

Short-Term Gains, Long-Term Pain: The Unintended Consequences of Prioritizing Profit Efficiency in Bank-Customer Relationships

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Abstract

Despite its crucial role in driving economic growth, the Indian banking sector faces several challenges, including rising Non-Performing Assets (NPAs), escalating cyber security threats, and limited financial inclusion. This raises concerns about the sector's financial stability. This research explores these key issues by analyzing risk factors like credit, operational, market, and fraud/cybersecurity risks. By examining bank practices and analyzing data, the research aims to identify factors contributing to bank failures and the effectiveness of risk management strategies. The findings highlight challenges in managing various risks and the importance of robust risk management for financial stability. The research ultimately provides recommendations for developing effective risk management strategies and suggests areas for further exploration, offering valuable insights for banks, regulators, and policymakers to enhance risk management, improve regulations, and strengthen cybersecurity, leading to a more secure and stable banking environment.

Keywords: Indian Banking Sector, Non-Performing Assets (NPAs), Financial Stability, Risk Management, Cyber Security, Financial Inclusion

Introduction

Banks are the backbone of the economy as they play an important role in the development of the economy and provide financial assistance to individuals, companies, governments and projects in need. The health of the economy is directly related to the financial health of its banks. As a developing country, India has experienced significant growth compared to other economies. As of 2022, the Indian banking system consists of 12 public sector banks, 22 private sector banks, and 49 foreign banks.

Bank lending in India is growing steadily. In March 2022, bank loans were reported to have reached 11,151 trillion rupees (\$1.6 trillion), up 6.5 percent year on year compared to 11,555 trillion rupees (\$102 billion) in the same period. This loan growth reflects ongoing efforts to support economic growth and secure financing across industries.

The digital transformation of Indian banking is good. India has made great progress in digital payments. Instant Payment Service (IMPS) and Unified Payments Interface (UPI) have been widely adopted, making money transfers and transactions easy and convenient.

The Indian government's efforts towards digital payments and financial inclusion have spurred the development of new business models and improved access to financial services.

In terms of government initiatives, the Mudraprogram launched in 2015 also provides financial assistance to small and microenterprises. As of 2022, the projects have total 3,068 trillion rupees (\$400 billion), more than

15.89 crore (\$160,000) in loans. This initiative has played an important role in promoting entrepreneurship and creating employment in the country.

A bank is the foundation of any business that facilitates the economy by providing finance to individuals, businesses, governments and many other sectors. The financial health and stability of banks is important to the overall health of the economy. But banks face many challenges, including loss of capital, which can have a significant impact.

Understanding the types, causes and consequences of losses from banks is important for assessing the viability and stability of financial institutions. Effective risk management is essential to reduce these losses and protect the health of banks.

Information on losses from banks provides a better understanding of various risk situations and provides guidance for the implementation of risk management strategies. One of the areas of focus in the document is credit risk from borrower defaults and credit defaults. Various studies analyzing credit risk models such as CreditMetrics and Basel Framework have highlighted the importance of credit risk management such as credit risk, product requirements and credit score. These studies highlight the need for banks to implement effective credit risk management to reduce capital losses.

Operational risk, including loss of internal systems, systems and human error, is another important factor mentioned in the literature.

Through this research it is stressed the importance of establishing strong internal controls, implementing effective risk management, and improving employee training to mitigate risk.

By identifying and addressing operational weaknesses, banks can reduce the potential for large losses.

Market risk, including losses from changes in market prices, is also increasingly being examined. Scientific research on business risk management, such as the value-at-risk (VaR) model and stress testing to identify and manage potential business losses. The document highlights the importance of monitoring risk management strategies and other factors such as economic and international measures to reduce business risk.

Additionally, the document acknowledges the changing risks banks face in the digital age. Technological advancement and the rise of digitization have created new risks, including cyber threats, data breaches and financial transactions. Researchers highlight the need for fraud prevention, data security, regular cybersecurity audits and employee awareness programs to reduce losses and prevent cyber risks.

While the current literature provides good information, gaps remain that require further research. These differences include exploring the integration of risk management strategies, examining the benefits of new technologies in risk reduction, and understanding the impact of

the macroeconomic aspects of bank failure. To add to the current body of knowledge, this research paper uses a general questionnaire to collect data from a bank sample. Analysis of the findings will provide an understanding of the problems banks face and the steps they have taken to reduce losses. These findings will help strengthen risk management and develop strategies to reduce losses, ultimately increasing banks' stability and resilience in the face of risky selling.

Net profits and losses of scheduled commercial banks in India from financial year 2019 to 2021, by sector

(in billion Indian rupees)



Literature Review

Prioritizing Profit Efficiency at the Cost of Customer Relationships in Banking: A Literature Review

The banking industry faces a delicate balancing act between maximizing **profit efficiency** and fostering **strong customer relationships**. While achieving financial goals is essential, a growing body of research suggests that prioritizing short-term profit at the expense of customer well-being can have detrimental long-term consequences. This review explores the negative impact of **less profit efficiency** on customer relationships in the banking sector, drawing insights from relevant academic studies.

Negative Consequences of Profit-Driven Practices:

1. Reduced Service Quality and Increased Fees:

Studies consistently demonstrate the negative consequences of profit-driven practices on customer relationships. Claessens, Demirgüç-Kunt, and Huizinga (2003) [1] and Demirgüç-Kunt, Klapper, and Singer (2004) [2] found that banks focusing solely on profit maximization often implement **higher fees** and **cut back on essential services**, leading to customer dissatisfaction and frustration. Additionally, Berger, Hancock, and Humphrey (2009) [3] highlight how banks engaging in excessive cost-cutting measures often compromise service quality, leading to longer wait times, limited branch availability, and reduced accessibility, ultimately damaging customer satisfaction and loyalty.

