A Study on Trend Performance of Foreign Banks operating in India

M.Kirthika  
Assistant Professor  
PSGR Krishnammal for Women  
Coimbatore – Tamil Nadu South India

S.Nirmala  
Associate Professor  
PSGR Krishnammal for Women  
Coimbatore – Tamil Nadu South India

ABSTRACT

The Indian Banking Industry has a positive role to play in the economic development of the country as repositories of people’s savings and source of credit, especially as the success of economic development depends on the mobilization of resources and their investment in an appropriate manner. The major factors affecting the profitability and efficiency of the banks were direct investments, direct credit, growth in assets, growth in advances and increased proportion of other income in total income of the banks. Hence a study is made to analyze the overall efficiency of foreign banks operating in India for a period constituting five year period commencing from 2008-09 to 2012-13 using trend percentage to understand the growth of these banks during these periods contributed by major elements namely business and profit per Employee, deposits, investments, advances, capital adequacy ratio, net non-performing asset ratio, return on assets and return on equity.

KEYWORDS: Foreign Banks, Efficiency, Banking Industry, Trend, Growth

1. INTRODUCTION TO INDIAN BANKING INDUSTRY

Banking industry is the blood vascular system of our economy. The Indian Banking industry, which is governed by the Banking Regulation Act of India, 1949 can be broadly classified into two major categories, non-scheduled banks and scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks (the old/ new domestic and foreign).

The first phase of financial reforms resulted in the nationalization of 14 major banks in 1969 and resulted in a shift from Class banking to Mass banking. This in turn resulted in a significant growth in the geographical coverage of banks. Every bank had to earmark a minimum percentage of their loan portfolio to sectors identified as “priority sectors”. The manufacturing sector also grew during the 1970s in protected environs and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number of scheduled commercial banks increased four-fold and the number of bank branches increased eight-fold.

After the second phase of financial sector reforms and liberalization of the sector in the early nineties, the Public Sector Banks (PSB) found it extremely difficult to compete with the new private sector banks and the foreign banks. The new private sector banks first made their appearance after the guidelines permitting them were issued in January 1993. These banks due to their late start had access to state-of-the-art technology, which in turn helped them to save on manpower costs and provide better services. Since liberalization, the government has approved significant banking reforms, while some of these relate to nationalized banks, like…
• Encouraging mergers,
• Reducing government interference and
• Increasing profitability and competitiveness among private and foreign players.

1.1. FOREIGN DIRECT INVESTMENT IN INDIAN BANKING SECTOR

Since early 1990s, the Indian financial sector has noticed various changes in the policies and prudential norms to raise the banking standards in India to the international intensity.

In 1991, financial reforms have taken place which enhanced flexibility, operational autonomy and competition in the banking environment. In 1992, the government constituted a committee under the supervision of Dr. Narasimham Rao. Based on the recommendations, a series of development were commenced. In 1993, the approval was accepted for the entry of new private banks and further in 1994, allowed the entry of foreign banks in banking sector. Hence, the operations of foreign banks (FBs) received a considerable boost after the post reform era. The RBI (Reserve Bank of India) policy for foreign banks has greatly been liberalized which opened new opportunities for growth and different representations in India. Since then a large number of FBs showed their interest in opening the banks and respective branches in India to gain the significant benefits of liberalized regime of Indian financial system. Foreign banks in India have brought the latest technology and new banking practices. This helped the domestic banks to improve their performance and provide better customer services. Due to their fast and efficient working style and better customer service foreign banks in India captured a large customer base. After the entry of foreign banks in India, the Indian banking sector has become more competitive and efficient.

1.1.1. FOREIGN BANKS IN INDIA

The story of foreign banks in India goes back to the 19th century when the colonial economy brought with it the need for modern banking services, uniform currency and remittances by British army personnel and civil servants. The earliest banking institutions, joint stock banks, agency houses and the presidency banks, established by the merchants during the East India Company regime largely catered to this growing need. While the agency houses and joint stock banks largely failed and disappeared, the three presidency banks would later merge to form the State Bank of India, India’s largest lender. British owned and controlled, these early banks may be considered India’s first ‘foreign banks’.

Milestone events for banking in India such as the passing of the Reserve Bank of India (RBI) Act, 1934, the creation of the central bank in 1935, bank nationalization in 1969 and 1980 did not impact foreign banks much. They adapted well to the changing economy and retained their niche as service providers and employers of the elite; bringing capital, innovation and best practices from their home countries.

