Post Liberalisation Trend in Indian Banking

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Liberalisation of India's banking sector

- Liberalisation of India's banking sector begun since 1992, following the Narasimhan Committee's Report (December 1991)

- Important recommendations of the Committee were –

  [i] reduction of statutory pre-emptions (SLR and CRR)

  [ii] deregulation of the interest rates

  [iii] opening up the sector to foreign and domestic private banks

  [iv] adoption of prudential regulations relating to capital adequacy, asset classification and provisioning standards

Outline of this presentation

- An overview of the India's commercial banking sector
- Performance indicators of India's banking sector
- Some institutional features of India's banking sector: SLR, CRR, priority sector lending, capital adequacy norms, ownership rules, interest rates, ...

Structure of the Indian Banking system (March 2006)

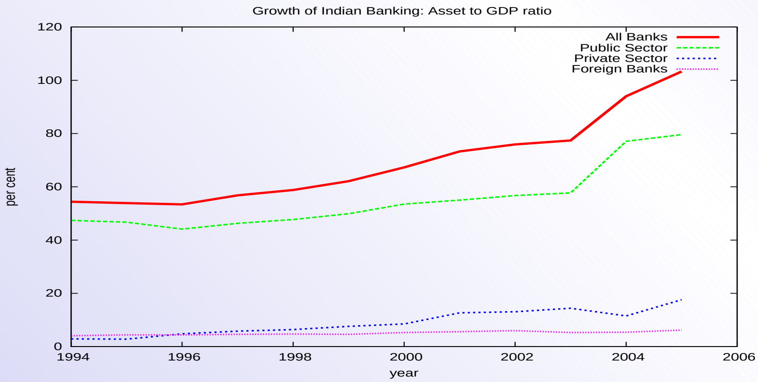
Institution	Number	Total Asset		Share (%)
		Rs. Billion	Euro Billion	
Banking Sector (I+II)	-	39139	699	100
I. Commercial Banks	222	34483	616	**88.1**
• Scheduled Comm. Banks (SCB)	87	33593	600	85.8
• Regional Rural Banks	133	886.5	15.8	2.3
• Non-Scheduled Comm. Banks (NSCB)	4	364	6.5	0.9
II. Cooperative Banks	-	4656	83	**11.9**
• Urban Coop Banks	1853	1404	25	3.6
• Rural Coop Banks	109924	3252	57	8.3

Structure of Scheduled Commercial Banks (March 2006)

Institution	Number	Total Asset		Share (%)
		Rs. Billion	Euro Billion	
Public Sector Bank	28	25863	462	77
State Bank Group	8	6919	124	21
Nationalised Banks	19	12345	220	37
IDBI Bank	1	6600	118	19.6
Private Sector Bank	29	5714	102	17
Old Private Bank	20	1497	27	4
New Private Bank	9	4217	75	12.5
Foreign Bank	30	2016	36	6
Total	87	33593	600	100

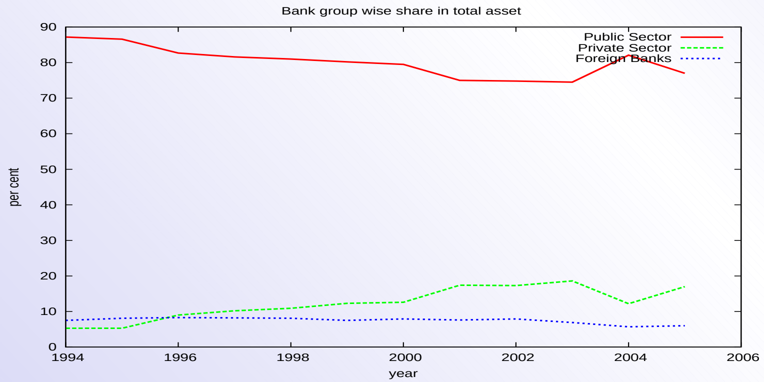
Growth of Indian Banking: Asset to GDP ratio