2. Neglecting Customer Relationship Management (CRM):

Dwyer, Schurr, and Oh (2000) [4] and Morgan and Hunt (1994) [5] argue that prioritizing short-term profits often leads to **neglecting long-term investments in CRM**, including employee training, personalized communication, and loyalty programs. This is further emphasized by Mithas, Krishnan, and Clemons (2005) [6] who found that banks with lower CRM maturity levels tend to score lower on customer satisfaction metrics. These neglected investments ultimately weaken customer relationships and contribute to customer churn.

3. Impact on Employee Morale and Customer Service:

Bowen and Schneider (1985) [7] and Grönroos (2012) [8] highlight the detrimental impact

of profit-driven pressure on bank employees. When solely focused on meeting profit targets, employees become less invested in building genuine relationships with customers, resulting in a

transactional approach and **poor customer experiences**. Additionally, studies by Heskett, Sasser, and Schlesinger (1994) [9] and Schneider and White (2002) [10] demonstrate how employee morale and customer satisfaction are strongly linked. When employees feel undervalued and pressured due to profit-driven practices, their morale declines, ultimately impacting the quality of customer service and leading to increased customer dissatisfaction.

4. Increased Customer Defection and Switching Costs:

Reichheld and Sasser (1990) [11] and Mittal and Kumar (2000) [12] emphasize that customers who feel undervalued due to profit-driven practices are more likely to **switch banks**. Verhoef, Lemmink, and Spies (2003) [13] further highlight the significant role of customer experience in the banking industry, emphasizing how poor customer experiences due to profit-driven practices can lead to customer defection and increased switching costs for banks.

Long-Term Consequences for Bank Profitability:

While focusing solely on profit efficiency might seem beneficial initially, research emphasizes the long-term consequences for banks. Studies by Rust, Lemon, and Zeithaml (1996) [14] and Reinartz and Kumar (2000) [15] argue that neglecting customer relationships ultimately **harms long-term profitability**. Loyal customers bring in new business, recommend the bank to others, and are less price sensitive, contributing significantly to sustainable growth. Lee and Grewal (2004) [16] further emphasize the importance of customer lifetime value, highlighting how neglecting customer relationships can have a significant negative impact on a bank's overall profitability over the long term.

The banking industry's increasing focus on short-term profits can have unintended long-term consequences for customer relationships. While prioritizing

efficiency may yield immediate gains, it can also erode customer satisfaction and loyalty over time (Levrin & Liljander, 2006).

Short-term Gain vs. Long-term Pain

Banks often prioritize short-term sales over long-term customer relationships. Sales-oriented approaches focus on immediate transactions rather than cultivating customer satisfaction and loyalty (Levrin & Liljander, 2006). This short-sightedness can lead to customer dissatisfaction and churn in the long run.

The Role of Customer Relationship Management (CRM)

CRM strategies aim to individualize interactions with customers to drive loyalty and retention. However, banks often implement CRM primarily to gain process efficiencies rather than to prioritize customer needs (Fatouretchi, 2019). This misplaced emphasis can undermine the effectiveness of CRM initiatives.

Impact on Customer Retention

Banks' short-term focus often means that customer retention is not a top priority. Policies and strategies may not be aligned with retaining customers over the long term (Ghavami & Olyaei, 2006). This can lead to customers taking their business elsewhere when they feel their needs are not being met.

The Importance of Trust and Partnership

Building trust and partnership with customers is crucial for effective and efficient bank-customer relationships. Prioritizing collaboration over short-term gain can increase customer satisfaction and loyalty (Iwalewa, 2021). Banks must shift their focus from transactional relationships to relational ones built on trust and mutual benefit.

Research methodology

Research methodology refers to the methods used to conduct research. It explains the nature of the study, data collection methods, and tools used to analyze the data. The nature of science is descriptive because science describes the nature and properties

of science. It helps reduce bias and increase the reliability of research data. This research paper uses secondary data. Information can be obtained from journals, periodicals, research articles and documents published in banks, books, different websites etc. is collected.

Data and Model

Data defined below is with previous records published by the bank and analysis by the analyst for perspective of knowing which bank is performing its with full efficiency and satisfying customer with overall development of its personal efficiency. It is being derived by researcher in its book for readers and from this only this research paper has taken data for the further researches also.

Annual reports of the individual commercial banks for the year 2004–2020. To maintain the uniformity of the individual bank data, the

data beyond the year 2020 is not included in this study, as there are a series of mergers of PSBs in 2020. The data used for efficiency measurement are of two types, input and output variables. The selected input variables are the number of bank employees, bank branches, and expenses for bank employees. The output variables are total assets and total business (deposits plus advances) for measuring business efficiency, profit after tax (PAT) for measuring the profit efficiency, and calculated Z-Score of the bank for Z-Score efficiency.

Z Score Efficiency

The Z-score indicates the banks' buffer in terms of capital and returns to those returns standard deviation. It shows the strength of the bank when the returns are volatile. It is calculated as

$$ZScore = \frac{ROA + (equity/assets)}{sd(ROA)}$$
 where ROA- Return on Assets and sd(ROA) means standard deviation of Return on Assets.