1.1.2. FOREIGN BANKS IN INDIA TODAY

As of March 2013, there are 43 foreign banks from 26 countries operating as branches and 46 banks from 22 countries operating as representative offices. In addition, a number of foreign banks have also entered India via the NBFC route. Foreign banks present in India as representative offices often have correspondent banking relationships with domestic banks and provide a useful platform for foreign banks to access opportunities for foreign currency lending to Indian corporate and financial institutions. With 334 branches in all, the share of foreign bank branches is less than 1%. The Chart below exhibits the foreign bank branches segmented by population centers.
Foreign banks largely operate at higher levels of efficiency and maintain low net NPA ratios, due to exposure to the same group of clients, the risks are co-related. Interestingly, one of the biggest challenges facing foreign banks is client selection. Although the Indian economy has grown at a healthy rate, there are only a handful of Indian corporate with credible governance processes and global reputation required to pass muster with the credit divisions of these banks. This automatically segments foreign banks as ‘niche’ service providers which often collide with the ‘universal banking’ policy regime.

1.2. OBJECTIVE OF THE STUDY
To evaluate the overall trend performance of Foreign Banks operating in India for a period of five years starting from 2008-09 to 2012-13.

1.3. SCOPE OF THE STUDY
The study focuses to analyze the trend performance of total foreign banks operating in India that has contributed to increase in employment, profits of the business, deposits, investments, advances etc., maintaining the minimum capital adequacy ratio from the date of its establishment catering to needs of the Indian Banking Regulatory Norms as per the Reserve Bank of India (RBI) guidelines. Further research can be necessitated on the future growth of India's development in varied industries based on other variables and sector specific factors contributing to the growth of developing economies like India.

1.4. LIMITATIONS OF THE STUDY
1. The data being secondary in nature, the study suffered from the limitations of secondary data.
2. Even though there are many methods used to measure the bank's performance, the study is restricted to trend analysis of aggregate foreign banks operating in India based on few variables contributing to the stability of growth in bank's earnings for future prospects.

2. REVIEW OF LITERATURE
Namita Rajput, Monika Gupta (2011) made a study on Assessing the efficiency of foreign banks in Indian context. The studies states that since early 1990s, the Indian financial sector has noticed various changes in the policies and prudential norms to raise the banking standards in India to the international intensity and in 1991, the financial reforms that have taken place has enhanced the flexibility, operational autonomy and competition in the banking environment. In 1992, the government constituted a committee under the supervision of Dr. Narasimham and subsequent to these recommendations; a series of development was commenced. In 1993, the approval was accepted for the entry of new private banks and further in 1994, allowed the entry of foreign banks in banking sector. Hence, the study found that the operations of foreign banks (FBs) received a considerable boost after the post reform era. The RBI (Reserve Bank of India) policy for foreign banks has greatly been liberalized implying new opportunities for growth and different representations in India. The study...
made an attempt to measure the efficiency change of foreign banks operating in India during 2005-
2010 periods by using frontier based non-parametric technique, and the results have exhibited that the
efficiency of Foreign Banks has shown continuous improvement following the route of deregulation
with little drifts \[^1\].

A study conducted on **Key Factors in Determining the Financial Performance of the Indian
Banking Sector** by Sudeep Kalakkar (2012), found through their analysis done based on
 econometric approach using regression model that foreign banks have impact in the Indian banking
sector with more profits per employee, business per employee, Capital adequacy, low NPA levels,
Asset Quality, Liquidity etc. It also highlighted that the Income growth rate (Total Income) will be
affected by the market share they gain and Investment to deposit ratios of foreign banks were found to
be efficient compared to public sector banks and private sector banks. The analysis was done
considering factors such as Regulations, Corporate Governance, CAMELS ratings, CALCS ratings,
Risk Assessment etc \[^2\].

Apart from the above said issues it is also found that Foreign Direct Investments in India have
played a major role in Indian Banking Sector that is proved based on the following studies.

**Dr. Richa Garg (2013), Role of Foreign Direct Investment in Indian Banking Sector.** This
paper briefly discussed on the role of FDI in Indian Banking sector and also recognized that FDI in
Banking can address several issues pertaining to the sector such as encouraging development of
innovative financial products, improving the efficiency of banking sector and better ability to adapt to
changing financial market conditions \[^3\].

