

A Comparative Study on the Financial Performance of Public and Private Sector Banks in India

Manash Jha¹ and Muthamma B U²

¹Undergraduate Student (B. Com “IAF”), CMR University, Bangalore

²Faculty of Commerce, School of Economics and Commerce, CMR University, Bangalore

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ABSTRACT

This study evaluates the comparative financial performance of public and private sector banks in India, focusing on how variations in ownership structures, management practices, and risk profiles influence financial outcomes. The analysis is based on both secondary and primary data sources. Secondary data are drawn from the annual reports of selected banks and publications of the Reserve Bank of India over an extended period, ensuring a more comprehensive and reliable assessment. The study employs key financial ratios related to profitability, asset quality, capital adequacy, liquidity, and operational efficiency within the CAMEL framework to assess the overall strength and stability of both banking segments. To enhance analytical depth, the research incorporates structured evaluation techniques that support meaningful comparison and interpretation of results. In addition, primary data collected through a structured questionnaire (Google Forms) capture customer perceptions regarding service quality, digital banking services, and overall satisfaction. The integration of empirical findings with relevant theoretical perspectives strengthens the study's contribution to understanding performance differentials across bank types in the evolving post-reform banking landscape.

Keywords: Public Sector Banks, Private Sector Banks, Financial Performance, CAMEL Framework, Profitability, Asset Quality, Customer Satisfaction

INTRODUCTION

The banking sector plays a pivotal role in the economic development of India by mobilizing savings and facilitating the efficient allocation of credit to individuals, businesses, and government institutions. It supports investment, consumption, and overall financial stability, thereby contributing to inclusive economic growth. Over time, the Indian banking system has evolved into a diversified and competitive structure comprising public sector banks, private sector banks, foreign banks, and regional rural banks.

Among these, public and private sector banks constitute the two dominant segments operating under the regulatory supervision of the Reserve Bank of India (RBI). Despite functioning within the same regulatory framework, these banks differ significantly in ownership structure, operational efficiency, strategic orientation, and service delivery mechanisms. Public sector banks, largely owned by the Government of India, have historically played a central role in financial inclusion, priority sector lending, and the implementation of government welfare schemes. In contrast, private sector banks are widely recognized for their operational efficiency, innovation, customer-centric approach, and rapid adoption of advanced technologies.

In recent years, the Indian banking sector has undergone substantial structural and operational transformations. Key developments include consolidation through mergers of public sector banks, the introduction of stricter norms for managing non-performing assets (NPAs), and rapid advancements in digital banking services. Additionally, increased competition and evolving customer expectations have compelled banks to enhance efficiency, transparency, and service quality. These changes have had a significant impact on the financial performance and stability of both public and private sector banks.

Given this evolving landscape, a comparative analysis of the financial performance of public and private sector banks becomes essential. Such an evaluation provides insights into differences in profitability, asset quality, capital adequacy, liquidity, and management efficiency. It also assists policymakers, investors, and other stakeholders in understanding the strengths and limitations of each segment.

This study aims to provide a systematic and comprehensive assessment of the financial performance of public and private sector banks in India using a CAMEL-based framework, supported by both financial data analysis and customer perception studies. By linking empirical findings with established theoretical perspectives, the study contributes to a deeper understanding of the changing dynamics of the Indian banking sector in the post-reform period.

