

Banking

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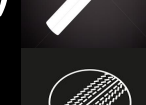
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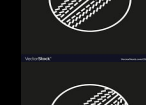
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Storyline

- Bank and Banking
 - Categorization
- IT angle in Banking
- Nationalization and Denationalization
- Mergers and acquisition
- Public vs Private Comparison
- Role of Banks in Indian economy

Banks?

Urghh..We already know!! do we?

- Financial Institution licensed to **receive deposits** and **make loans** (CREDIT and DEPOSIT)
 - Wealth management, currency exchange, safe deposit boxes.
- Maintains the **economic stature**.
- **Heart** of the *body*,
I mean, market.



Banking?

Is it really different from Banks?

- Service industry where money is deposited by individuals and lended out in order to earn profit.
- Savings → Leakage in economy.
 - Banks solves this by mobilising savings of the people.
- **Profitable fund employment** for both investors and borrowers.
- Banking sector - **8% of GDP**



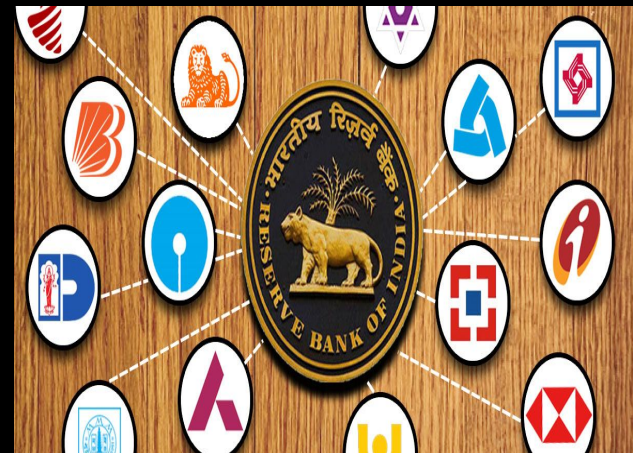
Why Banking?

I am an IT engineer for God sake!!

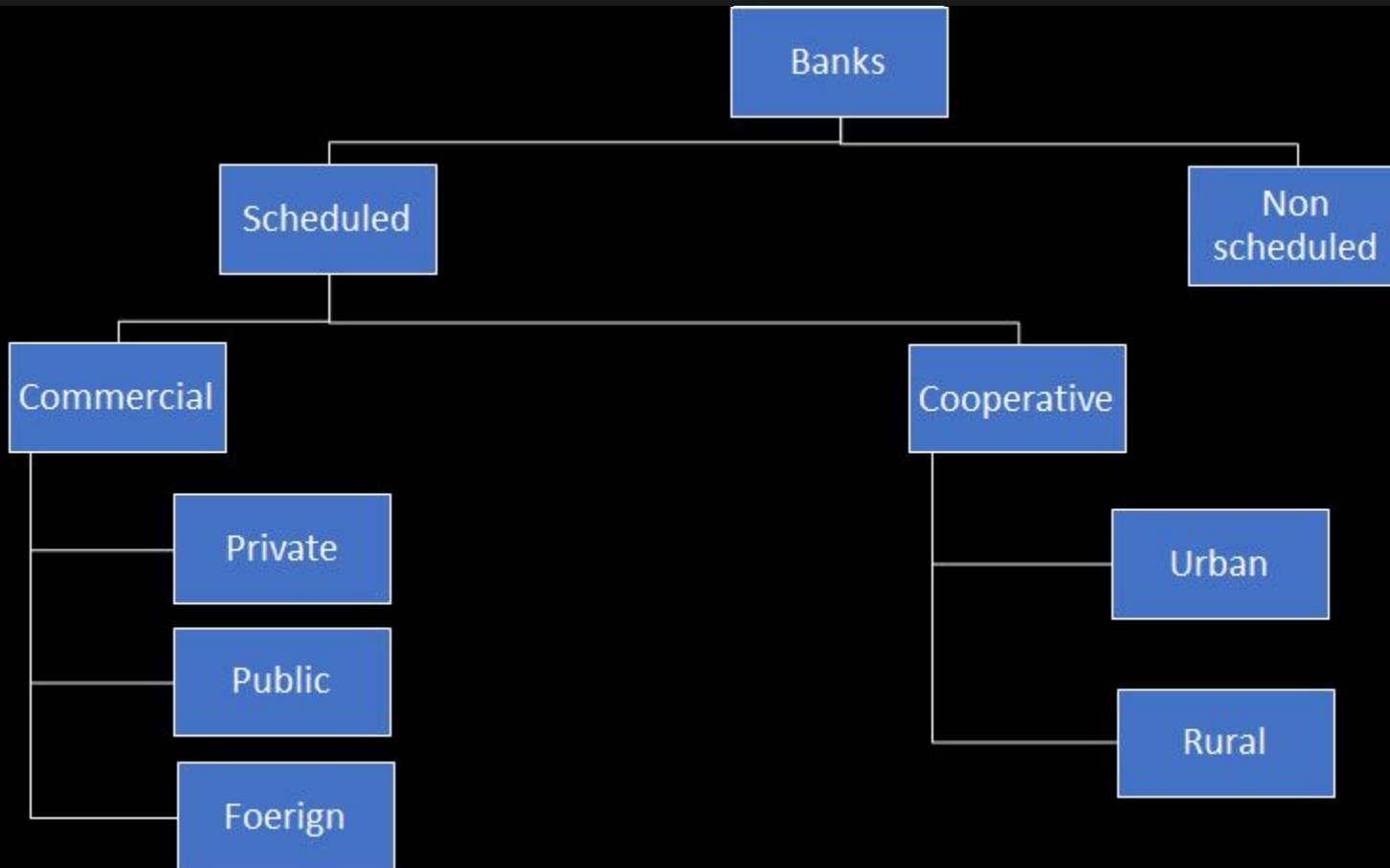
- One of the fastest growing sector.
- We are IT Engineers, right?
 - TCS - 40% revenue from BFSI
 - Infosys - 30% revenue from BFSI
- Finance is the language of the business, anything we do is expressed through Finance (or Banking).

