



A Study of Impact of Liberalization on Interest Income of different Segment of Banking Sector

Abstract:-

This the era of transformation of highly regulated to liberalization, public sector to private sector and closed economy to globalized economy. This is the new starting era of new private sector banks and foreign banks.

The study is focused on interest income to total income. Its covers the research period of 20 years after banking sector reforms started.

Introduction:-

As the process of second banking reforms was going on since 1999, it has proved improvement in the performance of banks and on the other side; many changes have come occurred due to the entry of new banks into the global market.

Since a decade of banking sector reforms has been completed, it was essential to review the various issues of banking sector reforms, especially its post reforms' impact on interest income. This study was mainly concerned with the efficacy of banking sector reforms, major weak area need to be further considered and some possible reforms need to be added in third reforms.

The present study was concerned with the performance of Indian banking industry under reforms to analyze the efficacy of banking sector reforms. The universe for the study was Indian banking industry. Six major bank groups as defined by RBI were taken for the study. These bank groups were:

- SBI and its associates Nationalized banks
- Old private sector banks New private sector banks
- Foreign banks

Literature Review:-

Study by (A. Kaur 2012) has studied the income and expenditure pattern, analyzed the profitability performance and the non-performing assets of PSCBs in India. The study was based on secondary data and covered a period of ten years from 2000-01 to 2009-10. The researcher has used growth rate, compound growth rate, co-efficient of correlation, ratio analysis, and median test.

He found interest income was around 83 percent except in the year 2004 in all the years of study which inferred that the PSCBs in India were concentrating on interest income rather than on other incomes, whereas interest paid to the total expenditure of the PSCBs showed a fluctuating trend under the study period.

Objectives of the Study:-

A Review of Interest Income of different Segment of Banking Sector.

Research Design & Period of the Study:-

The present study was concerned mainly with post-second banking sector reforms period covers 20 years i.e. from 95-96 to 2004-05 and 2005-06 to 2014-15.

Sampling Units and Sample Size:-

Sample size refers to the number of items to be selected from the universe to constitute a sample. 16 (more than 40%) banks out of total 37 public and private sector banks are selected for research. These banks are divided into three categories first Public Sector Banks, second Old Private Sector Banks and third New Private Sector Banks. 9 banks have been selected from PSBs, 4 banks have been selected from OPSBs and 3 banks have been selected from NPSBs by used both criteria.

Statistical Techniques:-

For the purpose of financial statement analysis of the banking sector of India following statistical techniques are used.

- I. Co-efficient of variation
- II. Average (Mean \bar{X})
- III. Standard Deviation

Limitations of the Study:-

- I. This study has been based on secondary data which has been taken from published annual reports and financial literature of the banking companies in India and from published journals and magazines and therefore its findings depend entirely on the accuracy of such data.
- II. The present study included sample banking companies in each category and so it may not be proper to make any generalization for universal application.
- III. The present study has been largely based on accounting techniques and statistical techniques and they have their own limitations which also apply to the study.

Table No:- 1

Interest Income as Percentage of Total Income (Percent)

(Rs. In Lakh)

No	YEAR	SBI & ITS ASSOCIATES	NATIONALISED BANKS	OLD PRIVATE BANKS	NEW PRIVATE BANKS	FOREIGN BANKS	RRB	Mean (INCL RRBS)	Mean	STD EV	C.V.
1	2	3	4	5	6	7	8	9(3 to 8)	10 (3 to 7)	11	12
1	95-96	83.21	89.15	86.92	87.06	81.65	94.08	87.01	85.60	3.07	3.59
2	96-97	85.59	89.46	89.47	83.92	81.55	95.17	87.53	86.00	3.48	4.04
3	97-98	85.28	88.40	88.02	77.59	77.99	95.07	85.39	83.46	5.31	6.37
4	98-99	85.61	89.56	89.35	86.88	80.84	95.60	87.97	86.45	3.55	4.11
5	99-2000	85.81	88.38	87.13	82.41	79.16	95.01	86.32	84.58	3.76	4.45
6	2000-2001	86.40	88.84	88.69	86.00	79.03	95.06	87.34	85.79	3.99	4.66
7	2001-2002	86.56	85.50	81.16	79.24	74.84	93.35	83.44	81.46	4.77	5.86
8	2002-2003	83.63	83.32	79.25	76.09	74.50	92.61	81.57	79.36	4.13	5.20
9	2003-2004	78.95	79.97	79.44	76.08	69.09	88.82	78.73	76.71	4.52	5.89
10	2004-2005	82.29	83.95	87.63	76.65	70.35	92.35	82.20	80.17	6.77	8.44
AVERAGE	Mean	84.33	86.65	85.71	81.19	76.90	93.71				
	95-96 to 99-2000	85.10	88.99	88.18	83.57	80.24	94.99				
	2000-01 to 04-05	83.57	84.32	83.23	78.81	73.56	92.44				
Growth	-1.53	-4.67	-4.94	-4.76	-6.68	-	-2.55				
Growth Rate (%)	-1.80	-5.25	-5.61	-5.70	-8.32	-	-2.68				
STDEV		2.37	3.30	4.09	4.58	4.53	2.06				
C.V.		2.81	3.80	4.77	5.64	5.89	2.20				