With all researches and implication in researches by researchers it is most common scene various method but here it is chosen simple 2 method which is easily understandable by all readers

1. Data Envelopment Analysis (DEA)

DEA is a non-parametric method commonly known as the CCR-Charnes-Cooper-Rhodes (Charnes et al., 1978) model for regularly evaluating the performance of a decisionmaking unit as a function of parameters. An extended CCR model known

as the BCC-Banker-Charnes Cooper (Banker et al., 1984) model includes a variable to be measured during the manufacturing process. It is widely used to evaluate the effectiveness of decision-making units (DMUs) and to evaluate banks, hospitals, companies and

business ventures of different companies based on their performance scores (Beasley, 1990). This study uses DEA as a BCC model for analysis. DEA can be analyzed from two different orientations, such as input

orientation and output orientation (Coelli, 1996). Input oriented models focus on minimizing inputs while keeping output constant, while output oriented models focus on maximizing output with fixed input levels.

2. Tobit model

In statistics, the Tobit model is a class of regression models in which the multivariate analysis of the dependent variable is somewhat censored. The term was coined by Arthur Goldberg in reference to James Tobin, who developed the formula for solving the zero-inflated data problem in 1958 to look at

household spending on fixed assets. Because Tobin's method can be easily extended to check for threshold and other unselected models, some authors have adopted a broader definition of Tobit model that includes these conditions.

Model for PSBs

$$PUB_ES = \beta_0 + \beta_1 NPA + \beta_2 CAP + \beta_3 ROA + \beta_4 PROV + \beta_5 SE + \beta_6 MRS + \beta_7 HO + \beta_8 SIZE$$

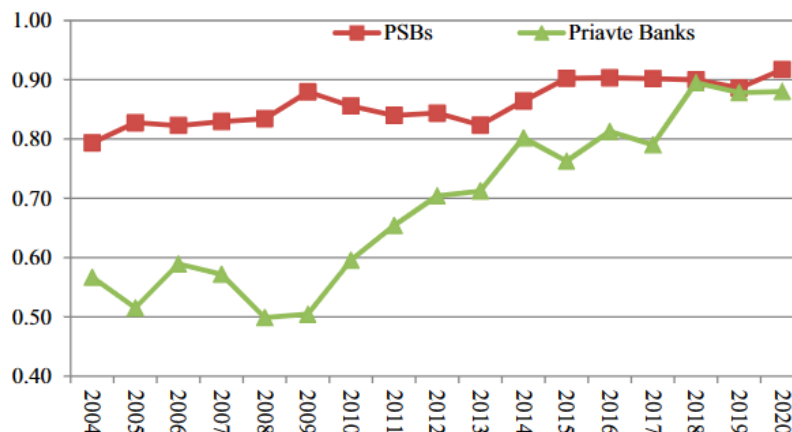
Model for private banks

$$PVT_ES = \beta_0 + \beta_1 NPA + \beta_2 CAP + \beta_3 ROA + \beta_4 PROV + \beta_5 SE + \beta_6 MRS + \beta_7 HO + \beta_8 SIZE + \beta_9 Age$$

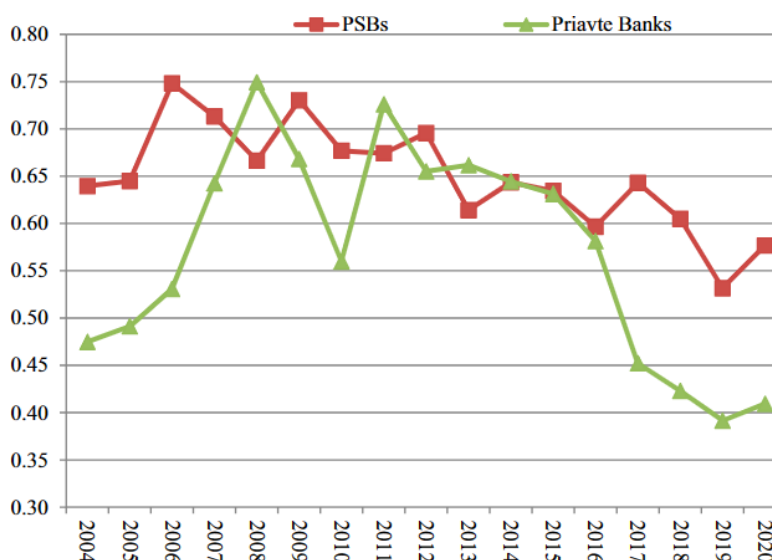
Up to 2017, private banks are the leader in the market compared to public banks; however, the performance of private banks has improved over time and is now on par with public banks. In 2017, the RBI included the largest PSBs under the Rapid Corrective Action (PCA) framework, which prohibits undercapitalized and regularly reporting banks from further lending. These banks are taught to focus on profit. More than half of PSBs in India; 11 out of 21 banks are subject to this framework. This reduces PSB's job growth. To some extent, the demonization and implementation of the GST in 2016 had an impact on these PSBs. Compared to private banks, PSBs have better average profitability scores. This finding contradicts existing studies which argue that private banks are more profitable. It's also worth noting that PSBs' profitability ratio has risen from 0.60 in 2016 to 0.64 in 2017, which may be due to the PCA framework in 2017, as this bank's bottom line focus is on buildings, fundraising. Otherwise, the performance results for both bank groups decreased from 0.63 to 0 in 2015. 2020 PSB and Private Banking are 58 and 0.41 respectively. Additionally, the Z-score efficiency of Indian banks (including PSBs and private banks) is also shown in Explanation of variance in Tobit forecast List

Variable Names Explanation of results
 Efficiency (ES) Scores DEA Job, income and Z-Score efficiencies. Independent Variable
 Government Ownership (G) Ratio of government shares of each bank to PSBs
 NPA percentage (NPA) Equity percentage of non-performing assets as a percentage of total assets (CAP) Return on Capital (shareholder value) as a percentage of total assets
 Return on Assets (ROA) Average income/profit as a percentage of total loan assets (PROV)
 Percentage of dilution of assets held by the bank pursuant to provisions governing Total Loss Provisions Recording Fees and other liabilities (SE) of the bank
 Employee salaries and other debts as a percentage of total business portfolio
 Market share of all businesses of the bank (MRS) as part of all banking companies of all groups
 Mumbai Headquarters Virtual (HO) Operating Cost
 Mumbai Finance 1 Recommended Financial Size Virtual (SIZE) Value 1, average market size
 H 4 Trillion New Aged Banks Are Virtual (AGE) Value 1 is considered to apply to private banks established after 1991. The year was known for major economic changes in India. Since all PSBs in India were installed before 1991, AGE Dummy is not used in PSBs.