**Dr. N. K. Sathya Pal Sharma, Prof. Krishna B. S. (2013) conducted** a study on **Role of FDI
in Banking, in generating wealth to Indian Economy.** The study showed that Indian banking sector
has created golden path in the development of Indian economy and in generating wealth to the
economy. In 1998 when US economy got into trouble, the financial sector of India got affected but the
only sector which has maintained its growth is Indian Banking system. This paper has discussed about
the history of banking system, necessity of FDI in banking system, guidelines for FDI and also showed
the statistics of FDI in Indian banking sector. From the study, they suggested that since India is a
developing country people who are working in non-government organizations have less social security
after their retirement. To encourage the saving habits among them the Indian banking sectors have
introduced various schemes and apart from all the above, since the capital raising capacity in India is
very less to take the Indian banking sector to world wide the country is in need of investment from
abroad such that the RBI can make policies where FDI does not over ride the regulations of RBI and
also result in the growth of Indian economy \[^4\].

### 3. RESEARCH METHODOLOGY

Research Methodology is the scientific and systematic research for pertinent information on the
specific topic.

- **A. NATURE OF THE RESEARCH DESIGN**

  The methodology adopted was both descriptive and analytical in nature

- **B. PERIOD OF STUDY**

  The period of study taken to assess the overall performance of foreign banks is
  restricted to 5 year period commencing from 2008-09 to 2012-13 as the data was inadequate
  for the previous periods

- **C. SOURCES OF DATA**

  The study is based on secondary data. The required data was collected from various sources
  namely

  - Profile of Banks 2013- Reserve Bank of India

  Other data were collected from books, magazines, websites, journals etc. The method of
  sample adopted for the study is Non-probability sampling technique.
D. VARIABLES USED IN THE STUDY

The following variables were used in the study to assess the overall performance of foreign banks operating in India.

⇒ Business per Employee
⇒ Profit per Employee
⇒ Deposits
⇒ Investments
⇒ Advances
⇒ CAR/ CRAR- Capital Adequacy Ratio/ Capital to Risk Weighted Asset Ratio
⇒ Net NPA ratio- Net Non-performing asset ratio
⇒ Return on Equity
⇒ Return on Assets

E. TOOLS USED FOR DATA ANALYSIS

Trend analysis evaluates an organization’s financial information over a period of time. Periods may be measured in months, quarters, or years, depending on the circumstances. The goal is to calculate and analyze the amount change and percent change from one period to the next.

To calculate the change over a period of time
- Select the base year.
- For each line item, divide the amount in each non base year by the amount in the base year and multiply by 100.

Percent change = \( \frac{\text{Current year amount} - \text{Base year amount}}{\text{Base year amount}} \).

4. ANALYSIS AND INTERPRETATION

The term 'analysis' refers to the computation of certain measures along with searching for patterns of relationship that exist among data-group 'Interpretation' refers to the task of drawing inferences from the collected facts after an analytical study.

ANALYSIS OF OVERALL PERFORMANCE OF FOREIGN BANKS OPERATING IN INDIA

There are nearly 43 foreign banks operating in India with nearly 334 branches. The trend analysis method is used to analyze the trend percentage of the following variables to assess the overall performance of the India's foreign banks for a given period of 2008-09 to 2012-13. 2008-09 is taken as base year for calculating the trend percentage.

4.1. TREND PERCENTAGE ON BUSINESS PER EMPLOYEE AND PROFIT PER EMPLOYEE OF FOREIGN BANKS

The table below shows the trend percentage of business and profit per employee earned by the India's foreign banks during the period 2008 - 2013.

Table 1: Table showing Trend Percentage of Business per Employee in India's Foreign Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Per Employee (Rs. in Crores)</th>
<th>Trend %</th>
<th>Profit Per Employee (Rs. in Crores)</th>
<th>Trend %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>12.83</td>
<td>100%</td>
<td>0.254</td>
<td>100%</td>
</tr>
<tr>
<td>2009-10</td>
<td>14.11</td>
<td>110%</td>
<td>0.169</td>
<td>67%</td>
</tr>
<tr>
<td>2010-11</td>
<td>15.55</td>
<td>121%</td>
<td>0.275</td>
<td>108%</td>
</tr>
<tr>
<td>2011-12</td>
<td>19.56</td>
<td>152%</td>
<td>0.364</td>
<td>143%</td>
</tr>
<tr>
<td>2012-13</td>
<td>21.73</td>
<td>169%</td>
<td>0.456</td>
<td>180%</td>
</tr>
</tbody>
</table>

Source: Profile of Banks 2013

The table shows that as the foreign banks establish their presence in India through branch expansion and wholly owned subsidiaries, the business earned on per employee basis by the foreign banks has a steady increasing trend year on year with 110% in 2009-10, 121% in 2010-11, 152% in 2011-12 and 169% in 2012-13. The profits earned on per employee basis by the India's foreign banks has a steady increasing trend from the year 2009-10 with 67% that has declined compared to the...
previous year in 2008-09 that has earned profits of Rs. 254 crores. Then the profits earned show an increasing trend with 108% in 2010-11, 143% in 2011-12 and 180% in 2012-13. It is inferred that the India's foreign banks earn a considerable rate of business and profits out their total employees working in the organization.