RBI

- Central Bank of India.
 - Controls
 - Monetary Policy
 - Supply of Indian Rupee
 - Controls all other banks (Agents)
- Regulates the Banking system.



Categorisation of Banks



Types of Commercial Banks

PUBLIC	PRIVATE	FOREIGN
<ul style="list-style-type: none">- Nationalized by the government of a country- Major stake held by govt- Operate under the guidelines of central government.- Large Customer Base- 68% share- Examples - State Bank Of India(SBI), Bank of Baroda(BoB) etc.	<ul style="list-style-type: none">- Major shared capital held by private businesses and individuals.- Registered as companies with limited liability.- Small Customer Base- 25% share- Examples - ICICI, HDFC etc.	<ul style="list-style-type: none">- Commercial banks headquartered in a foreign country, operate branches in different countries.- 7% share- Examples - HSBC, Citi Bank, American Express Bank.

Need for Nationalization:

- **Bank Failures** :From 1935 to 1947 **900 banks** failed and from 1947 to 1969 **665 banks** failed.
- Control of business houses : Credits only to big **industrialists and traders**.
- The credit needs of **agriculture**, small-scale industries ignored.

Objective behind nationalisation:

- **Social welfare**: To cater credit needs of agriculture and controlling private monopolies.
- **Expansion of Banking** : To expand banking network in the unbanked areas (rural) .
- **Priority Sector Lending** : Agriculture “the largest sector” but not given share in the credit.
- **Control of Central Bank (RBI)**: Over commercial banks to control the money supply and hence the economy.

Implementation:

The following banks were nationalised in 1969:

- Central Bank of India
- Bank of Maharashtra
- Dena Bank
- Punjab National Bank
- Syndicate Bank
- Canara Bank
- Bank of India
- Indian Overseas Bank
- Indian Bank
- Bank of Baroda
- Union Bank
- Allahabad Bank
- United Bank of India
- UCO Bank.

