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EVALUATING OPERATIONAL EFFICIENCY: A STUDY OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS AT IIFL

[1] N. Shwetha, [2] Nirati Sahithya
[1] Associate Professor, [2] MBA Student
Department of MBA
Sree Chaitanya College of Engineering, Karimnagar

ABSTRACT

The banking sector plays a crucial role in the economic development of a country by facilitating financial intermediation, mobilizing savings, and providing credit to various sectors. Operational efficiency is an important indicator of a bank's ability to utilize its resources effectively while maintaining profitability and customer satisfaction. This study evaluates the operational efficiency of Public Sector Banks (PSBs) and Private Sector Banks in India, with a focus on comparative performance analysis through financial and operational parameters.

The research examines key efficiency indicators such as profitability ratios, cost-to-income ratio, business per employee, profit per employee, net interest margin, and asset quality. Data for the study are collected from annual reports, financial statements, and published records of selected public and private sector banks. The analysis highlights the strengths and weaknesses of both categories of banks in terms of operational performance, service quality, technological adoption, and resource utilization.

The findings reveal that private sector banks generally demonstrate higher operational efficiency due to advanced technology adoption, better risk management practices, and customer-centric approaches. Public sector banks, while maintaining a broader outreach and social banking responsibilities, face challenges related to higher operating costs and lower productivity levels. However, recent reforms, digital transformation initiatives**,** and improved governance practices have contributed to enhancing the efficiency of public sector banks.

The study concludes that continuous technological innovation, effective cost management, employee productivity enhancement, and customer-focused services are essential for improving operational efficiency in both public and private sector banks.

I. INTRODUCTION:

Global competition forced organizations to build global capabilities.

Banking sector is the most effective instrument for economic development, so developing Human Resources for this sector is essential to achieve the national development.

The banking sector is one of the most significant components of the financial system and plays a vital role in the economic growth and development of a country. Banks act as financial intermediaries by mobilizing savings from individuals and institutions and channeling these funds into productive investments. In India, the banking industry consists of Public Sector Banks (PSBs), Private Sector Banks, Foreign Banks, and Regional Rural Banks, each contributing to the nation's financial stability and economic progress.

Operational efficiency has become a critical factor in determining the success and competitiveness of banks in the modern financial environment. It refers to the ability of a bank to utilize its resources effectively to maximize output while minimizing costs. Efficient banking operations lead to higher profitability, improved customer satisfaction, better asset utilization, and enhanced shareholder value. With the increasing adoption of digital banking technologies, changing customer expectations, and growing

competition, banks are continuously striving to improve their operational performance.

Public Sector Banks and Private Sector Banks differ significantly in terms of ownership, management practices, technological adoption, customer service, and operational strategies. Public Sector Banks, which are predominantly owned by the Government of India, focus on financial inclusion and social welfare objectives while ensuring financial stability. Private Sector Banks, on the other hand, are driven by profit maximization, innovation, and customer-centric services, often resulting in higher efficiency levels and faster decision-making processes.

In recent years, the Indian banking sector has undergone substantial transformation due to economic reforms, technological advancements, digital banking initiatives, and regulatory changes introduced by the Reserve Bank of India (RBI). The emergence of internet banking, mobile banking, artificial intelligence, and fintech collaborations has significantly influenced the operational efficiency of banks. These developments have intensified competition between public and private sector banks, making efficiency evaluation essential for assessing their performance and sustainability.

This study focuses on evaluating the operational efficiency of Public Sector and Private Sector Banks by comparing key performance indicators such as profitability, cost management, employee productivity, asset quality, and service efficiency. The analysis helps identify the strengths and weaknesses of both categories of banks and provides insights into the factors that influence their operational performance. The findings of the study will be useful for bank management, investors, policymakers, researchers, and other stakeholders in understanding the evolving dynamics of the Indian banking industry and formulating strategies for sustainable growth and improved efficiency.