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1994-95	54.4	47.4	2.9	4.1
1995-96	53.9	46.7	2.8	4.4
1996-97	53.4	44.1	4.8	4.4
1997-98	56.8	46.3	5.8	4.6
1998-99	58.8	47.7	6.4	4.7
1999-00	62.1	49.9	7.6	4.6
2000-01	67.3	53.5	8.5	5.3
2001-02	73.3	55.0	12.7	5.6
2002-03	75.9	56.7	13.1	6.0
2003-04	77.4	57.7	14.4	5.3
2004-05	94.0	77.1	11.5	5.4
2005-06	103.3	79.6	17.6	6.2



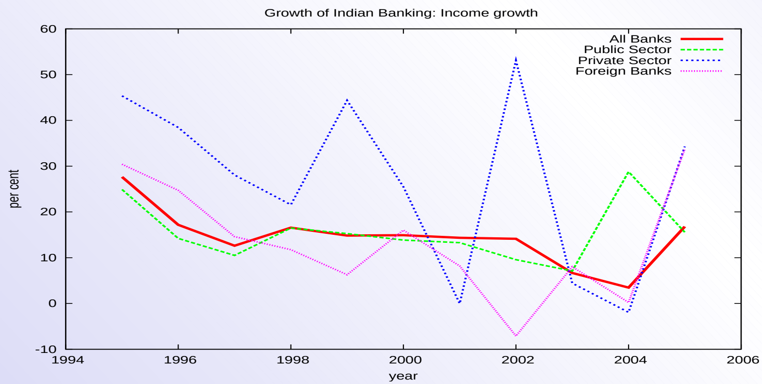
Bank group wise share in total asset

Year	Private Sector	Public Sector	Foreign Bank
1994-95	87.2	5.3	7.5
1995-96	86.6	5.3	8.1
1996-97	82.7	9.0	8.3
1997-98	81.6	10.2	8.2
1998-99	81.0	10.9	8.1
1999-00	80.2	12.3	7.5
2000-01	79.5	12.6	7.9
2001-02	75.0	17.4	7.6
2002-03	74.8	17.3	7.9
2003-04	74.5	18.6	6.9
2004-05	82.1	12.2	5.7
2005-06	77.0	17.0	6.0



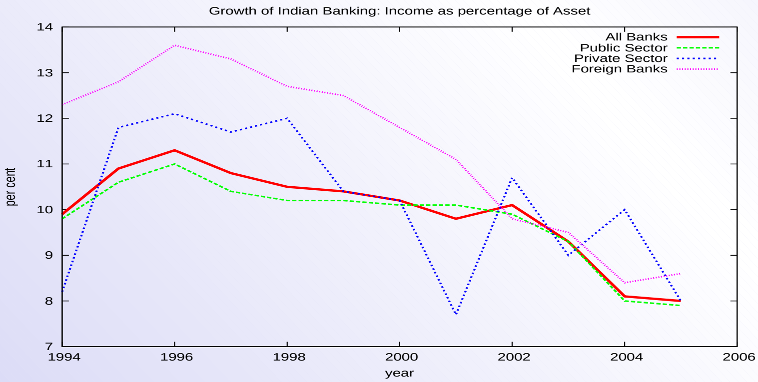
Growth of Indian Banking: Income growth

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1995-96	27.7	24.9	45.3	30.4
1996-97	17.2	14.2	38.4	24.7
1997-98	12.6	10.5	28.1	14.6
1998-99	16.6	16.5	21.6	11.7
1999-00	14.8	15.3	44.4	6.3
2000-01	14.9	13.8	25.5	16.0
2001-02	14.4	13.3	0.0	8.2
2002-03	14.1	9.6	53.1	-7.1
2003-04	6.7	7.1	4.4	8.0
2004-05	3.5	28.8	-1.9	0.2
2005-06	16.8	15.6	34.3	33.7