Public Sector Banks										Private Sector Banks									
Type of Efficiency		Business Efficiency		Profit Efficiency		Z-Score Efficiency		Bank Name		Business Efficiency		Profit Efficiency		Z-Score Efficiency		Bank Name			
Bank Name	Input	Output	Input	Output	Input	Output	Input	Output	Bank Name	Input	Output	Input	Output	Input	Output	Input	Output		
ALB*	0.77	0.78	0.65	0.67	0.61	0.84	AXB^	0.81	0.89	0.71	0.71	0.71	0.71	0.16	0.61				
AB *	0.85	0.80	0.76	0.66	0.77	0.75	CSB	0.62	0.39	0.53	0.10	0.52	0.71						
BOB	0.99	0.99	0.66	0.73	0.37	0.68	CUB	0.85	0.82	0.94	0.89	0.96	0.99						
BOI	0.96	0.98	0.52	0.70	0.37	0.60	DCB	0.91	0.50	0.90	0.45	0.93	0.89						
BOM	0.87	0.78	0.81	0.49	0.81	0.63	DNLB	0.78	0.51	0.73	0.36	0.73	0.71						
CAN	0.91	0.92	0.65	0.70	0.35	0.65	FB	0.61	0.59	0.59	0.55	0.24	0.53						
CBI	0.67	0.69	0.33	0.40	0.31	0.59	HDFC^	0.79	0.86	0.86	0.87	0.40	0.94						
CORP*	0.99	0.99	0.87	0.85	0.85	0.85	ICICI^	0.97	0.98	0.83	0.83	0.09	0.65						
DENA *	0.95	0.77	0.93	0.53	0.93	0.77	INSB^	0.78	0.74	0.74	0.68	0.73	0.81						
INB	0.81	0.80	0.89	0.86	0.85	0.93	JKB	0.60	0.57	0.55	0.52	0.33	0.55						
IOB	0.76	0.74	0.60	0.73	0.54	0.78	KB	0.69	0.66	0.55	0.46	0.34	0.53						
OBC*	0.99	0.98	0.81	0.63	0.72	0.76	KVB.	0.70	0.65	0.73	0.65	0.58	0.68						
PSB	1.00	0.87	1.00	0.51	1.00	0.88	LVB	0.75	0.68	0.59	0.28	0.59	0.55						
PNB	0.80	0.91	0.62	0.78	0.36	0.81	RBL	1.00	0.59	0.98	0.44	0.96	0.89						
SBI	1.00	1.00	0.95	0.97	0.10	0.73	SIB.	0.71	0.67	0.47	0.37	0.29	0.37						
SNB*	0.74	0.75	0.54	0.51	0.53	0.58	YB^	0.96	0.95	0.88	0.97	0.78	0.86						
UCO	0.89	0.90	0.66	0.62	0.64	0.59													
UBI	0.94	0.94	0.66	0.67	0.42	0.65													
UNDB*	0.77	0.68	0.69	0.37	0.69	0.61													
VB*	0.97	0.88	0.94	0.62	0.94	0.78													
Mean	0.88	0.86	0.73	0.65	0.61	0.72	Mean	0.78	0.69	0.72	0.57	0.54	0.70						
SD [§]	0.10	0.11	0.17	0.15	0.25	0.11	SD [§]	0.13	0.17	0.16	0.24	0.29	0.18						
CV [§]	0.12	0.12	0.24	0.24	0.41	0.15	CV [§]	0.16	0.25	0.22	0.43	0.54	0.25						



BUSINESS EFFICIENCY



PROFIT EFFICIENCY

Reason of decreasing profit

It is seen that with increase in the business efficiency profitability decreases it is because increasing business efficiency is generally associated with positive outcomes, it is important to note that there can be instances where profit efficiency may decrease as a result. Business efficiency focuses on streamlining operations, reducing costs, and improving productivity. However, in certain cases, these efforts to increase efficiency may involve upfront investments or restructuring costs that temporarily impact profitability. For example, implementing new technologies or upgrading infrastructure may require

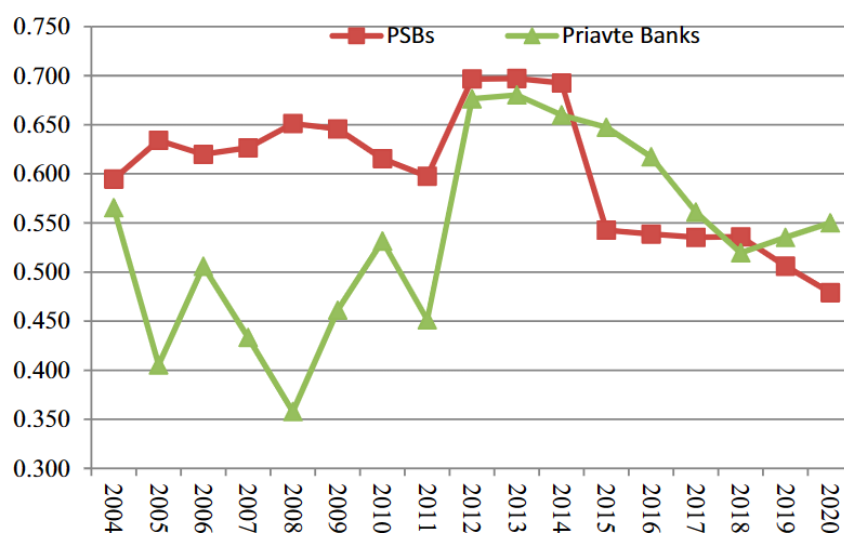
significant financial resources before the