Nationalised in 1980:

- Punjab and Sind Bank
- Vijaya Bank
- Oriental Bank of India
- Corporate Bank
- Andhra Bank
- New Bank of India

Policies:

- **Branch Licencing**: To open a **branch** in an already banked location need to open **branches** in four unbanked locations .
- **Allotment Of Districts** :Districts allotted to 22 public sector banks and 3 private sector banks .
- **Credit-Deposit Ratio** :Rural and semi-urban banks to maintain ratio of at least 60 percent.
- **Separate Estimates For Key Sectors**: For busy and slack sectors, and sectors susceptible to seasonal changes.

Advantages

VS

Disadvantages

<ul style="list-style-type: none">● Removal of barriers between the bankers and customer.	<ul style="list-style-type: none">● Lowered efficiency and profits.
<ul style="list-style-type: none">● Expanded customer base (rural).	<ul style="list-style-type: none">● Unprofessional and unethical banking
<ul style="list-style-type: none">● Improved management and services.	<ul style="list-style-type: none">● Political interference in credit resulted in NPA's.
<ul style="list-style-type: none">● The branches rose 800% from 7,219 to 57,000.	<ul style="list-style-type: none">● Increased expenditure due to expansion in a branches.
<ul style="list-style-type: none">● Development of priority sectors (Agriculture).	<ul style="list-style-type: none">● The deposits and the resources were less.

Privatization of Banks

Privatization is the process of involving private sector in the ownership state owned enterprises.

It is defined as :

“Privatization is the denationalization of an industry, transferring from public to private ownership “

Why Need of Privatization???

In early 80s, the Banking Sector in India was dominated by the public sector banks which were characterized by :-

1. Over-staffing and Over-branching
2. Huge portfolio of Non performing Loans
3. Poor Customer Services
4. Undercapitalized
5. Poorly Managed / Narrow Product Range
6. Undue Interference in Lending, Loan Recovery & Personnel

Private Sector Banks After Privatization

1. ICICI Bank : 1994
2. Axis Bank : 1993
3. HDFC Bank : 1994
4. IndusInd Bank : 1994
5. Kotak Mahindra Bank : 2003
6. Yes Bank : 2004



Benefits Of Privatization

- There was a great increase in the no. of bank branches after privatization from 8262 to 45,898.
- Branches in rural/semi-urban sectors increases from 2% to 40% after privatization.
- Credit to agriculture increases from Rs.162 crore to Rs.4,46,496 crore.
- More job opportunities raise after privatization which leads to increase in staff from 2,20,000 to 9,65,720.

Adverse Impacts of privatization on Indian Banking

- Interest rate is more in private sector banks as comparative to the public sector banks.
- There is less job security in case of private banks.
- Interference and manipulation by the politician and industrialist is in full swing. In some cases, bank loans were used to garner votes.
- Previously the public money was safeguard through Deposit Insurance corporation but now this corporation is abolished.

Private Sector V/S Public Sector Banks

Will compare on basis of:

- **Assets:** The assets of a bank are the outstanding loans of their customers, its investments, property, fixtures and equipment.
- **Market Capital:** It is the market value at a point in time of the shares outstanding of a publicly trading company,
$$\text{Market Capital} = \text{Share price} * \text{no. shares outstanding}.$$
- **Profit:** Bank makes profit by paying interest to people who keep money there and charging a higher rate of interest to borrowers.

PARAMETER	PUBLIC SECTOR BANK	PRIVATE SECTOR BANK
Processing Fee	✗	✓
Paper Work, efficiency and turnaround time	✓	✗
Interest Rate Fluctuation	✗	✓
Prepayment charges	✗	✓

HOW THE TOP BANKS COMPARE

	SBI	ICICI	Merged Entity
Total Income	2,65,100	72,386	74,592
Net profit	-6,547	6,777	-3,628
Gross NPA	2,23,427	54,063	80,367
CAR(%)	12.6	18.42	12.25
Total advances	19,90,172	5,16,289	6,40,592

(₹ Crore)