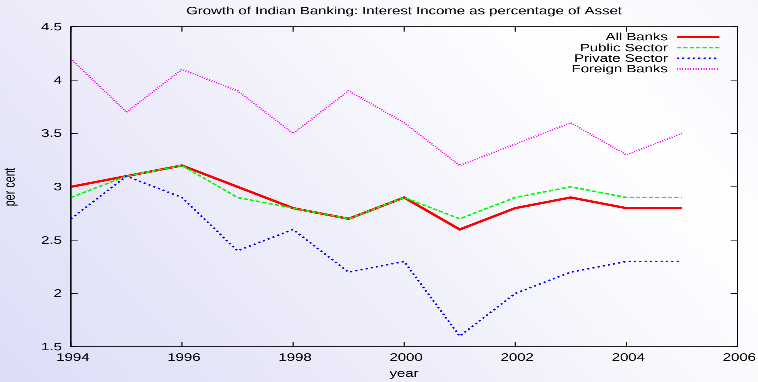
Growth of Indian Banking: Income as percentage of Asset

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1994-95	9.9	9.8	8.2	12.3
1995-96	10.9	10.6	11.8	12.8
1996-97	11.3	11.0	12.1	13.6
1997-98	10.8	10.4	11.7	13.3
1998-99	10.5	10.2	12.0	12.7
1999-00	10.4	10.2	10.4	12.5
2000-01	10.2	10.1	10.2	11.8
2001-02	9.8	10.1	7.7	11.1
2002-03	10.1	9.9	10.7	9.8
2003-04	9.3	9.3	9.0	9.5
2004-05	8.1	8.0	10.0	8.4
2005-06	8.0	7.9	8.0	8.6



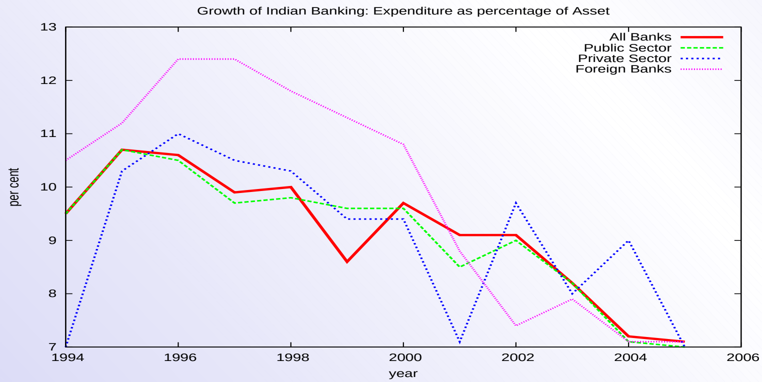
Growth of Indian Banking: Interest Income as percentage of Asset

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1994-95	3	2.9	2.7	4.2
1995-96	3.1	3.1	3.1	3.7
1996-97	3.2	3.2	2.9	4.1
1997-98	3.0	2.9	2.4	3.9
1998-99	2.8	2.8	2.6	3.5
1999-00	2.7	2.7	2.2	3.9
2000-01	2.9	2.9	2.3	3.6
2001-02	2.6	2.7	1.6	3.2
2002-03	2.8	2.9	2.0	3.4
2003-04	2.9	3.0	2.2	3.6
2004-05	2.8	2.9	2.3	3.3
2005-06	2.8	2.9	2.3	3.5



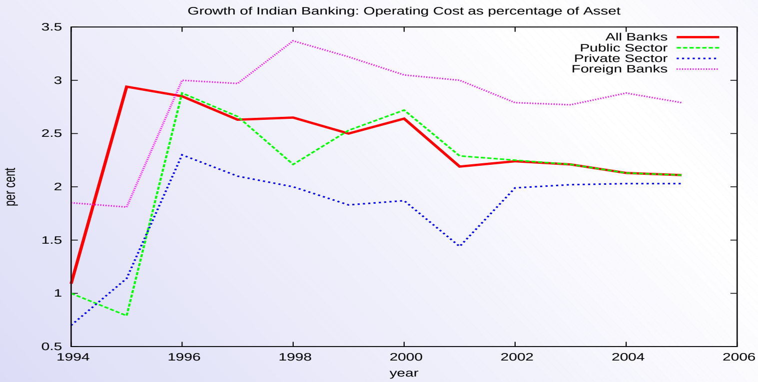
Growth of Indian Banking: Expenditure as percentage of Asset