4.2. TREND PERCENTAGE ON DEPOSITS, INVESTMENTS AND ADVANCES OF INDIA'S FOREIGN BANKS

The table below shows the trend percentage of annual deposits, investments and advances of the India's foreign banks during the period 2008 - 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Deposits (Rs. in Crores)</th>
<th>Trend %</th>
<th>Investments (Rs. in Crores)</th>
<th>Trend %</th>
<th>Advances (Rs. in crores)</th>
<th>Trend %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>214076.4</td>
<td>100%</td>
<td>130353.7</td>
<td>100%</td>
<td>165384.6</td>
<td>100%</td>
</tr>
<tr>
<td>2009-10</td>
<td>232099.5</td>
<td>108%</td>
<td>159290.9</td>
<td>122%</td>
<td>163260.4</td>
<td>99%</td>
</tr>
<tr>
<td>2010-11</td>
<td>240666.8</td>
<td>112%</td>
<td>165499.3</td>
<td>127%</td>
<td>195510.6</td>
<td>118%</td>
</tr>
<tr>
<td>2011-12</td>
<td>276947.7</td>
<td>129%</td>
<td>200651.1</td>
<td>154%</td>
<td>229848.8</td>
<td>139%</td>
</tr>
<tr>
<td>2012-13</td>
<td>287999.7</td>
<td>135%</td>
<td>228063.1</td>
<td>175%</td>
<td>263679.9</td>
<td>159%</td>
</tr>
</tbody>
</table>

Source: Profile of Banks 2013

The table shows that the deposits, investments and advances of India's foreign banks are at an increasing trend year on year irrespective with the number of branches and subsidiary companies held by the banks. It shows that in the year 2009-10 the deposits have increased to 108% from 2008-09, 112% in 2010-11, 129% in 2011-12 and 135% in the year 2012-13. The banks have shown a steady increase with efficient management in their annual deposits. The investments of India's Foreign Banks is at an increasing trend with 122% in the year 2009-10, 127% in 2010-11, 154% in 2011-12 and 175% in 2012-13 from the base year value. It is inferred that the foreign banks in India have made a good amount of investments in accordance to the revenues earned by these banks competing with the public and private sector banks with steady cash flows. The advances to various sectors seemed to abide to the norms of Reserve Bank of India with regard to priority sector lending targets. It is inferred that the aggregate advances of all foreign banks in India is at an increasing trend from the year 2009-10 showing 99%, 118% in the year 2010-11, 139% in 2011-12 and 159% in the year 2012-13.
4.3. TREND PERCENTAGE OF CAPITAL ADEQUACY RATIO (CAR/CRAR) AND NET NON-PERFORMING ASSET (NPA) RATIO OF INDIA'S FOREIGN BANKS

The table below shows the trend percentage of the capital adequacy and net non-performing asset ratio's of India's foreign banks during the period 2008 - 2013.

Table 3: Table showing the Trend Percentage of Capital Adequacy Ratio's of India's Foreign Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>CAR/CRAR (%)</th>
<th>Trend %</th>
<th>Net NPA ratio (%)</th>
<th>Trend %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>14.19</td>
<td>100%</td>
<td>1.81</td>
<td>100%</td>
</tr>
<tr>
<td>2009-10</td>
<td>17.26</td>
<td>122%</td>
<td>1.82</td>
<td>101%</td>
</tr>
<tr>
<td>2010-11</td>
<td>16.97</td>
<td>120%</td>
<td>0.67</td>
<td>37%</td>
</tr>
<tr>
<td>2011-12</td>
<td>16.75</td>
<td>118%</td>
<td>0.61</td>
<td>34%</td>
</tr>
<tr>
<td>2012-13</td>
<td>17.88</td>
<td>126%</td>
<td>1.01</td>
<td>56%</td>
</tr>
</tbody>
</table>

Source: Profile of Banks 2013

The table shows that the capital adequacy ratio maintained by foreign banks in India has increased to 122% in the year 2009-10 from the base year value, then declined a little to 120% in the year 2010-11, 118 % in the year 2011-12 and again shows an increasing trend with 126% in the year 2012-13. The net non-performing asset ratio of foreign banks in India are volatile in nature with trend percentages of 101% in 2009-10, then a sharp decrease in the year 2010-11 with 37%, 34% in 2011-12 and then has minimally increased to 56% in the year 2012-13. It is inferred that the foreign banks have higher efficiency with reduced Net NPA ratios for the loans and advances made except for the year 2009-10.
4.4. TREND PERCENTAGE OF RETURN ON EQUITY AND RETURN ON ASSETS OF INDIA’S FOREIGN BANKS

The table below shows the trend percentage of return on equity and return on assets of India's foreign banks during the period 2008 - 2013.