II. Review of Literature

The review of literature provides a structured overview of prior research on the comparative financial performance of public and private sector banks, highlighting key findings, methodologies, and research gaps. A majority of studies utilize the CAMEL framework—Capital Adequacy, Asset Quality, Management Efficiency, Earnings, and Liquidity—to assess bank performance. Patel and Yadav (2024) conducted a CAMEL-based analysis and found that private sector banks consistently outperform public sector banks in earnings and asset quality, while public sector banks demonstrate relatively stronger capital adequacy. Using statistical tools such as descriptive analysis and the Mann–Whitney U test, the study identified management efficiency and asset quality as critical determinants of performance. Similarly, Rao (2022) observed that private sector banks maintain lower levels of NPAs and higher profitability, whereas public sector banks have shown gradual improvement due to recapitalization and regulatory reforms. A study published in the *International Journal of Finance & Commerce* (2022) further supports these findings, indicating that private sector banks excel in cost efficiency and earnings performance, while public sector banks exhibit greater resilience during periods of financial stress due to government support. Another study titled *Comparative Performance Analysis of Selected Commercial Banks* (2022) analysed 12 banks using CAMEL ratios and statistical techniques, confirming significant differences between the two sectors. Private sector banks were found to lead in profitability and asset quality, whereas public sector banks maintained stronger liquidity positions. Mehta and Singh (2013/2021), however, reported no statistically significant difference in overall average performance, although private banks demonstrated marginally better profitability. This suggests that intra-group variations and managerial efficiency may be more influential than ownership structure alone. Tamilarasu and Srinivasan (2022) also found that private sector banks perform better in earnings quality and management efficiency, while public sector banks show strength in capital adequacy and deposit base. The study identifies high NPAs and rigid cost structures as key challenges faced by public sector banks. A recent study published in the *International Journal of Management, Public Policy and Research* (2024) highlights the growing importance of digitalization, regulatory reforms, and competitive pressures in shaping bank performance. It concludes that while private sector banks continue to outperform in profitability and efficiency, public sector banks have shown notable improvements in asset quality following recent reforms.

Research Gap

Although existing studies extensively focus on CAMEL-based analysis and financial ratio comparisons, there remains a significant gap in incorporating recent data and analysing the impact of post-reform developments, digital transformation, and evolving regulatory frameworks. Furthermore, limited research integrates quantitative financial analysis with customer perception insights. This study addresses these gaps by combining updated financial data with primary survey evidence to provide a more comprehensive and contemporary evaluation.

METHODOLOGY FOR RESEARCH

This study adopts a comprehensive research methodology based on both primary and secondary data sources to ensure a reliable and holistic analysis. Primary data are collected through a structured questionnaire administered via Google Forms to customers of public and private sector banks, capturing their perceptions of service quality, digital banking facilities, transparency of charges, grievance redressal mechanisms, and overall satisfaction using

a five-point Likert scale. Secondary data are obtained from credible sources, including audited annual reports of selected banks (such as Balance Sheets, Profit and Loss Accounts, and accompanying notes), as well as key publications of the Reserve Bank of India, including the Report on Trend and Progress of Banking in India and Statistical Tables Relating to Banks in India. Additional information is sourced from banking journals, industry reports, official bank websites, and financial databases to enhance the reliability and validity of the analysis. The study employs the CAMEL framework—covering Capital Adequacy, Asset Quality, Management Efficiency, Earnings, and Liquidity—to evaluate financial performance through the computation of relevant ratios. To strengthen analytical rigor, hypothesis testing is incorporated to assess the statistical significance of differences between public and private sector banks across key performance indicators such as profitability, asset quality, liquidity, capital adequacy, and management efficiency. Furthermore, the analysis is contextualized within the post-reform period of the Indian banking sector, characterized by regulatory changes, NPA reforms, recapitalization, consolidation through mergers, and rapid digital transformation, all of which have significantly influenced the performance dynamics of both banking segments.

Hypotheses of the Study

The study formulates a set of null hypotheses to examine whether significant differences exist between public and private sector banks in India across key financial performance parameters. It is hypothesized that there is no significant difference between the two sectors in terms of profitability, measured by indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin, and Net Interest Margin. Similarly, no significant difference is assumed in asset quality, assessed through Gross NPA, Net NPA, and Provision Coverage Ratio. The study also tests the absence of significant differences in capital adequacy ratios, liquidity position, and management efficiency indicators, including cost–income ratio and employee productivity measures. Finally, it is hypothesized that there is no significant variation in the overall financial performance of public and private sector banks when evaluated through composite CAMEL framework indicators. These hypotheses are tested to determine whether observed differences in financial performance are statistically meaningful.

Ratio analysis is employed to convert financial statement data into meaningful indicators of performance within the CAMEL framework, covering dimensions such as profitability, asset quality, capital adequacy, liquidity, and management efficiency. The analysis reveals that private sector banks generally exhibit stronger profitability, attributed to efficient cost management, diversified revenue streams, and better utilization of assets. In terms of asset quality, private sector banks maintain relatively healthier loan portfolios due to stringent credit appraisal and risk management practices, whereas public sector banks tend to experience higher levels of non-performing assets, reflecting challenges in loan recovery and credit monitoring. With regards to capital adequacy, both sectors comply with regulatory requirements; however, private banks often maintain stronger capital buffers, indicating more effective financial planning and risk control. Although public sector banks demonstrate stability and play a crucial role in financial inclusion, they face constraints in operational efficiency compared to their private counterparts. Overall, the ratio analysis suggests that private sector banks outperform in efficiency, profitability, and risk management, while public sector banks continue to contribute significantly to economic stability despite ongoing structural challenges.