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1994-95	9.5	9.5	7.0	10.5
1995-96	10.7	10.7	10.3	11.2
1996-97	10.6	10.5	11.0	12.4
1997-98	9.9	9.7	10.5	12.4
1998-99	10.0	9.8	10.3	11.8
1999-00	8.6	9.6	9.4	11.3
2000-01	9.7	9.6	9.4	10.8
2001-02	9.1	8.5	7.1	8.8
2002-03	9.1	9.0	9.7	7.4
2003-04	8.2	8.2	8.0	7.9
2004-05	7.2	7.1	9.0	7.1
2005-06	7.1	7.0	7.0	7.1



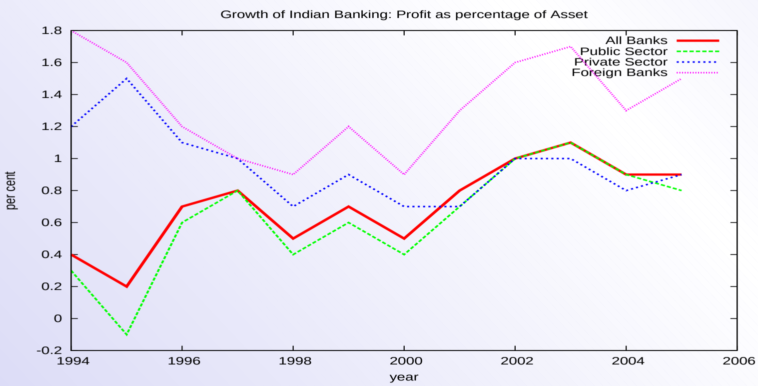
Growth of Indian Banking: Operating Cost as percentage of Asset

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1994-95	1.1	1.0	0.7	1.9
1995-96	2.9	0.8	1.1	1.8
1996-97	2.9	2.9	2.3	3.0
1997-98	2.6	2.7	2.1	3.0
1998-99	2.7	2.2	2	3.4
1999-00	2.5	2.5	1.8	3.2
2000-01	2.6	2.7	1.9	3.0
2001-02	2.2	2.3	1.4	3.0
2002-03	2.2	2.3	2.0	2.8
2003-04	2.2	2.2	2.0	2.8
2004-05	2.1	2.1	2.0	2.9
2005-06	2.1	2.1	2.0	2.8



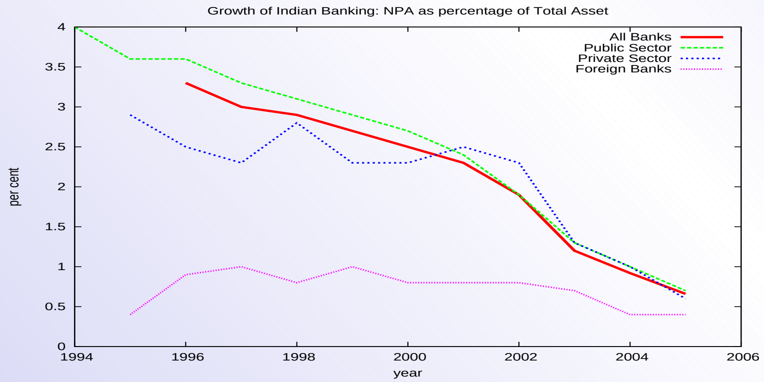
Growth of Indian Banking: Net Profit as percentage of Asset