Source:-

<http://rbidocs.rbi.org.in/rdocs/Publications/DOCs/HS230211FS.xls> (accessed on Date:-17/08/15)

(Data compiled and calculated)

Interest Income to Total Income: It's revealed that all the bank groups showed fluctuating trend in share of interest income in the total income in all the years under study. It was the highest in case of RRB i.e. 93.71 %, in entire period. All the bank groups' showed decreasing growth in 2000-01 to 04-05 compared to 95-96 to 99-2000. It was the least decreasing by about 1.80 % in case of SBI & Its associates followed by RRBs with 2.68 %. Opposite side highest decreasing in the case of foreign banks i.e. 8.32 %, whereas variations in terms of C.V. were maximum in case of foreign banks 5.89 %.

In the year of 95-96, an average percentage of Interest income to Total income was 87.01 %, which decreased to 82.20 % in 04.05.

Table No:- 2

Interest Income as Percentage of Total Income (Percent)

(Amount In ` Million)

No	YEAR	SBI & ITS ASSOCIATES	NATIONALISED BANKS	OLD PRIVATE BANKS	NEW PRIVATE BANKS	FOREIGN BANKS	PRIVATE	Mean	STDEV	C.V.
1	2	3	4	5	6	7	8	10 (3 to 7)	11	12
1	2005-2006	83.81	87.74	87.70	78.48	69.59	81.32	81.46	7.64	9.38
2	2006-2007	85.02	88.59	86.91	78.15	71.79	80.10	82.09	6.99	8.52
3	2007-2008	85.63	87.18	86.21	79.25	69.75	80.67	81.61	7.32	8.97
4	2008-2009	84.73	87.45	87.32	81.47	67.06	82.65	81.61	8.49	10.40
5	2009-2010	84.19	87.21	86.56	78.30	72.62	80.22	81.78	6.21	7.59
6	2010-2011	85.09	89.92	86.56	80.45	72.62	80.22	82.93	6.69	8.07
7	2011-2012	88.96	91.28	90.56	82.49	76.76	84.31	86.01	6.23	7.24
8	2012-2013	89.24	91.35	90.59	83.15	79.00	84.82	86.67	5.36	6.19
9	2013-2014	89.02	91.13	90.79	82.34	77.24	84.21	86.10	6.09	7.08
10	2014-2015	87.98	90.80	89.83	82.06	77.20	83.70	85.57	5.78	6.76
AVERAGE	05-06 to 14-15	86.37	89.27	88.30	80.61	73.36	82.22			
	05-06 to 09-10	84.80	87.74	87.04	79.34	69.55	81.19			
	10-11 to 14-15	88.06	90.90	89.67	82.10	76.56	83.45			
Growth		3.26	3.16	2.63	2.76	7.02	2.26			
Growth Rate (%)		3.85	3.60	3.02	3.47	10.09	2.79			
STDEV		2.17	1.81	1.90	1.93	4.00	1.92			
C.V.		2.52	2.02	2.16	2.40	5.45	2.33			

Source:-

<http://dbie.rbi.org.in/OpenDocument/opendoc/openDocument.jsp> (accessed on Date:-31/12/15)

(Data compiled and calculated)

Interest Income to Total Income:

It's revealed that all the bank groups showed fluctuating trend in share of interest income as percentage of total income in all the years under study. It was the highest in case of nationalized banks i.e. 89.27 %, in entire period. The highest growth rate was about 10.09 % in case of foreign banks followed by SBI & Its associates with 3.85 %, whereas variations in terms of C.V. were maximum in case of foreign banks 5.45 %.

In the year of 05-06, an average percentage of Interest income to Total income was 81.46 %, which decreased to 85.57 % in 14-15., whereas variations in terms of C.V. was maximum in the year of 2008-09 i.e. 10.40 %.

Conclusion:-

It was seen from both tables that interest income to total income was decreasing overall. Day by day amount of loan amount and number of loan account increased but after that interest income decreased compared to total income.

Suggestion:-

Interest income to total income was decreasing in first decade and slightly increased in second decade. The banking sector should try to increase this ratio.

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