance Analysis Of Public And Private Sector Banks In India

Dr. Sahil Nazir[1], Natasha[2]
[1]Assistant Professor, [2]Mba Student, Department of Management and Commerce, Guru Kashi University, Talwandi Sabo, Bathinda.

Abstract-The banking sector plays a vital role in the economic development of India by mobilizing savings and channelizing funds into productive investments. The present study aims to compare the financial performance of public and private sector banks operating in India. The study evaluates the performance of five public sector banks and five private sector banks using financial indicators such as profitability, asset quality, liquidity, customer satisfaction, and operational efficiency. Primary data were collected from 200 respondents comprising customers of selected banks through a structured questionnaire. Secondary financial indicators were used to support the comparative analysis. Statistical tools such as percentage analysis, mean score analysis, and independent sample t-test were employed for data interpretation. The findings reveal that private sector banks outperform public sector banks in terms of customer satisfaction, service quality, digital banking facilities, and profitability. Public sector banks, however, enjoy higher customer trust, wider geographical coverage, and greater government support. The study concludes that while private banks exhibit superior financial efficiency, public sector banks continue to maintain a significant presence due to their reliability and extensive branch network. The research provides valuable insights for policymakers, banking professionals, and investors.

Keywords: Financial Performance, Public Sector Banks, Private Sector Banks, Banking Efficiency, Profitability Analysis, Customer Satisfaction.

I. INTRODUCTION

The banking sector is one of the most crucial components of a nation's financial system. It acts as a financial intermediary by mobilizing savings from individuals and institutions and channeling these funds into productive investments. In India, the banking industry has undergone significant transformation over the past few decades due to economic liberalization, technological advancements, financial reforms, and increasing competition. The sector is broadly categorized into public sector banks and private sector banks, both of which play a vital role in promoting economic growth, financial inclusion, and monetary stability.

Public sector banks, owned and controlled by the Government of India, have historically dominated the Indian banking landscape. These banks were nationalized to ensure equitable distribution of credit, rural development, and financial accessibility for weaker sections of society. Public banks have contributed significantly to agricultural financing, priority sector lending, and implementation of government welfare schemes. Their extensive branch network, especially in rural and semi-urban areas, has helped expand banking services across the country.

On the other hand, private sector banks emerged as major competitors after the economic reforms of 1991. Liberalization allowed the entry of new private banks that introduced modern banking practices, advanced technology, customer-centric services, and innovative financial products. Private banks are generally driven by profitability, operational efficiency, and shareholder value maximization. Their adoption of digital banking, internet banking, mobile applications, and automated services has transformed customer experiences and increased competition within the banking industry.

The comparative performance of public and private sector banks has become an important area of research because both categories differ in ownership structure, management practices, operational objectives, risk management, and service delivery. Financial performance analysis helps stakeholders such as investors, policymakers, regulators, researchers, and customers evaluate the strength and efficiency of banks. It also assists in identifying areas where banks need improvement to remain competitive in a rapidly changing financial environment.

Financial performance is commonly measured through indicators such as profitability, liquidity, asset quality, capital adequacy, operational efficiency, and customer satisfaction. Public sector banks are often perceived as more reliable and secure due to government backing, whereas private sector banks are recognized for better service quality, faster decision-making, and higher profitability. However, both sectors face challenges such as non-performing assets (NPAs), technological disruptions, cybersecurity risks, and changing customer expectations.

In recent years, the Indian banking sector has witnessed major developments including bank mergers, digital banking expansion, implementation of Basel norms, fintech integration, and increased emphasis on financial inclusion. These changes have intensified competition between public and private sector banks, making comparative financial analysis more relevant than ever. Customers today not only seek safety and trust but also expect convenience, personalized services, and seamless digital experiences.

The present study aims to conduct a comparative financial performance analysis of selected public and private sector banks in India. The study evaluates key financial indicators and customer perceptions to understand the relative strengths and weaknesses of both sectors. By analyzing both primary and secondary data, the research provides a comprehensive view of how ownership structure influences financial efficiency, profitability, and customer satisfaction.

The findings of this study are expected to contribute to academic literature and provide practical insights for banking professionals, investors, and policymakers. Understanding the comparative performance of public and private sector banks can help formulate strategies for improving efficiency, enhancing customer service, strengthening risk management, and ensuring sustainable growth in the Indian banking industry.

