

Asset Quality Based Ranking of Indian Commercial Banks: A Superefficiency Approach

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The present paper tries to make an asset quality based ranking of select (28) Indian commercial banks for four years period 2001-2002 to 2004-2005 using the super efficiency approach - a non-parametric tool. The super efficiency approach due to Andersen and Petersen (1993), allows rank order technically efficient firms. In this approach, a firm which is under evaluation is not included in the reference set of the relative envelopment model. A firm is called super efficient if its observed output exceeds what is necessary for the firm to be considered efficient relative to other firms in the sample. Out of the 28 observed commercial banks, the number found to be super efficient was only in the range between 5 to 8 during observed years. The rest were found to be inefficient. Further, the results obtained from the exercise indicate gradual improvement in mean technical efficiency scores (excepting 2003-2004) over the observed years. The observed private sector banks exhibit higher mean technical efficiency relative to the observed public sector banks for all the observed years.

Introduction

In the pre-1991 period, the commercial banking sector in India operated under a regime of financial repression where the allocation of resources and pricing of deposits and loans were, to a large extent, administered. In the nineties, however, the banking environment experienced radical transformation consequent on the dismantling of entry barriers, rate deregulation, introduction of prudential accounting norm and the implementation of Basel I capital adequacy norms. The changed competition scenario compelled the commercial banks to provide unprecedented attention towards reduction in operating cost. Inter alia, improvement of asset quality has become an important agenda for the commercial banks in the reform years. This is likely to gain further momentum in the coming years in view of the introduction of Basel II.

In the context of the changed operational scenario in the Indian banking sector during the reform period, the present paper tries to make an asset quality based ranking of select (28) Indian commercial banks (20 public sector and eight private sector commercial banks) for the four year period 2001-2002 to 2004-

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