Figures for June quarter

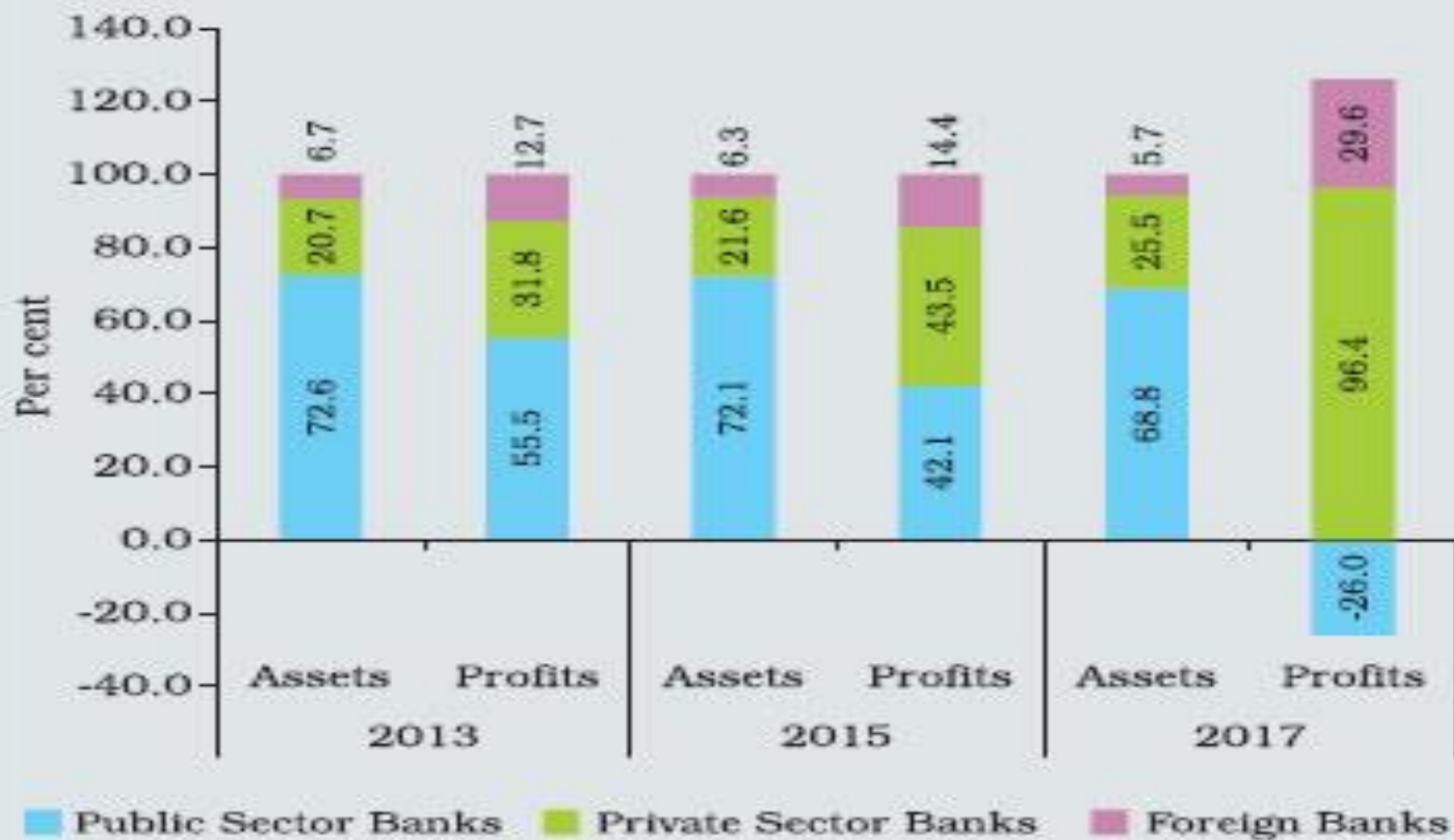
Source: Individual banks



Top 10 Indian Bank by Market Capital

Firm	Mcap (₹ Cr)
HDFC Bank	683,025
HDFC	344,612
Kotak Bank	314,775
ICICI Bank	274,199
Bajaj Finance	231,502
SBI	228,425
Axis Bank	191,453
Bajaj Finserv	134,603
HDFC Life Insu	120,696
Indusind Bank	89,945

Chart V.21: Bank Group-wise Share in Total Assets and Profits of Banking Sector (End-March)



Source: Annual accounts of banks.