Industry Production

Industrial production dropped sharply in the month of January 2018 owing to sluggish performance in the manufacturing sector. The general index for the month of January 2018 showed a growth of only 5.3% compared to growth of 11.6% in January 2018. This was the third successive month of low growth. In Dec ’07, the industrial production grew by 7.7%. The lower growth has been contributed by sluggishness in the manufacturing and mining sector. Cumulatively, industrial production showed a growth of 8.7% between April-January 2019-09, with 9.8% growth for manufacturing, 4.6% for mining and 6.3% for electricity. Lagged impact of interest rate increases and decrease in global demand have been affecting industrial growth in the last few months.

Growth in the manufacturing sector declined to 5.9% in Jan’09 as against 12.3% in Jan’08, and growth in mining declined to 1.8% as against 7.7% in Jan’18. Electricity sector recorded a moderate growth of 3.3% as against 8.3% in Jan’18.

Increases in interest rates over the last two years is impacting the consumer durable and capital goods sector as consumer durables production, including washing machine and television sets, fell 3.1% in January after increasing 5.3% a year earlier and output of capital goods increased by a meager 2.1% compared with 16.3% a year ago. Also indices for machinery and equipment showed a sharp fall of 3.8% in Jan ’08 against 10.7% growth in Dec ’18.

Rupee Outlook

Massive FII inflows and slumping US dollar in 2018 led to significant appreciation of rupee. This led to curbing of inflows through external commercial borrowing and participatory notes measures and has led to stabilization of the rupee – US $ movement. The outlook for the US dollar is expected to be weak

in an aggressive easing stance adopted by the US Fed.

Fed easing cycle since September 2018 has led to 'Hold/Softening' stance across various Central Banks globally. Global uncertainties triggered by increase chances of US recession and increasing commodity prices have led to risk aversion among investors across the globe which has impacted India's equity and debt market. In the first two months of 2019, net investment has been $2802mn in equity and $1103mn in debt respectively against $1173mn in equity and $268mn in debt respectively in the same period last year.

Trade Outlook

India's merchandise exports showed a growth of 21.62% during the first ten months of period of April – January 2009 to US$ 124.19bn. Exports showed a growth of 20.47% for Jan '08 to US$ 13.14bn compared to US$ 10.90bn Jan '08. Exports have not performed well so far due to 12% rupee appreciation that has affected the competitiveness of the export focused industries.

Labour intensive sectors like textiles, leather, handicrafts and marine products have been hit the most in recent times.

NEED OF THE STUDY:

- To evaluate the operational efficiency of Public Sector and Private Sector Banks.
- To compare the performance levels of public and private banking institutions.
- To analyze the effective utilization of financial and human resources.
- To assess the impact of technology on banking operations.
- To examine cost management and profitability of banks.
- To identify strengths and weaknesses in banking operations.
- To measure employee productivity and service efficiency.
- To study the quality of customer services offered by banks.
- To understand the factors affecting operational performance.
- To provide suggestions for improving banking efficiency.
- To assist bank management in strategic decision-making.
- To help policymakers formulate effective banking reforms.
- To provide useful information to investors and stakeholders.
- To contribute to academic research in banking and finance.
- To understand the competitive position of banks in the Indian banking sector.

SCOPE OF THE STUDY:

- The study focuses on evaluating the operational efficiency of Public Sector and Private Sector Banks in India.
- It covers a comparative analysis of selected public and private sector banks.
- The study examines key performance indicators such as profitability, productivity, and operational effectiveness.
- It analyzes financial ratios related to operational efficiency and performance.
- The study evaluates employee productivity through business per employee and profit per employee measures.
- It assesses cost management practices adopted by banks.
- The study examines the role of technology and digital banking services in improving efficiency.
- It analyzes asset quality and risk management practices of banks.
- The study evaluates customer service efficiency and service delivery mechanisms.
- It considers the impact of banking reforms and regulatory policies on operational performance.

- The study uses secondary data collected from annual reports, RBI publications, and other reliable sources.
- It identifies strengths and weaknesses of both public and private sector banks.
- The findings help in understanding the competitive position of banks in the banking industry.
- The study provides suggestions for improving operational efficiency and overall performance.
- The scope is limited to the selected banks and the study period considered for analysis.