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1994-95	0.4	0.3	1.2	1.8
1995-96	0.2	-0.1	1.5	1.6
1996-97	0.7	0.6	1.1	1.2
1997-98	0.8	0.8	1.0	1.0
1998-99	0.5	0.4	0.7	0.9
1999-00	0.7	0.6	0.9	1.2
2000-01	0.5	0.4	0.7	0.9
2001-02	0.8	0.7	0.7	1.3
2002-03	1.0	1.0	1.0	1.6
2003-04	1.1	1.1	1.0	1.7
2004-05	0.9	0.9	0.8	1.3
2005-06	0.9	0.8	0.9	1.5



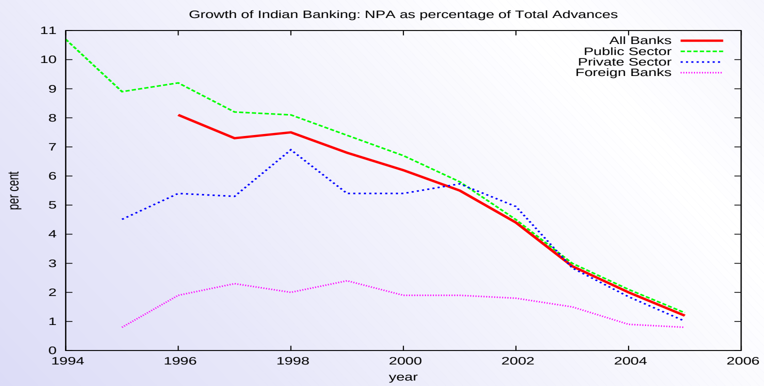
Growth of Indian Banking: NPA as percentage of Total Asset

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1994-95	-	4	-	-
1995-96	-	3.6	2.9	0.4
1996-97	3.3	3.6	2.5	0.9
1997-98	3	3.3	2.3	1.0
1998-99	2.9	3.1	2.8	0.8
1999-00	2.7	2.9	2.3	1.0
2000-01	2.5	2.7	2.3	0.8
2001-02	2.3	2.4	2.5	0.8
2002-03	1.9	1.9	2.3	0.8
2003-04	1.2	1.3	1.3	0.7
2004-05	0.92	1.0	1.0	0.4
2005-06	0.66	0.7	0.6	0.4



Growth of Indian Banking: NPA as percentage of Total Advances

Year	All Banks	Public Sector	Private Bank	Foreign Bank
1994-95	-	10.7	-	-
1995-96	-	8.9	4.51	0.8
1996-97	8.1	9.2	5.4	1.9
1997-98	7.3	8.2	5.3	2.3
1998-99	7.5	8.1	6.9	2.0
1999-00	6.8	7.4	5.4	2.4
2000-01	6.2	6.7	5.4	1.9
2001-02	5.5	5.8	5.73	1.9
2002-03	4.4	4.5	4.95	1.8
2003-04	2.9	3.0	2.84	1.5
2004-05	2	2.1	1.85	0.9
2005-06	1.2	1.3	1.01	0.8



Spread of banking services in India

Year	No. of Branches	Rural	Urban	Popl./branch	C/D Ratio	A/C per 1000 popl.
1991	60220	46550 (77.3)	13670 (22.7)	14000	60.6	
1992	60570	46625 (77.0)	13945 (23.0)	14000	55.4	
1993	61169	46854 (76.6)	14315 (23.4)	14000	56.3	
1994	61803	47219 (76.4)	14584 (23.6)	15000	51.6	
1995	62367	46345 (74.3)	16022 (25.7)	15000	54.7	
1996	63026	46556 (73.9)	16470 (26.1)	15000	58.6	352.5
1997	63550	46681 (73.5)	16869 (26.5)	15000	55.1	356.6
1998	64218	46858 (73.0)	17360 (27.0)	15000	54.2	359.7
1999	64939	47025 (72.4)	17914 (27.6)	15000	51.7	365.0
2000	65412	47141 (72.1)	18271 (27.9)	15000	53.3	371.2
2001	65919	47159 (71.5)	18760 (28.5)	15000	53.5	384.9
2002	68115	47127 (69.2)	19063 (28.0)	16000	53.8	395.6
2003	68478	47162 (68.9)	19373 (28.3)	16000	56.9	401.1
2004	69180	47212 (68.2)	19976 (28.9)	16000	56.1	411.0
2005	70373	47485 (67.5)	20870 (29.7)	16000	64.9	419.7
2006	71177	46135 (64.8)	23336 (32.8)	16000	71.5	436.2

Figures in parenthesis indicate percentage share in total.