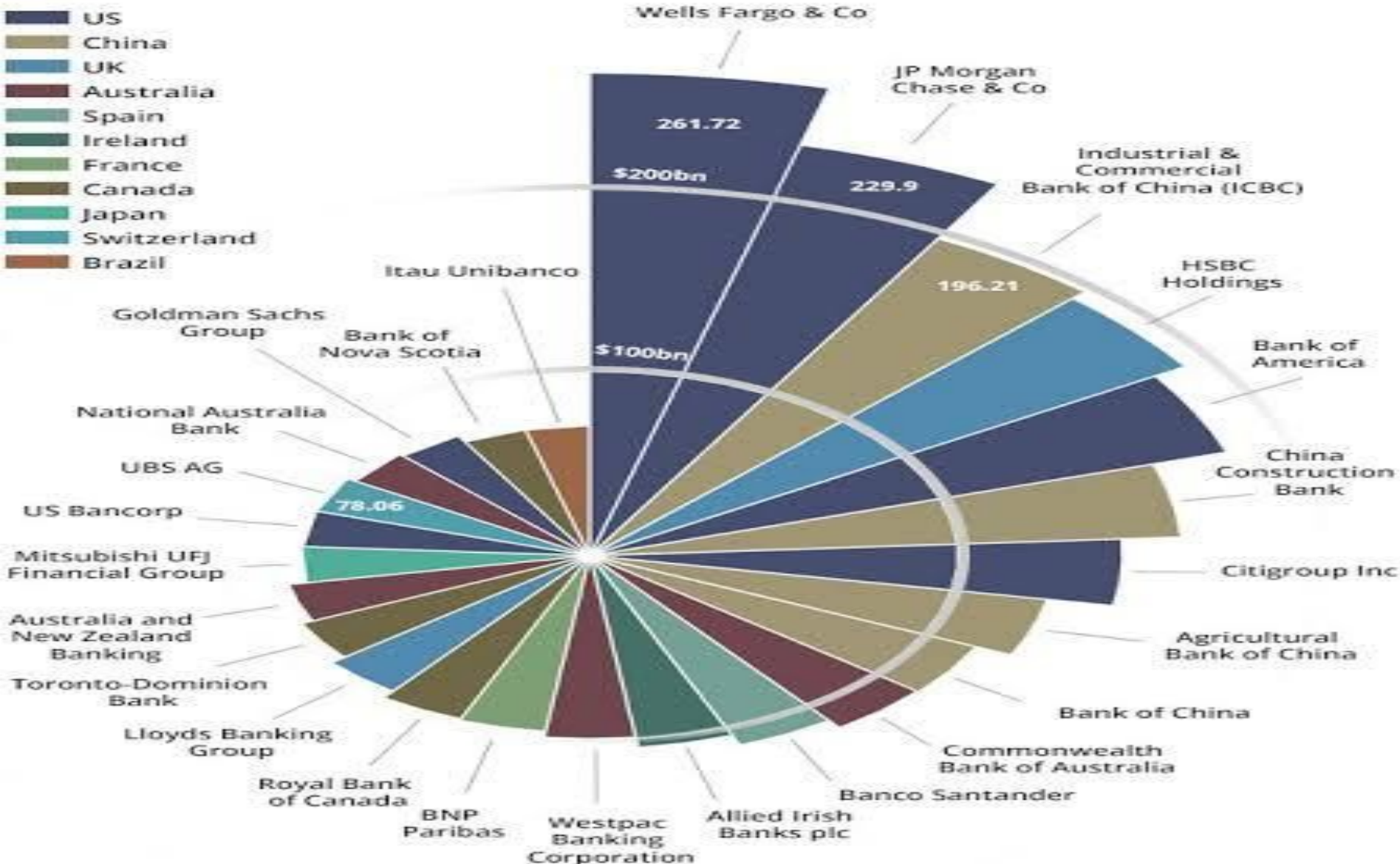
These are the 10 biggest banks in the world by assets

1. Industrial & Commercial Bank of China - (\$3.62 trillion)
2. China Construction Bank Corp. - (\$2.94 trillion)
3. Agricultural Bank of China - (\$2.82 trillion)
4. Bank of China - (\$2.63 trillion)
5. HSBC Holdings (HSBC) - (\$2.57 trillion) - UK
6. JPMorgan Chase & Co. (JPM) - (\$2.45 trillion) - US
7. BNP Paribas - (\$2.4 trillion) - France
8. Mitsubishi UFJ Financial Group - (\$2.359 trillion) - Japan
9. Bank of America (BAC) - (\$2.15 trillion) - US
10. Credit Agricole Group - (\$1.91 trillion) -France

While the GDP of India is \$2.936 trillion (nominal; 2019 est.)