OBJECTIVE OF STUDY

- To evaluate and compare the operational efficiency of Public Sector Banks and Private Sector Banks in India.
- To analyze the operational performance of selected public and private sector banks.
- To compare the profitability levels of Public Sector and Private Sector Banks.
- To examine the efficiency of resource utilization in the banking sector.
- To assess the productivity of employees through business per employee and profit per employee ratios.
- To evaluate cost management practices adopted by banks.
- To study the impact of technology and digital banking on operational efficiency.
- To analyze the asset quality and risk management practices of banks.
- To compare customer service efficiency between public and private sector banks.
- To identify the strengths and weaknesses of both categories of banks.
- To examine the effect of banking reforms and regulatory policies on operational performance.
- To provide suggestions for improving operational efficiency and profitability.
- To contribute to a better understanding of the competitive position of banks in the Indian banking industry.

II. METHODOLOGY

SOURCE OF DATA

The following analysis is completely based on Secondary Data

Tools and Techniques

1) Research Design: **Descriptive** Design
2) Data Analysis: M.S. Excel with the help of Line Graphs, Moving Averages and Correlation.

Data Processing and Analysis

For a complete analysis on equities, there are basically two parts in which the total analysis is done.

Fundamental Analysis

Technical Analysis

LIMITATION OF THE STUDY:

1. This subject is based on past data of **Banks.**
2. The analysis is based on structural liquidity statement and gap analysis.
3. The study is mainly based on secondary data.
4. Approximate results: The results are approximated, as no accurate data is Available.
5. Study takes into consideration only LTP and issue prices and their difference for Concluding whether an issue is overpriced or under priced leaving other.
6. The study is based on the issues that are listed on NSE and BSE only.

7. LITERATURE REVIEW

Nationalized Banks of India

Nationalized banks have always contributed to boost up the economy of India and available in a large number.

It is also known for offering expeditious service and understands the actual need of its customers.

In India **Nationalized banks** have great dominance over private banks as it has fully authority to look after the function and policy of private banks. Imperial Bank was the first banks that was nationalized in 1955 and became famous as State Bank of India.

After that many banks got the certification of nationalized bank. Some of these are State Bank of Tranvancore, State Bank of Indore, State Bank of Patiala, State Bank of Saurashtra and more.

The nationalized banks were established with great purpose to make wide reach of banking function even in the rural area and offers great benefit for those who actually get deprived from such service

The nationalized banks are fully committed to offer the best possible service to its rural client and also make them aware about the various benefits, available for them.

Such banks are fully dedicated to offer quality of service to their clients. In 1969, the total number of nationalized banks was 14 whereas it became 21 in 1980. However State Bank of India became the topmost and the best commercial bank. Besides it also rated top five banks in the world.

Presently there are 88 commercial banks and 27 banks are functioning in the country and established many branches to expand its service in all parts. Some of these banks have also established their branches in foreign countries as well.

But the **nationalised banks in India** have its own reputation and operated with approximate 53,000 branches and 17,000 ATMs. By the coming of ATMs you can withdraw your money instantly and this service is available for 24 hours.

Apart from that, the nationalized banks in India are also known for offering transparent service and provide crystal clear balance sheet in comparison with other banks. Moreover, it also replaced the old payment system and introduces the best system of payment by providing debit card and credit card.

Earlier person used to carry cash while purchasing various items, but now you can easily make your payment by using such cards. Aside from offering such service, nationalized banks also introduced insurance policies such as life insurance health insurance.

State banks of India has introduced many such polices to offer extra benefit to its customers. Besides, several other nationalized banks also offered such policies with better features.

Private Banks India

In India private banks are available in plenty and known for offering expeditious service to their customers.

Thanks to globalization that prompted many foreign banks to expend their business throughout world and India became the most preferred destination.

Today you can find lots of foreign bank that are engaged to serve the customers in the best possible manner and made its stand strong by offering 24 x 7 hour service.

Private banks in India have a great history and started their service way back.