benefits are realized. Additionally, cost-cutting measures might inadvertently compromise product quality or customer service, leading to reduced customer satisfaction and lower sales. Furthermore, optimizing processes may result in workforce downsizing or redistribution, which can lead to short-term disruptions and decreased employee morale. Therefore, while business efficiency is important for long-term success, it is crucial for organizations to carefully evaluate and balance the trade-offs between short-term profit efficiency and the long-term benefits of increased efficiency to ensure sustainable growth and profitability.

Descriptive Statistics

Descriptive statistics provide an initial idea of the explanatory variables used in Tobit's regression. It does not include dummy variables such as SIZE, HO, and AGE because their values are either 1 or zero. It is clear from the description that PSBs in India are government-owned with an average ownership rate of 77%. Union Bank of India (UNBI) has the highest share with 93%, while State Bank of India (SBI) has the lowest share with 59%. This shows that the government has too much control over the PSB.

The skewness and kurtosis values are 0 and 3, respectively, indicating that the normal distribution is preferred for the regression model. The null hypothesis of statistics is a combination of zero skewness and zero extreme kurtosis. Accepting the null hypothesis means that the series follows a normal distribution. Since we accepted the null hypothesis that the estimated regression coefficients would provide valid and robust results, all variables except MRS were normally distributed.



Z Score Efficiency

Analysis of the results showed that private sector banks in India were more upset than private banks by low profitability, low capital adequacy, low return on assets and bad debt. Also, private sector banks have a higher average employee expenditure as a percentage of total business than PSBs. Between 2004 and 2020, the economy's average market share was taken by both public and private small banks, as evidenced by the higher SD. The highest shares belong to State Bank of India (28.84%) and ICICI Bank (26%).

For other statistics such as SD and CV, 36%

of PSBs and private banking group, respectively, show the difference and consistency in the dataset. In general, private banks are more involved in different groups of all disadvantages than private banks.

the correlation among explanatory variables used in the Tobit model is checked and confirmed that the model does not suffer severe multi-collinearity. The Variance Inflation Factor (VIF) also value does not exceed 5.

Variables	Mean	Max.	Min.	S.D.	Skw.	Kur.	J.B	JB.P	C.V.
Public Sector Banks									
G	76.93	93.13	58.86	9.94	-0.27	1.93	1.19	0.55	0.13
NPA	1.93	2.75	1.18	0.43	-0.13	2.36	0.40	0.82	0.22
CAP	0.77	2.50	0.05	0.64	0.97	3.52	3.34	0.19	0.84
ROA	0.16	0.78	-0.47	0.34	-0.23	2.15	0.78	0.68	2.08
PROV	10.32	11.95	9.01	0.77	0.06	2.60	0.15	0.93	0.07
SE	0.57	0.73	0.40	0.10	0.05	1.91	1.00	0.61	0.18
MRS	5.07	28.84	1.24	6.01	3.29	13.62	130.20	0.00	1.18
Private Banks*									
NPA	0.96	2.19	0.19	0.47	0.95	4.25	3.43	0.18	0.48
CAP	0.79	2.80	0.10	0.79	1.38	3.76	5.42	0.07	1.00
ROA	0.68	1.60	-0.25	0.57	-0.28	2.06	0.80	0.67	0.83
PROV	9.06	11.42	6.90	1.49	0.20	1.90	0.92	0.63	0.16
SE	0.64	0.96	0.46	0.16	0.86	2.36	2.23	0.33	0.25
MRS	5.54	26.36	0.55	7.89	1.77	4.64	10.11	0.01	1.42

contrarily related to benefit proficiency scores. It suggests a rise in credit chance, and

arrangements, and pay rates costs rate are

Tobit Regression

Performance scores as the dependent variable are withdrawn as bank-specific parameters in equations. For private banks, the Tobit regression uses the same explanatory variables as PSB, except for government assets. Include another negative variable, AGE, as the explanatory variable for the private sector.

The comes about appear that the trade efficiencies of PSBs have a positive and factually noteworthy relationship with the NPA level of banks, the showcase share of the person bank, the expansive estimate of the bank, and government proprietorship. This result is reliable with the comes about of prior considers. It infers that state-owned, larger-sized banks and banks with a better advertise share emphatically impact commerce proficiency. It too demonstrates that PSBs increment their trade with a rising level of chance. The level of capitalization, advance misfortune arrangements, compensation costs rate, and head office is at Mumbai have a negative relationship with the business proficiency of PSBs. Within the case of private banks, the relapse comes about recommend that the NPA level of banks, level of capitalization of banks, and return on resources are critical and emphatically related to trade productivity scores. Therefore, unlike the PSBs, private banks increment their commerce beside higher capital and superior return on assets. In the case of benefit productivity, factors such as NPA level of banks, return on resources, and advertise share straightforwardly impact the bank's benefits. The result is adjusted with other considers where advertise share and return on resources impact proficiency emphatically.