The world's 25 largest banks by market capitalisation

in US\$ billions as of March 31, 2014



Inference Drawn from the list

- It signifies in which part of the world massive economic growth is taking place.
- Out of the top 10 largest banks by assets, now only two in the list are American banks which were more in 50-60s.
- Then, Japan had an immense growth in 1970s-1980s.
- Now, China holds the top four slots in the top 10. The power in banking is unquestionably shifting eastward to China.
- Clearly shows Pendulum Shift towards South Asia particularly China.

Merger and acquisition

- The 27 nationalised banks were merged into 12 banks from 2017-19.
- In April 2019, Vijaya Bank and Dena Bank were merged with Bank of Baroda.
- On 30 August 2019, 6 (PSBs) were merged with 4 banks in order to streamline their operation and size.
- Public sector bank has been reduced to 12 from 27.

Growth of Banking in India

- Under Pradhan Mantri Jan Dhan Yojana launched in 2014 , 16.92 crore accounts opened and US\$2.9 billion deposited.
- Commercial Banks reduced from 284 in 2005 to 151 in 2013
- Branches increased from 70373 to 109811
- Population per Banks have reduced from 16000 to 12000 per bank.
- Aggregate Deposits grown from \$250 billion to \$980 billion.

*Comparisons are drawn between 31st March of 2005 and 31st March of 2013.

Role of Banks in Indian economy

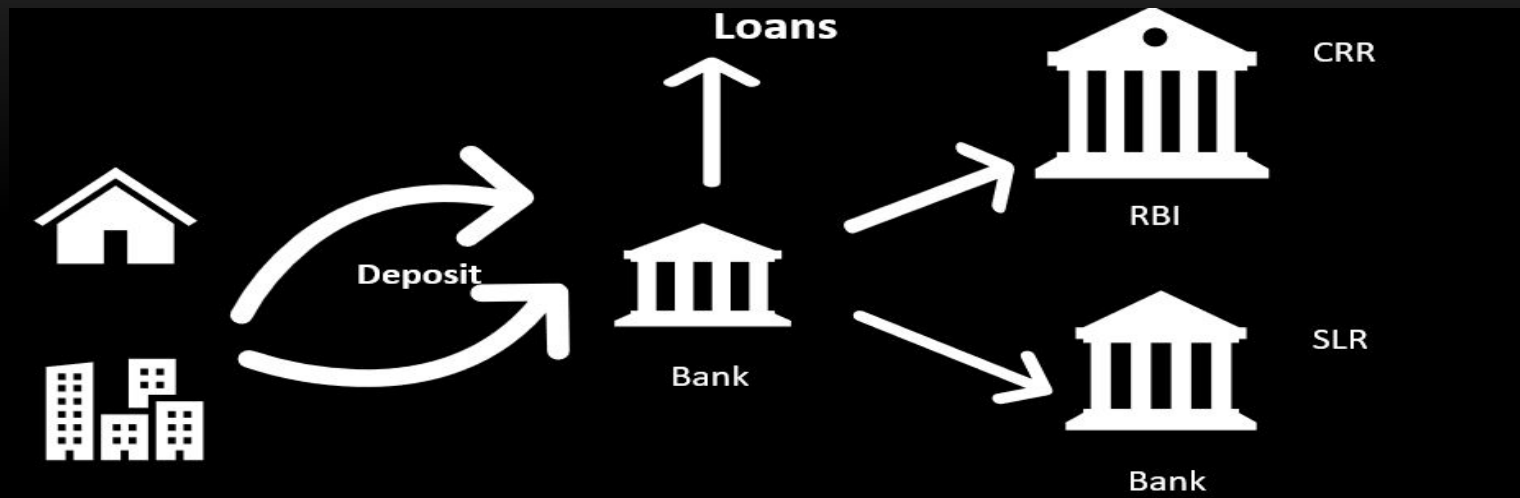
- Role of Commercial Bank



- Role of Central Bank

- Has certain tools to “Control” flow of money in economy
- CRR(Cash Reserve Ratio) : Deposits kept in RBI
- SLR(statutory Liquidity Ratio) : Liquidity (notes, gold) kept within bank