In 1920s, imperial bank of India formed by the great cooperation by Bank of Madras, Bank of Bengal and Bank of Bombay. After that Reserve Bank of India came into existence in 1935 and got authority to look after the other banks.

It became centre body and got power to introduce making policy and several new schemes.

After the establishment of Reserve Bank of India, the Imperial Bank of India was blessed

with new identity and became popular as State Bank of India.

In 1969 the Government of India offered a new ordinance and approx 14 commercial banks got certification of nationalized banks. Some of them were Central Bank of India, Allahabad Bank, Punjab National Bank and Canra Bank.

In 1994, the Reserve Bank of India opened the door for private banks and handed out the policy to control the private banks.

The policy also included the liberation for Private Banks in terms of their free and independent operation. The first private bank came in India as Trust Bank later it became popular as Oriental Bank of Commerce.

After that Housing Development Finance Corporation limited that got consent from Reserve Bank of India. It became a large private bank and still popular for offering wonderful service.

Today India is a swamped with many private banks such as International Bank, ING Vyasya Bank, Kotak Mahindra Bank, SBI Commercial Bank, Karnataka Bank, Kashmir Bank, ICICI Bank and more. Private Banks in India achieved a milestone for serving people and showed its great commitment.

Private Banks in India have earned great response for its skin tight service and also known for bringing revolution for serving millions of customers.

It offers best option for saving and also offers various schemes with maximum return.

It offers its service 24 hours and made the job of fund transfer easier by offering new banking service. Besides, there are lots of ATM machines have been set up by such private banks and made the task of withdrawing liquid money easier.

A Nationalized bank is one that is owned by the government of the country. Since the people decide who the government is, they are also referred to as public sector banks. The government is responsible for the money deposited into the accounts of these banks.

A private sector bank is one that is owned by an independent individual or a company that is controlled by a few individuals. In short, the bank is owned by someone else and they run the bank. The person owning/running the bank is responsible for the money deposited into the accounts of these banks.

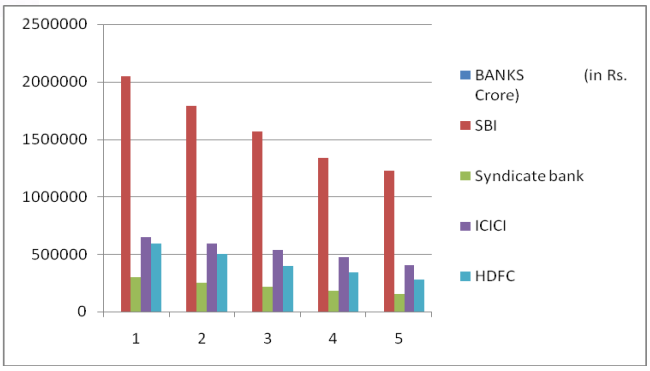
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III. DATA ANALYSIS AND INTERPRETATION

FUNDAMENTAL ANALASYS OF SELECTED PRIVATE BANKS Vs PUBLIC SECTOR BANKS WITH DATABASE FY 2021-2025

TOTAL ASSETS:

BANKS (in Rs. Crore)	**2025**	**2024**	**2023**	**2022**	**2021**
SBI	**2048079.80**	**1792234.60**	**1,566,261.03**	**1335519.22**	**1223736.20**
Syndicate bank	**302216.78**	**251861.46**	**215122.33**	**182468.07**	**156538.79**
ICICI	**646129.30**	**594641.60**	**536794.69**	**473647.10**	**406233.67**
HDFC	**590503.08**	**499599.50**	**400331.90**	**337909.51**	**277352.60**