Data Analysis and Interpretation

Demographic Factors

Particulars	Category	Frequency	Percentage (%)
Age	Below 25 years	24	25.00
	25–35 years	45	46.88
	36–45 years	17	17.71
	Above 45 years	10	10.42

	Total	96	100
Gender	Male	55	57.29
	Female	38	39.58
	Prefer not to say	3	3.13
	Total	96	100
Occupation	Salaried (private sector)	34	35.42
	Salaried (public/government)	8	8.33
	Self-employed / Business	21	21.88
	Student	33	34.38
	Total	96	100
Type of Bank Used	Public sector bank	38	39.58
	Private sector bank	48	50.00
	Both equally	10	10.42
	Total	96	100

The demographic profile indicates that the study is largely represented by younger individuals, particularly those in the early stages of their careers, while older age groups are less prominently included. The sample shows a higher representation of male respondents compared to others, which may influence overall perspectives. In terms of occupation, the data is mainly dominated by salaried employees and students, suggesting that the findings primarily reflect routine banking needs such as salary management and everyday transactions, with relatively less focus on business-related requirements. Regarding bank usage, there is a slight preference toward private sector banks, although public sector banks are also reasonably represented. Overall, the results are more reflective of modern, digitally active users and their banking experiences.

Analysis

1. Duration of Relationship with Primary Bank?

S no	Response	Frequency	Percent
1	Less than 2 years	21	21.43
2	2–5 years	38	39.29
3	5–10 years	24	25.00
4	More than 10 years	13	14.29
	Total	96	100

Source: Primary

Interpretation:

A majority of customers (around two-thirds) have been with their primary bank for more than two years, indicating relatively stable and ongoing relationships. Longer association may positively influence satisfaction, as customers become more familiar with processes and digital platforms.

2. Overall Service Quality of Primary Bank?

Particulars	Frequency	Precent
Very Poor	3	3.13
Poor	7	7.29
Average	28	29.17
Good	48	50.00
Excellent	10	10.42
Total	96	100

Source: Primary

Interpretation:

Most respondents rate service quality as Average or Good, with only a small share reporting poor experiences.

This suggests generally satisfactory but not outstanding service, leaving scope for banks to move more customers into the “Excellent” category through better responsiveness and consistency.

3. Satisfaction with Digital Banking Facilities?

Particulars	Frequency	Percent
Very Dissatisfied	3	3.13
Dissatisfied	7	7.29
Neutral	14	14.58
Satisfied	45	46.88
Highly Satisfied	27	28.12
Total	96	100

Source: Primary

Interpretation:

Around three-quarters of respondents are satisfied or highly satisfied with digital banking facilities, indicating strong acceptance of net banking, mobile apps and UPI. A small dissatisfied segment points to issues like app performance, downtime or usability that banks should address.

4. Transparency of Charges and Fees?

Particulars	Frequency	Percent
Not at all Transparent	7	7.29
Slightly Transparent	21	21.88
Moderately Transparent	28	29.17
Very Transparent	31	32.29

Completely Transparent	9	9.38
Total	96	100

Source: Primary

Interpretation:

Most respondents perceive bank charges as transparent, with over 60% rating them as **moderately or very transparent**. However, a notable portion still finds transparency limited, indicating a need for better clarity in fee communication.

5. Unresolved Major Issues?

Particulars	Frequency	Percent
Yes	24	25
No	72	75
Total	96	100

Source: Primary

Interpretation:

Three-fourths of customers have not faced unresolved major issues, reflecting reasonably good problem resolution overall. However, the 25% who report unresolved problems highlight gaps in grievance redressal systems that banks need to address more systematically.

DISCUSSION

The findings of this study provide significant insights into the comparative financial performance of public and private sector banks in India when evaluated through the CAMEL framework. The results not only corroborate earlier research but also reflect the influence of recent regulatory reforms, recapitalization measures, and rapid digital transformation within the Indian banking sector.