Role of Banks in Indian economy



	1990	2019
CRR	15%	4%
SLR	38.5%	18.75%
Loanable amount	46.5%	81.25%

How RBI indirectly control Inflation

CRR & SLR (Increases) , Interest rate(Interest rate) , loanable amount(Decreases)
less money in market, less spending, prices go down

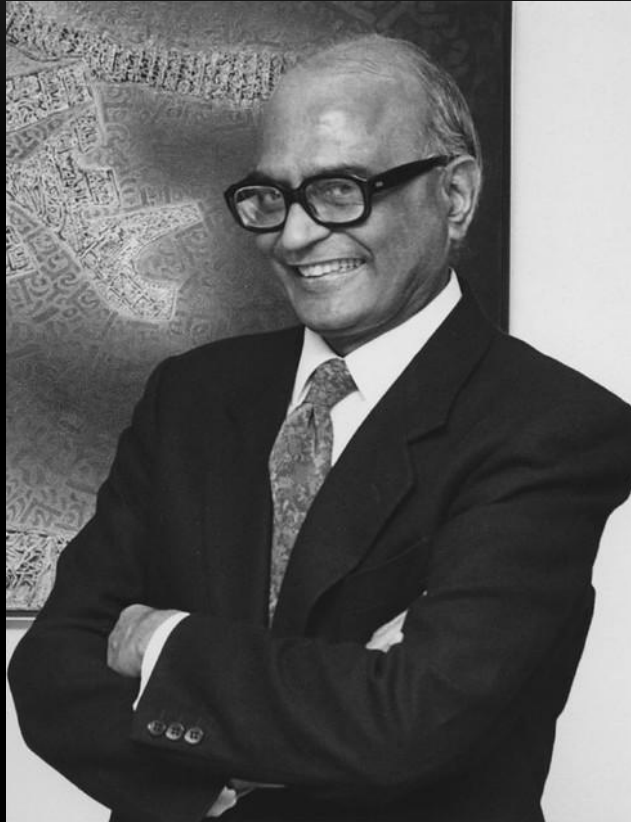
Annual Report of RBI (FY19)

- Size of balance sheet : **9.5% increase** in FY19 compared to FY18
- Assets :
 - Domestic (Coins & Notes): 28%
 - Foreign currency asset & gold(including in India): 72%
- Banks currency in circulation increases by 17% in FY19 (Rs 21.1 Trillion)
- RBI reserves as percentage of its assets stand at 26.5% up from 25.4% in FY17. The global median is 16%
- RBI transfers Rs 1.2 lakh crore to government. Still RBI reserve can cover problems of top 10 banks

Conclusions

- Nationalisation : to credit agriculture sector & small business
- Privatisation : Underperformance of public banks after nationalisation
 - Because lot of government interference, over sizing etc.
- Top 10 banks of world : Currently China (46%)
 - Pendulum shift : US to Japan to China
- India largest bank SBI at 150th position
- After 1991 reform RBI continuously reduce CLR & SLR to increase flow of money

This presentation is dedicated to



I.G. Patel
Thank you!

References

- Sites to visit:
 - ✓ <https://www.investopedia.com/terms/b/bank.asp>
 - ✓ <https://www.investopedia.com/terms/c/centralbank.asp>
 - ✓ <https://m.economictimes.com/markets/stocks/news/golden-jubilee-of-bank-nationalisation-in-india/articleshow/70253937.cms>
- Sites to avoid:
 - ✗ <https://www.livemint.com/opinion/columns/opinion-the-1969-bank-nationalization-more-harm-than-good.html>