Be that as it may, the advance misfortune

the fetched of the bank impacts the benefit proficiency contrarily the Indian banks and famous that a rise in credit hazard diminishes

the benefit proficiency and cost-efficient banks are more profitable. Similarly, the Z-score effectiveness for PSBs is altogether emphatically related to the banks' return on resources and contrarily with credit

chance and as well huge estimate reduce it. A comparable result is additionally watched for the private banks; the Z-score proficiency score is emphatically related to the return on resources and the capital level, adversely with advance misfortune arrangements. It involves that higher misfortune arrangements diminish

misfortune arrangements and the bigger measure of the bank. It states that the next return on resources makes a difference the banks increment their soundness, while the bank

the bank's solidness, and higher return and capital level increment the banks' soundness. The by and large centrality of the demonstrate is watched from the likelihood measurements of LR. The comes about affirm that all the models give strong comes about.

	NPA	CAP	ROA	PRO	SE	MRS	HO	SIZE	AGE
NPA	1								
CAP	-0.12	1.00							
ROA	-0.70*	-0.25	1.00						
PRO	-0.49	-0.37	0.65*	1.00					
SE	0.16	0.68*	-0.61*	-0.61*	1.00				
MRS	-0.32	-0.38	0.55*	0.80*	-0.37	1.00			
HO	-0.48	0.11	0.44	0.62*	-0.02	0.63*	1.00		
SIZE	-0.32	-0.36	0.49	0.75*	-0.33	0.75*	0.62*	1.00	
AGE	-0.51*	-0.08	0.59*	0.81*	-0.29	0.74*	0.78*	0.71*	1.00

Financial Statement Analysis of Banks which are in loss

Financial statement analysis is the process of analyzing and evaluating a company's financial statements to fully understand its financial performance, revenue, revenue and consumption. It often involves analyzing financial statements, including the balance sheet, income statement, and cash flow statement, to assess the company's financial

It compares a company's business performance with industry peers, historical data or industry standards using a variety of tools and techniques such as financial analysis, benchmarking, analysis, integration and evaluation. Investors, lenders, analysts and management use findings and insights

from financial data analysis to make

health and make decisions that are painful to know. The main purposes of examining financial statements are: Examining results: By analyzing revenue, financial analysis helps to determine the results of the company, which includes revenue, cost of production and total profit such as gross profit, operating income, margin and net profit margin.

investment decisions, creditworthiness, measurement and strategic planning. Overall, financial analysis is an important decision- first process that provides a better understanding of a company's financial performance and helps assess its strengths, weaknesses, opportunities, and threat

Profit & Loss of Central Bank of India

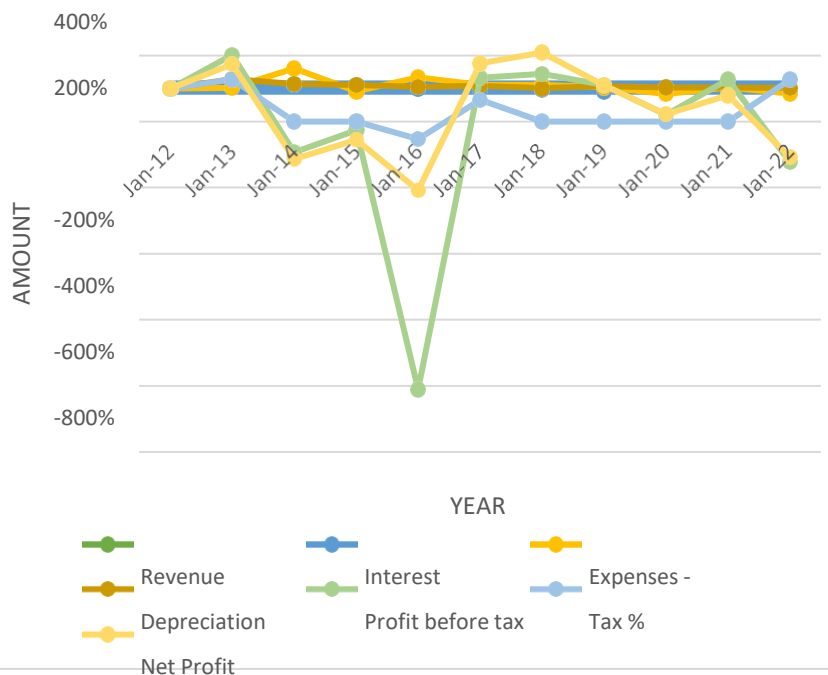
	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Revenue	19,169	21,897	24,478	26,476	25,988	24,775	24,163	22,749	23,676	22,850	22,903
Interest	13,986	16,141	17,963	19,200	18,889	18,166	17,603	15,935	16,005	14,543	13,361
Expenses -	5,782	5,906	9,489	8,620	11,529	12,744	14,015	14,580	12,135	12,419	10,477
Manufacturing Cost %	0.43%	0.26%	0.24%	0.28%	0.27%	0.49%	0.47%	0.44%	0.44%	0.51%	0.71%
Employee Cost %	13.09%	13.23%	14.47%	14.47%	17.21%	17.04%	16.52%	15.72%	17.86%	18.18%	19.57%
Other Cost %	16.63%	13.48%	24.05%	17.81%	26.88%	33.91%	41.01%	47.94%	32.96%	35.71%	25.46%
Financing Profit	-599	-150	-2,974	-1,344	-4,430	-6,136	-7,455	-7,766	-4,464	-4,133	-934
Financing Margin %	-3%	-1%	-12%	-5%	-17%	-25%	-31%	-34%	-19%	-18%	-4%
Other Income -	1,409	1,677	1,931	1,900	2,019	2,871	2,620	2,416	3,622	2,994	2,986
Exceptional items	0	-1	-1	-1	74	-2	-4	-4	-22	-21	9
Other income normal	1,410	1,677	1,933	1,901	1,944	2,872	2,625	2,421	3,645	3,015	2,977
Depreciation	144	185	209	230	240	258	260	278	285	293	297
Profit before tax	667	1,342	-1,252	327	-2,651	-3,523	-5,096	-5,628	-1,127	-1,431	1,755
Tax %	18%	23%	0%	-89%	47%	31%	0%	0%	0%	30%	38%
Net Profit	616	1,071	-1,209	670	-1,392	-2,457	-5,134	-5,611	-1,252	-995	1,083
EPS in Rs	8.33	10.22	-8.99	4.02	-8.26	-12.93	-19.63	-13.88	-2.2	-1.7	1.24
Dividend Payout %	24%	24%	0%	12%	0%	0%	0%	0%	0%	0%	0%