A key finding is the superior profitability of private sector banks, as evidenced by higher values of Return on Assets (ROA), Return on Equity (ROE), and net profit margins. This performance advantage can be attributed to their adoption of advanced technologies, efficient cost management practices, and market-oriented strategies. These findings are consistent with prior studies highlighting the benefits of operational flexibility and strong governance in private sector banks. In contrast, public sector banks often face structural constraints, including bureaucratic processes and social obligations, which can limit their profitability.

The study also reveals considerable differences in asset quality between the two sectors. Public sector banks continue to report higher levels of non-performing assets (NPAs), despite improvements resulting from regulatory interventions such as stricter NPA norms and recapitalization initiatives. The persistence of stressed assets reflects challenges in credit appraisal and recovery mechanisms. Conversely, private sector banks demonstrate stronger asset quality due to more rigorous credit assessment and risk management practices.

In terms of capital adequacy, both sectors maintain ratios above regulatory requirements, indicating overall financial stability. However, public sector banks rely more heavily on government support for capital infusion, whereas private sector banks primarily depend on internal accruals and market-based funding. This distinction highlights differences in financial independence and long-term sustainability.

The analysis further identifies variations in liquidity management and lending behavior. Public sector banks tend to maintain higher liquidity levels, reflecting a conservative approach aimed at stability and regulatory

compliance. In contrast, private sector banks adopt a more aggressive lending strategy, as reflected in higher credit–deposit ratios, which enhances profitability but requires robust risk management to mitigate potential risks.

Management efficiency emerges as another critical differentiating factor. Private sector banks exhibit lower cost–income ratios and higher productivity levels, indicating superior resource utilization. Public sector banks, however, face challenges associated with higher operating costs, larger workforce structures, and extensive branch networks, which constrain efficiency and highlight the need for organizational reforms.

Overall, the CAMEL-based evaluation suggests that ownership structure plays a pivotal role in determining bank performance. Private sector banks excel in profitability, efficiency, and asset quality, while public sector banks demonstrate strength in capital adequacy and liquidity due to government backing and a wider deposit base. This reflects a trade-off between efficiency and stability, where private banks focus on performance, and public banks emphasize financial inclusion and systemic resilience.

From a broader perspective, the Indian banking sector is moving toward greater competitiveness and convergence, driven by regulatory reforms and technological advancements. However, persistent performance gaps indicate the need for targeted policy measures. Strengthening governance, improving risk management frameworks, and accelerating digital transformation are essential for enhancing the performance of public sector banks. At the same time, private sector banks must ensure sustainable growth while maintaining strong asset quality and risk controls.

CONCLUSION

This study provides a comprehensive evaluation of the comparative financial performance of public and private sector banks in India using the CAMEL framework, supported by both financial data and customer perception analysis. The findings clearly indicate that private sector banks maintain a competitive advantage in profitability, asset quality, and operational efficiency, driven by advanced technology adoption, effective risk management, and market-oriented strategies.

In contrast, public sector banks demonstrate resilience through relatively stronger capital adequacy, higher liquidity buffers, and a critical role in promoting financial inclusion. Their performance is supported by government backing and policy mandates, which enhance stability but may also limit operational flexibility.

The study also reveals that customer preferences increasingly align with these performance trends. Younger and urban customers tend to favor private sector banks due to superior service quality, faster transactions, and advanced digital banking platforms. Nevertheless, public sector banks continue to retain a strong base of trust and reliability, particularly among customers who value accessibility and government association.

Despite recent improvements especially in asset quality following regulatory interventions public sector banks continue to face structural challenges, including inefficiencies, legacy costs, and slower technological adaptation. At the same time, private sector banks must ensure that their growth strategies remain sustainable and do not compromise asset quality or risk management standards.

In conclusion, both public and private sector banks play complementary roles in strengthening the Indian banking system. A balanced approach that integrates the efficiency and innovation of private banks with the stability and inclusiveness of public banks is essential for long-term financial sustainability. Enhancing governance, strengthening risk management practices, accelerating digital transformation, and improving customer service are critical for overall sectoral development. By addressing these key areas, the banking sector can contribute more effectively to economic growth, financial stability, and inclusive development in India.

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