Performance Evaluation of Public Sector Banks and Foreign Banks in India: Using CAMEL Model

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Performance is the buzz word in new economic regimes. The study examines and compares the performance of public and foreign sector banks operating inside India during the years 2001-2010. It uses the CAMEL methodology based on standard factors such as capital adequacy, asset quality, management capability, earning and profitability and liquidity position. The financial data for the study has been mined from the performance highlights of public sector and foreign sector banks published by Indian Banks Association (IBA). A sample of five public sector banks and five foreign banks have been selected to measure and compare their performance. Main findings of the study are that foreign banks perform better in terms of asset quality, asset utilization, while the public sector banks have higher total advances to total asset ratio and total expenditure to total income ratio an indicator lower management efficiency. Indian public banks are consistently heading to achieve higher standards and adopting world’s best management practices. The main objectives of the study are (a) To compare the financial performance of the banks under study (b) To determine the factors responsible for current financial performance and to suggest measures for improvement of financial performance of banks. In this study, the CAMEL Model used to estimate the financial performance of banks. This system was adopted in India since 1997, this system consists - Capital adequacy, Asset quality, Management capability, Earnings capacity, and Liquidity. CAMEL ratios are mostly used to quantify the financial soundness and health of banks through micro analysis of balance sheets and income statement items. These ratios include various financial indicators regarding quality of assets, financial soundness and management quality, earning capacity of assets, liquidity position and risk taking behavior of banks. Therefore, the efficiency/inefficiency of sample banks evaluated in relation to the CAMEL indicators.

Key words: Financial performance, CAMEL ratios, India, Public banks, Foreign banks