BASIC SCIENCE AND ENGINEERING

Trend analysis

1. P and L Account Shows that the bank is not making profit and the loss is also continuously increasing year by year with very high rate.
2. Expenses of bank are very much higher which is very difficult for bank to increase profit rapidly.
3. Balance sheet of the bank is also not much suitable for the bank to earn more in future, which is because of less revenue earning as compare to expenses.
4. Bank also in position to bankrupt if it is not able to earn in near future.
5. Bank marketing or staff may not be upto the limit which the bank should earn more.

P AND L BANK OF CENTRAL BANK OF INDIA



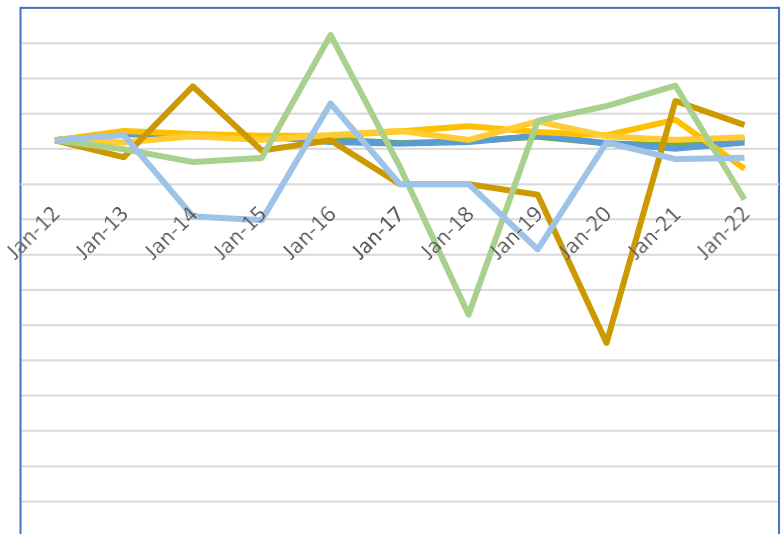
P & L of Punjab & Sind Bank

	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Revenue	6,474	7,340	7,973	8,589	8,744	8,173	7,949	8,559	7,930	6,974	7,096
Interest	4,973	5,699	6,352	6,909	6,569	6,014	5,714	6,279	5,872	4,712	4,444
Expenses -	1,260	1,523	1,742	1,915	2,110	2,536	3,347	3,981	4,423	6,468	2,287
Manufacturing Cost %	0.17%	0.17%	0.18%	0.17%	0.14%	0.16%	0.19%	0.21%	0.28%	0.29%	0.36%
Employee Cost %	12.86%	10.54%	10.74%	10.18%	10.23%	12.12%	14.13%	13.74%	15.29%	24.21%	20.49%
Other Cost %	6.43%	10.03%	10.92%	11.94%	13.76%	18.75%	27.78%	32.57%	40.22%	68.24%	11.38%
Financing Profit	241	118	-121	-235	66	-377	-1,112	-1,702	-2,366	-4,206	364
Financing Margin %	4%	2%	-2%	-3%	1%	-5%	-14%	-20%	-30%	-60%	5%
Other Income -	417	394	427	429	478	578	581	828	897	904	959
Exceptional items	0	0	0	0	0	0	0	10	1	0	0
Other income normal	417	394	427	429	478	578	581	818	896	904	960
Depreciation	44	27	60	46	46	0	64	-15	54	102	137
Profit before tax	614	486	246	147	498	201	-595	-859	-1,522	-3,404	1,187
Tax %	27%	30%	-22%	18%	33%	0%	-25%	37%	35%	20%	12%
Net Profit	451	339	301	121	336	201	-744	-543	-991	-2,733	1,039
EPS in Rs	19.27	13.35	10.92	3.03	8.39	5.02	-13.17	-9.62	-14.13	-6.74	1.53
Dividend Payout %	10%	20%	20%	20%	20%	0%	0%	0%	0%	0%	20%

BASIC SCIENCE AND ENGINEERING

Trend Analysis

1. P and L Account Shows the loss is also continuously increasing year by year with very high rate that the bank is not making profit
2. Expenses of bank are not reducing by bank.
3. Balance sheet of the bank is also show that bank is not lending money to general public so that they can increase their earning
4. Bank also in position of bankruptcy but due government bank they are investing yearly so that they can increase their hand to hold more person.
5. Bank knowingness is not up to the limit so that they can getting new customer year by year so that they can earn more.



Result of less profit efficiency leads bad Customer Relationship Management

When it comes to marketing, the results are good and CRM-linked. How inefficiency can be a challenge for CRM in the banking environment:

Under-investment in CRM technology: Inefficient banks Companies may find it difficult to allocate enough money to implement and maintain a good CRM.