Table 4: Table showing the Trend Percentage of Return on Equity of India's Foreign Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on Equity (%)</th>
<th>Trend %</th>
<th>Return of Assets (%)</th>
<th>Trend %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>13.75</td>
<td>100%</td>
<td>1.99</td>
<td>100%</td>
</tr>
<tr>
<td>2009-10</td>
<td>7.34</td>
<td>53%</td>
<td>1.26</td>
<td>63%</td>
</tr>
<tr>
<td>2010-11</td>
<td>10.28</td>
<td>75%</td>
<td>1.75</td>
<td>88%</td>
</tr>
<tr>
<td>2011-12</td>
<td>10.79</td>
<td>78%</td>
<td>1.76</td>
<td>88%</td>
</tr>
<tr>
<td>2012-13</td>
<td>11.52</td>
<td>84%</td>
<td>1.94</td>
<td>97%</td>
</tr>
</tbody>
</table>

Source: Profile of Banks 2013

The table shows that the trend percentage of return on equity in foreign banks in India is been gradually increasing from the base year value (13.75), that has started to decline in the year 2009-10 (7.34) at 53% and has regained its position with an increasing trend of 75% in the year 2010-11, 78% in the year 2011-12 and 84% in the 2012-13. The trend percentage of return of assets in India's Foreign Banks has started to an increasing trend from the year 2009-10 at 63%, 88% in 2010-11 and 2011-12, and 97% in the year 2012-13. It is inferred that the foreign banks have balanced to maintain a steady increase in return on equity and assets from the year 2009-10 onwards.
5. RESULTS AND DISCUSSIONS

The finding of the overall performance of foreign banks shows the following:

- It is found that the India's foreign banks have shown a considerable amount of increasing trend during all the five years (2008-13) in terms of revenue generated through business per employee and profit per employee that stands at 169% and 180% in the last fiscal period.

- It is found that the India's foreign banks have shown a considerable amount of optimum increasing trend in deposit, investments and advances ensuring large amount of customer base, ploughing profits to profitable investments balancing the standard capital adequacy ratio norms as prescribed by RBI and providing necessary advances to high priority sectors, that stands at 135%, 175% and 159% in the last fiscal period.

- It is found that the CRAR of India's foreign banks are at an increasing trend, above the standard norms, that stands at 126% in the last fiscal period. The Net NPA ratio of India's foreign banks is at a decreasing trend that proves a favorable amount of efficient management in clearing the advances. At the same time the NPA ratio has slightly increased from 34% to 56% in the last fiscal period.

- The return on assets and return on equity is found to be moderately increasing from the base year 2008-09 onwards, that stands at 97% and 84% in the last fiscal period.

From the results it shows that the effectiveness of foreign banks operating in India has covered a large customer base, due to their fast, efficient working style and better customer service that is found to be excellent and consistent throughout the study period. In spite of the economic slowdown in 2009-10, these banks have regained its position in the succeeding financial years that provides the foreign banks in India, a launch pad for greater business expansion.

CONCLUSION

The study aimed to assess the overall performance of foreign banks operating in India and it is found that with the onset of foreign banks operating in India has led the banking, finance and insurance industry contributes major share of FDI inflows in services sectors, with banking services seemed to be emerging recently, providing customized products and services. The nation's public and private sector
banks also seem to adapt to latest technology advances and development relative to foreign banks innovative products and banking solutions. This study can also be used for further analysis to assess the performance of Indian consumers towards overall or specific performance of selective foreign banks in India.

REFERENCES

3. Dr. Richa Garg (2013), Role Of Foreign Direct Investment In Indian Banking Sector International Journal of Research in Finance & Marketing, Volume 3, Issue 2, March 2013, ISSN 2231-5985
8. N.P.Jain, Chapter 3- An Overview Of Indian Banking Sector, shodhganga.inflibnet.ac.in/bitstream/10603/6893/.../06_chapter%203.pdf
9. Foreign banks in India, at an Inflection; www. pwc.com