Some institutional features of Indian banking

- Reserve (SLR and CRR) requirements
- Capital requirement
- Interest rate structure
- Priority sector lending

SLR and CRR

- SLR is an amount that a bank is required to maintain in the form of cash, gold and Government and other approved securities.
- At present, the SLR requirement is 25% of NDTL, the minimum limit prescribed in the Banking Regulation (BR) Act.
- CRR is an amount that a bank is required to hold in the form of cash with RBI. The current requirement is 7% of NDTL. (7.5 % effective from November 10, 2007)

Capital requirement for domestic private banks

- Minimum Capital Requirement: Rs. 2 billion to start with, with a commitment to increase to Rs. 3 billion within 3 years of operation.

- Foreign investment: The aggregate foreign investment in private banks cannot exceed 74%.

- Capital adequacy norms – currently Basel I with CRAR requirement of 9%.

- Basel II norms will be implemented from March 2008 for internationally active banks and from March 2009 for domestic banks.

- Final guidelines for Basel II implementation was released in April 2007.

Capital to Risk-weighted Asset Ratio (CRAR) of Indian Banks

Year	Nationalised	SBG	IDBI	Old Pvt.	New Pvt.	Foreign	All
1998-99	10.6	12.3		12.1	11.8	10.8	11.3
1999-00	10.1	11.6		12.4	13.4	11.9	11.1
2000-01	10.2	12.7		11.9	11.5	12.6	11.4
2001-02	10.9	13.3		12.5	12.3	12.9	12
2002-03	12.2	13.4		12.8	11.3	15.2	12.7
2003-04	13.1	13.4		13.7	10.2	15	12.9
2004-05	13.2	12.4	15.51	12.5	12.1	14	12.8
2005-06	12.4	11.9	14.8	11.7	12.6	13	12.3

Interest Rate Structure

Interest rates are deregulated except in the case of

- savings deposit accounts
- non-resident Indian deposits
- small loans upto Rs. 2 lakh
- export credit

Interest Rate movement

Deposit Rates	2002	2003	2003	2004	2005	2006	2006
Public Sector							
a) Up to 1 year	4.25 - 7.50	4.00 - 6.00	3.75-5.50	3.75-5.25	2.75-6.00	2.25-6.50	2.75-6.50
b) 1 year and up to 3 years	7.25 - 8.50	5.25 - 6.75	4.75-6.00	5.00-5.75	4.75-6.50	5.75-6.75	5.75-7.00
c) over 3 years	8.00 - 8.75	5.50 - 7.00	5.25-6.25	5.25-6.00	5.25-7.00	6.00-7.25	6.00-7.25
Private Sector							
a) Up to 1 year	5.00 - 9.00	3.50 - 7.50	3.00-7.00	3.00-6.00	3.00-6.25	3.50-7.25	3.50-6.75
b) 1 year and up to 3 years	8.00 - 9.50	6.00 - 8.00	5.50-7.50	5.00-6.50	5.25-7.25	5.50-7.75	6.50-7.75
c) over 3 years	8.25 - 10.00	6.00 - 8.00	5.75-8.00	5.25-7.00	5.75-7.00	6.00-7.75	6.50-8.25
Foreign Banks							
a) Up to 1 year	4.25 - 9.75	3.00 - 7.75	3.00-7.75	2.75-7.75	3.00-6.25	3.00-5.75	3.25-6.50
b) 1 year and up to 3 years	6.25 - 10.00	4.15 - 8.00	3.50-8.00	3.25-8.00	3.50-6.50	4.00-6.50	5.00-6.50
c) over 3 years	6.25 - 10.00	5.00 - 9.00	3.75-8.00	3.25-8.00	3.50-7.00	5.50-6.50	5.50-6.75
BPLR							
Public Sector	10.00 - 12.50	9.00 - 12.25	9.00-12.25	10.25-11.25	10.25-11.25	10.25-11.25	10.75-11.50
Private Sector	10.00 - 15.50	7.00 - 15.50	8.00-15.50	11.00-13.50	11.00-13.50	11.00-14.00	11.00-14.50
Foreign Banks	9.00 - 17.50	6.75 - 17.50	5.05-17.50	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50