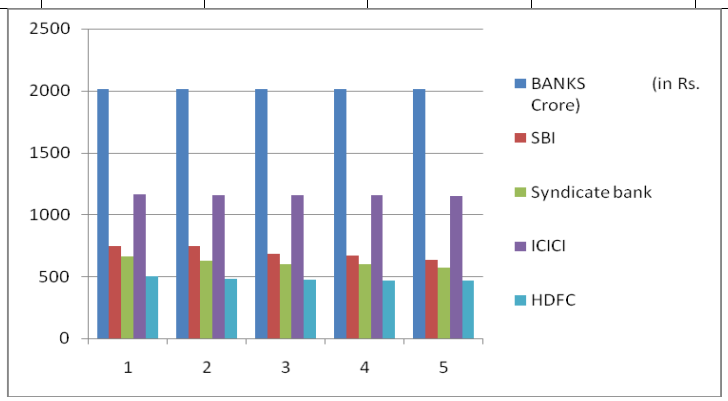


Interpretation

- SBI BANK from Public sector banks total assets increased
- Private sector banks ICICI total assets increased
- Among the nationalized banks SBI assets increased

CAPITAL:

BANKS (in Rs. Crore)	2025	2024	2023	2022	2021
SBI	**746.57**	**746.57**	**684.03**	**671.04**	**635.00**
Syndicate bank	**662.06**	**624.58**	**601.95**	**601.45**	**573.29**
ICICI	**1159.66**	**1155.04**	**1153.64**	**1152.77**	**1151.82**
HDFC	**501.30**	**479.81**	**475.88**	**469.34**	**465.23**



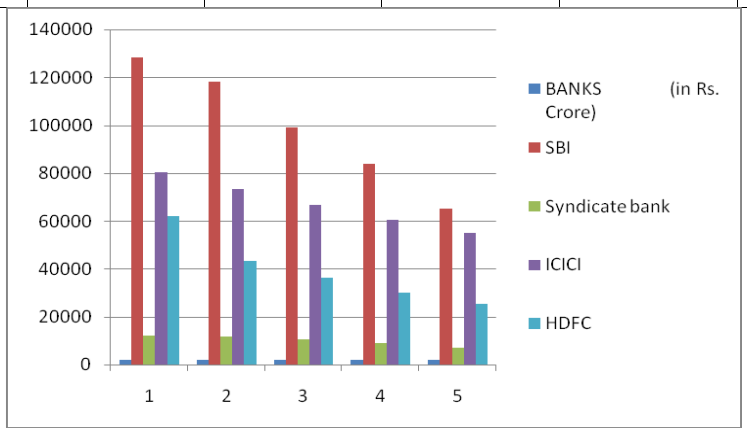
Interpretation

- Public sector banks capital increased in this period, SBI by 19% and Syndicate bank 8.20%, more than private sector banks
- Other private sector banks also increased their capital in this period.
- There is no decrease in capital structure for the given period.

NETWORTH:

BANKS (in Rs. Crore)	2025	2024	2023	2022	2021
SBI	**128438.22**	**118282.25**	**98883.68**	**83951.20**	**64986.04**

Syndicate bank	**12140.30**	**11844.19**	**10541.34**	**9041.15**	**7050.85**
ICICI	**80429.36**	**73213.32**	**66705.96**	**60405.25**	**55090.73**
HDFC	**62009.42**	**43478.63**	**36214.14**	**29924.68**	**25379.27**

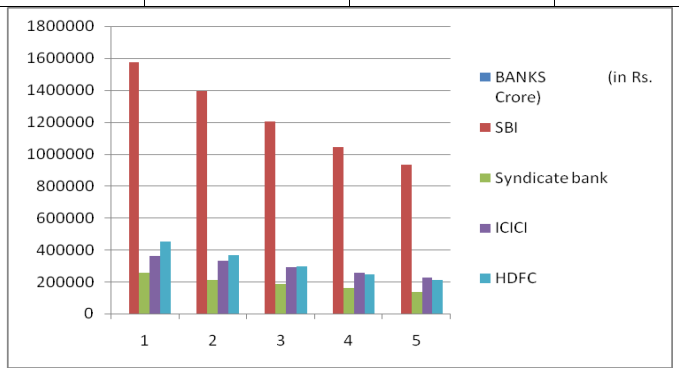


INTERPRETATION

- The average net worth of public sector banks increased by 31.57%
- The average net worth of private sector banks increased by 14.27%

DEPOSITS:

BANKS (in Rs. Crore)	**2025**	**2024**	**2023**	**2022**	**2021**
SBI	**1576793.24**	**1394408.51**	**1202739.57**	**1043647.36**	**933932.81**
Syndicate bank	**255388.10**	**212343.30**	**185355.89**	**157941.06**	**135596.08**
ICICI	**361562.73**	**331913.66**	**292613.63**	**255499.96**	**225602.11**
HDFC	**450795.64**	**367337.48**	**296246.98**	**246706.45**	**208586.41**



INTERPRETATION

- The average deposit of public sector banks increased by 23.17%
- The average deposit of private sector banks increased by 29.75%

IV. FINDINGS

1. Growth of Indian banking industry depends on few economical variables like interest rates and inflation, increased inflation is negative impact on banking stocks.
2. When a stock is strong in fundamental, even though we can see negative

fluctuations in the stock, it called as speculation.

3. SBI, HDFC BANK,& ICICI BANKS are sector leaders as well as market leaders in NIFTY and highest weight age is goes to ICICI bank, here speculation for ICICI bank is more than other banks, even though Syndicate Bank has given close to 13.25% growth for the given period.
4. More Promotional strategies and facilities introduced even in nationalized banks also to face competitiveness in the market.
5. All banks faced correction from December 1st week to 3rd week of December, major growth happen in SBI, both the banks are fundamentally strong one can invest for long term, but avoid fresh investments at this levels.
6. Net profit increased in public sector banks is 45.58%, where as 42.61% in private sector and we can see operating expenditure more in private sector banks.
7. Deposits and Investments is more in private sector banks than public sector banks, due to promotion activities conducted by them.
8. There is no change in capital structure of SBI and we can see increase in other five banks.
9. In intraday highest negative fluctuations we can see in Andhra bank and highest positive fluctuations in Andhra bank itself.
10. India records first place for highest banking interest rates in the world.

V. SUGGESTIONS

The banking system has made considerable investment in the related infrastructure to upgrade the payment system. However, there are several challenges that need to be effectively addressed if the full benefits of the achievements so far are to be reaped.

The primary reason for slow pace of adoption of the electronic modes of funds transfer, particularly in the retail segment, is the lack of education – particularly on the part of the bank staff at the branch level that have interface with the public.

A survey conducted by one of the Regional Offices of the RBI in the recent past revealed that in the limited sample covered; there were several bank branches in the State which were not even aware of the National Electronic Fund Transfer system. The banks, therefore, need to make concerted efforts to increase the degree of awareness at the level of the branch staff so that the electronic fund transfer services percolate down to the level of the public in a significant manner.

The other side of the coin is the lack of customer education and awareness about the features and benefits of the EFT, which precludes wider adoption of this product and leads to carrying on with the traditional modes of payment.

VI. CONCLUSION

Entry of new banks resulted in a paradigm shift in the ways of banking in India. The growing competition, growing expectations led to increased awareness amongst banks on the role and importance of technology in banking. The arrival of foreign and private banks with their superior state-of-the-art technology-based services pushed Indian Banks also to follow suit by going in for the latest technologies so as to meet the threat of competition and retain their customer base. Deregulation and technological change are the two single biggest changes in the banking environment.

In India, investments in technologies by financial services organizations are increasing, and new initiatives emerging, albeit at a basic level. However, in the long run, it is evident that technology investments in transaction and

process automation will cease to be a differentiator.

Technology has enabled banks to overcome the barriers of time and extending their services to customers. The new technology channels like ATMs, EFT (Electronic funds transfer), debit and credit cards mobile banking, tele banking, etc. are accessible to customers on a 24 x 7 basis. With automation, banks can offer single window service, extend business hours and provide anywhere anytime banking. It gives bank personnel more time to devote to business planning and development also facilitates each player in market to have its unique products and services for competitive advantage. New technology driven channels help the banks to reduce cost as the cost of transaction in new channel is a fraction of what it was on branch counter.

In view of this, technology has changed major functions performed by banks:

1. Access to liquidity.
2. Transformation of assets.
3. Monitoring of risks. Information technology and the communication networking systems have a crucial bearing on the efficiency of money, capital and foreign exchange markets.

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