II. LITERATURE REVIEW

The literature review provides a theoretical foundation for understanding the comparative financial performance of public and private sector banks. Various researchers have examined profitability, efficiency, asset quality, customer satisfaction, digital banking, and risk management practices in the Indian banking sector. The following review summarizes important studies relevant to the present research.

A. Financial Performance And Profitability

Sharma And Gupta (2020)

Sharma and Gupta conducted a comparative study on the profitability and efficiency of public and private sector banks in India. The study used financial ratios such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin to evaluate performance. The researchers found that private sector banks consistently recorded higher profitability ratios due to better operational efficiency, technological adoption, and customer-oriented services. Public sector banks, however, benefited from larger customer bases and government support but faced challenges related to higher operating costs and NPAs.

Rao And Mishra (2023)

Rao and Mishra analyzed the financial strength of Indian banks using the CAMEL model, which evaluates capital adequacy, asset quality, management efficiency, earnings quality, and liquidity. Their findings revealed that private sector banks achieved better scores in earnings quality and management efficiency, while public sector banks showed stronger market trust and stability. The study highlighted the need for public banks to improve profitability and operational practices.

B. Asset Quality And Risk Management

Kumar And Singh (2021)

Kumar and Singh examined asset quality and risk management practices among Indian banks. The study focused on gross and net non-performing assets, provisioning, and credit risk management. The researchers observed that private sector banks maintained lower NPA levels compared to public sector banks due to stricter credit appraisal systems and effective recovery mechanisms. Public sector banks were found to be more exposed to stressed assets, particularly in priority sector lending and large corporate loans.

Verma And Bansal (2022)

Verma and Bansal investigated the relationship between risk management practices and financial performance in the banking sector. The study concluded that efficient risk management significantly improves profitability and asset quality. Private banks were more proactive in adopting advanced risk assessment tools and technology-driven monitoring systems, whereas public banks relied more on traditional banking practices.

C. Customer Satisfaction And Service Quality

Patel (2019)

Patel conducted a comparative analysis of customer satisfaction levels in public and private sector banks. The study assessed factors such as service quality, responsiveness, reliability, empathy, and convenience. Results indicated that customers were more satisfied with private sector banks due to faster services, better staff behavior, modern infrastructure, and efficient grievance handling. Public sector banks, however, scored higher in terms of trust and perceived security.

Joshi And Mehta (2021)

Joshi and Mehta explored the impact of service quality on customer loyalty in Indian banks. Using the SERVQUAL model, the study found that tangibility, responsiveness, and assurance significantly influence customer loyalty. Private sector banks performed better in delivering personalized and technology-enabled services, which enhanced customer retention and satisfaction.

D. Digital Banking And Technological Innovation

Verma And Bansal (2022)

In another study, Verma and Bansal analyzed the impact of digital banking services on customer retention and financial performance. The researchers found that banks with strong digital infrastructure experienced higher customer engagement, reduced transaction costs, and improved profitability. Private sector banks were identified as leaders in digital transformation due to early adoption of internet banking, mobile applications, and fintech solutions.

Singh And Arora (2020)

Singh and Arora examined the role of technological innovation in enhancing banking efficiency. The study concluded that automation, artificial intelligence, and digital payment systems significantly improve operational efficiency and customer convenience. Private banks were more agile in implementing new technologies, while public banks faced challenges related to legacy systems and large-scale implementation.

E. Comparative Efficiency And Operational Performance

Das And Chatterjee (2018)

Das and Chatterjee compared the operational efficiency of public and private sector banks using Data Envelopment Analysis (DEA). The study revealed that private banks were more efficient in utilizing resources, managing costs, and generating income. Public sector banks, despite having larger branch networks and customer bases, showed relatively lower efficiency due to bureaucratic procedures and higher administrative expenses.

Iyer And Nair (2022)

Iyer and Nair analyzed the impact of management practices on bank performance. The study emphasized that managerial autonomy, performance-based incentives, and customer-focused strategies contribute significantly to operational efficiency. Private sector banks benefited from flexible management structures and quicker decision-making processes compared to public sector banks.

F. Research Gap

Although several studies have examined the financial performance of public and private sector banks, most research has primarily relied on secondary financial data and ratio analysis. Limited studies have combined financial indicators with primary data on customer perceptions and satisfaction. Furthermore, the rapid growth of digital banking and changing customer expectations necessitate updated comparative analysis. The present study addresses this gap by integrating primary data from customers with financial performance analysis of selected public and private sector banks in India.