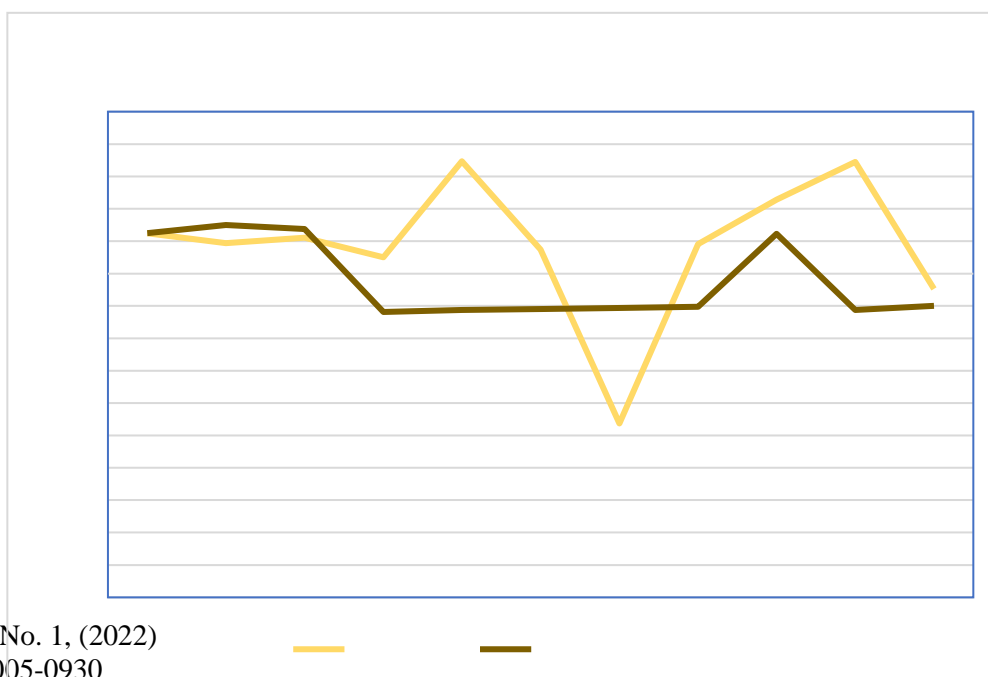
This hinders their ability to manage customer relationships, monitor customer interactions, and use data to provide personalized service. Without the right CRM technology, banks struggle to provide a comprehensive banking experience and provide solutions to customers.

Poor customer service and support: Profitability allows banks to invest in customer service and well-trained employees.

Focus on customer retention and loyalty: Profitability enables banks to invest in customer retention services, loyalty programs and relationship building. When interest rates are low, banks may have trouble allocating resources to such projects, resulting in a lack of focus on customer retention and trust. This can lead to more competition as customers can find banks with better incentives, rewards and personal experiences.

Delayed sales and upselling: Good results allow banks to invest in sales and marketing strategies designed to cross-sell and add-on additional products and services for existing customers in the departmental company. If there is no profit, banks will not have the necessary capital to make a good profit in the sales and marketing plan.

As a result, they may miss opportunities to increase revenue and maintain customer relationships. As a result, the ineffectiveness of the banking industry can hinder investment in CRM technology, customer service, understanding customer needs, storage services and retail sales. By increasing profitability, banks can devote more resources to their CRM efforts, resulting in better customer experience, greater loyalty and steady growth.



Conclusion

In conclusion, the research paper highlights the importance of handling bank losses in financial institutions. The findings highlight the negative impact of banks' failure, including capital erosion, destruction of financial stability and potential risks. Case studies provide insight into the causes and consequences of significant unemployment, emphasizing the importance of risk analysis, monitoring and mitigation strategies. Furthermore, risk management assessment among different banks reveals differences in approach and highlights the need for a consistent and robust approach.

Evaluation of the current negative strategy highlights the importance of preventive measures such as stress assessment, adequate resource allocation and strict monitoring. However, areas for improvement were also identified, including improving risk culture, improving governance and more effective communication.

Looking ahead, banks and policy makers should consider the findings and recommendations presented in this document. Improving risk management, strengthening regulatory frameworks, and increasing transparency and accountability are keys to reducing bank debt and maintaining financial stability. It is also necessary to conduct continuous research, investigate the risks and problems faced by banks, and develop new strategies and measures.

Future research should focus on evaluating new technologies, change management and changing industries to learn about best solutions and practices. In conclusion, the

research paper highlights the importance of understanding the problem of bank failure. By managing risk, implementing effective mitigation strategies, and promoting energy and financial resilience, banks can deal with the problems caused by losses and lay a foundation for growth and stability.

The findings highlight the importance of effective risk management, regulatory oversight, and building trust and confidence among customers to reduce losses and ensure long-term security. The paper concludes by suggesting the need for continued exploration and discovery of strategies for preventing and managing bank losses, with a focus on strengthening regulatory frameworks, risk, the regulatory framework and the customer-centric approach. By addressing these issues and taking practical steps, banks can navigate the difficult terrain of bankruptcy and work towards a better and prosperous future.

A comparable result is additionally watched for the private banks; the Z-score proficiency score is emphatically related to the return on resources and the capital level, adversely with advance misfortune arrangements. It involves that higher misfortune arrangements diminish the bank's solidness, and higher return and capital level increment the banks' soundness.

The main purposes of examining financial statements are: Examining results: By analyzing revenue, financial analysis helps to determine the results of the company, which includes revenue, cost of production and total profit such as gross profit, operating income, margin and net profit margin.

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