Priority Sector Lending

- Priority sector lending was introduced in 1968 in order to increase banks' involvement in financing certain "priority sectors".

- To start with, there were no specific targets fixed for priority sector, but in November 1974, banks were advised to raise the share of their priority sector lending to 33 per cent by 1979.

- In March 1980, this target was raised to 40 per cent.

- Presently, all domestic SCB have to comply with a 40 per cent target for the "priority sector lending".

- For the foreign banks this target is 32 per cent.

- The priority sectors are as follows:

  → Agriculture: 18 per cent sub-target for domestic banks, no target for foreign banks

  → Small enterprises: 10 per cent sub-target for both domestic and foreign banks, 40% sub-target for micro (manufacturing) enterprises with investment upto Rs. 5 lakh and 20% for micro (manufacturing) enterprises with investment above Rs. 5 lakh

  → Export credit: 12% sub-target for foreign banks. For domestic banks it is not a priority sector.

  → Weaker sections of the population: 10% sub-target for domestic banks; no target for foreign banks

  → Retail trade
  → Micro Credit
  → Education loans
  → Housing loans

Penalties for non-achievement of priority sector lending obligation

- Contribution by domestic banks to Rural Infrastructure Development Fund (RIDF) $\longrightarrow$ The corpus of the RIDF is decided by Government of India every year. 50% of the corpus is be allocated among domestic banks having shortfall in priority sector lending. The rest 50% are allocated among the banks having shortfall in meeting the agricultural target of 18%.

- Contribution of foreign banks to Small Enterprises Development Fund (SEDF), or for any other purpose as may be stipulated by Reserve Bank of India from time to time.

- The interest rates on the banks' contribution to RIDF or SEDF are fixed by the Reserve Bank of India.

Priority Sector Lending as percentage of Net Bank Credit, March 2006

	Public Sector Banks	Private Banks	Foreign Banks
Total	**40.3**	**42.8**	**34.6**
Agriculture	15.2	13.5	-
Small-scale industries	8.1	4.2	9.6
Other Priority Sector	16.2	23.4	-
Export Credit	-	-	19.4

Road map for presence of foreign banks in India

- On February 28, 2005, RBI released a road map for the presence of foreign banks in India.
- This has two phases:

  $\star$ Phase I $\longrightarrow$ March 2005 – March 2009

  $\star$ Phase II $\longrightarrow$ April 2009 onwards

- During Phase I:

  → foreign banks wishing to establish presence in India can either choose to operate through a branch presence or set up 100% wholly owned subsidiary (WOS).

  → foreign banks already operating in India will be allowed to convert their existing branches to WOS.

  → Acquisition of Indian private banks by foreign banks will be allowed in a phased manner, initially only in private banks identified by RBI for restructuring. Such acquisition will be in the range of 15-74%.

- In Phase II:

  → WOS of foreign banks will be treated on par with domestic banks.

  → WOS of foreign banks will be able to dilute their stake so that at least 26% of their paid up capital can be held by resident Indians.

  → foreign banks will be allowed, subject to regulatory approvals, to enter into merger and acquisition transactions with any Indian private bank subject to the overall investment limit of 74%.

Summing up

- The Indian banking system is growing in a robust manner.
- The Indian banking system complies with international standards of prudential regulation.
- The Indian banking system is opening up for entry of foreign banks.
- Despite the growth, Indian banking system is not entirely inclusive.
- There is good opportunities for the banking industry – domestic and foreign – for expansion to fill the gap.

Thank you