G. Research Objectives

1. To compare the financial performance of public and private sector banks in India.

2. To identify factors influencing customer preference toward public and private banks.

III. RESEARCH METHODOLOGY

Research Design

The current study adopted descriptive and analytical research design.

Sources of Data

Both Primary Data as well as Secondary Data was used during the study and the primary data was collected through a structured questionnaire administered to 200 customers and annual reports and financial statements of selected banks was the data collected from secondary sources.

Sample Size

A total of 200 respondents from different public and private banks were taken for the study.

Sampling Technique

Convenience Sampling was used during the study for data collection.

Selected Public Sector Banks

1. State bank of india
2. Punjab national bank
3. Bank of baroda
4. Canara bank
5. Union bank of india

Selected Private Sector Banks

1. Hdfc bank
2. Bank
3. Axis bank
4. Kotak mahindra bank
5. Indusind bank

Statistical Tools

For the purpose of data analysis, different statistical tools were employed in the form of Percentage Analysis, Mean Score Analysis, and Independent Sample t-Test.

Demographic Profile of Respondents (N = 200)

Particulars	Category	Respondents	Percentage
Gender	Male	118	59
	Female	82	41
Age	Below 25	42	21
	25-35	68	34
	36-45	52	26
	Above 45	38	19
Occupation	Salaried	78	39
	Business	54	27
	Students	32	16
	Others	36	18
Income	Below ₹3 Lakh	48	24
	₹3-6 Lakh	74	37
	₹6-10 Lakh	46	23
	Above ₹10 Lakh	32	16

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IV. DATA ANALYSIS

Table 3.1: Customer Preference for Banking Sector

Bank Type	Respondents	Percentage
Public Sector Banks	84	42
Private Sector Banks	116	58

Interpretation
A majority of respondents (58%) prefer private sector banks due to superior service quality, digital banking facilities, and faster transaction processing.

Table 3.2: Satisfaction with Banking Services

Satisfaction Level	Public Banks	Private Banks
Highly Satisfied	24	56
Satisfied	38	44
Neutral	14	10
Dissatisfied	8	6

Interpretation
Private sector banks recorded higher customer satisfaction levels compared to public sector banks.

Table 3.3 : Factors Influencing Bank Selection

Factor	Respondents	Percentage
Service Quality	54	27
Trust & Security	48	24
Interest Rates	30	15
Digital Banking	44	22
Branch Network	24	12

Interpretation
Service quality emerged as the most influential factor affecting bank selection.

Table 3.4: Mean Score Analysis

Parameter	Public Banks	Private Banks
Service Quality	3.68	4.42
Customer Support	3.75	4.35
Digital Banking	3.54	4.58
Transaction Speed	3.61	4.46
Overall Satisfaction	3.72	4.45

Interpretation
Private sector banks achieved higher mean scores in all service dimensions.

Independent Sample t-Test

Hypothesis
H0: There is no significant difference between customer satisfaction levels of public and private sector banks.
H1: There is a significant difference between customer satisfaction levels of public and private sector banks.

Particulars	Value
t-value	3.84
p-value	0.000
Significance Level	0.05

Interpretation
Since p-value < 0.05, the null hypothesis is rejected. Therefore, there is a significant difference in customer satisfaction levels between public and private sector banks.

V. FINDINGS

1. The analysis revealed that private sector banks are preferred by a larger proportion of customers compared to public sector banks. Out of the 200 respondents surveyed, 58 percent expressed a preference for private sector banks, while 42 percent preferred public sector banks. This preference can be attributed to the superior quality of services, faster transaction processing, and advanced digital banking facilities offered by private banks. The increasing reliance on technology and the demand for convenient banking services have significantly influenced customer choices.

2. The study found that customer satisfaction levels were considerably higher in private sector banks. Respondents reported better experiences regarding service efficiency, staff responsiveness, grievance handling, and accessibility of banking services. Private banks scored higher in all dimensions of customer service, indicating their strong focus on customer relationship management and service quality. Public sector banks, although trusted by customers, were perceived as comparatively slower in service delivery.

3. Another important finding of the study relates to digital banking adoption. Customers of private sector banks expressed greater satisfaction with mobile banking applications, internet banking platforms, online fund transfers, and digital payment services. The rapid adoption of technological innovations has enabled private banks to offer seamless banking experiences. Public sector banks have also improved their digital infrastructure, but the level of technological advancement and customer acceptance remains comparatively lower.

4. The comparative financial analysis revealed that private sector banks performed better in terms of profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. These results indicate that private banks utilize their resources more efficiently and generate higher returns for shareholders. Strong managerial practices, efficient cost control mechanisms, and effective revenue generation strategies contribute to their superior financial performance.

5. The study also found significant differences in asset quality between public and private sector banks. Public sector banks reported relatively higher levels of Non-Performing Assets (NPAs), which adversely affect profitability and financial stability. In contrast, private sector banks maintained lower NPA ratios due to stronger credit appraisal systems, better risk assessment procedures, and efficient loan recovery mechanisms.

6. Operational efficiency emerged as another area where private sector banks demonstrated a competitive advantage. Lower cost-to-income ratios and better utilization of resources indicate higher efficiency levels. Public sector banks often face challenges associated with larger workforce requirements, administrative procedures, and social obligations, which can impact overall efficiency.

7. Despite the superior financial performance of private sector banks, the study found that public sector banks continue to enjoy a high level of trust among customers. Government ownership, perceived safety of deposits, and extensive branch networks in rural and semi-urban areas contribute to their strong reputation. Many customers, particularly senior citizens and rural populations, continue to prefer public sector banks due to their reliability and accessibility.

8. Statistical analysis using the independent sample t-test confirmed that there is a significant difference in customer satisfaction levels between public and private sector banks. The results indicate that ownership structure and management practices play an important role in influencing customer perceptions and financial performance outcomes.

VI. SUGGESTIONS

1. Public sector banks should focus on strengthening their digital banking infrastructure to remain competitive in the evolving financial landscape. Investments in mobile banking applications, artificial intelligence-based customer support systems, and secure digital payment platforms can significantly improve customer convenience and satisfaction. Enhanced digital capabilities will help public banks attract younger and technology-oriented customers.

2. There is a need for public sector banks to improve customer service standards through regular employee training and performance enhancement programs. Developing a customer-centric culture can help reduce service delays and improve overall customer experiences. Efficient grievance redressal mechanisms and personalized banking services can further strengthen customer relationships.

3. Public sector banks should adopt more effective risk management and credit appraisal systems to reduce the incidence of non-performing assets. Improved monitoring of loan portfolios, stricter lending practices, and early identification of potential defaults can contribute to better asset quality and financial stability. Strengthening recovery mechanisms will also enhance profitability.

4. Private sector banks should expand their presence in rural and semi-urban regions to increase financial inclusion and broaden their customer base. Although they have achieved remarkable success in urban markets, expanding into underserved areas can provide significant growth opportunities while supporting national development objectives.

VII. CONCLUSION

The banking sector plays a crucial role in promoting economic development, financial inclusion, and monetary stability in India. The comparative analysis conducted in this study demonstrates that both public and private sector banks contribute significantly to the growth of the country's financial system. However, notable differences exist in terms of profitability, operational efficiency, asset quality, customer satisfaction, and technological advancement.

The findings indicate that private sector banks possess a clear advantage in areas such as profitability, service quality, digital banking, and operational efficiency. Their ability to quickly adopt technological innovations, implement effective management practices, and respond to changing customer expectations has enabled them to achieve higher levels of financial performance. Lower non-performing asset ratios and superior resource utilization further strengthen their competitive position in the banking industry.

Public sector banks, despite facing challenges related to efficiency and asset quality, continue to maintain a strong presence in the Indian banking landscape. Their extensive branch network, government ownership, and commitment to financial inclusion make them indispensable to the nation's economic and social development. Public banks continue to play a vital role in serving rural populations, supporting priority sectors, and implementing government welfare initiatives.

The study also highlights the growing importance of digital transformation in determining banking success. Customers increasingly demand convenience, speed, security, and personalized services, making technological innovation a critical factor for future competitiveness. Banks that effectively integrate digital solutions with customer-centric strategies are likely to achieve sustainable growth and stronger market positions.

Overall, the study concludes that while private sector banks currently outperform public sector banks on several financial and operational parameters, both sectors possess unique strengths that contribute to the resilience and stability of the Indian banking system. Future success will depend on continuous innovation, efficient risk management, enhanced customer service, and the ability to adapt to changing economic and technological environments. A balanced approach combining the trust and outreach of public banks with the efficiency and innovation of private banks can contribute significantly to the sustainable development of India's banking sector.

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