

**A STUDY ON EVALUATING PROFITABILITY PERFORMANCE OF
FOREIGN SECTOR BANKS IN INDIA**

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ABSTRACT

The new millennium has brought with it challenges and opportunities in various fields of economic activities including banking. Indian banking, which was operating in a highly comfortable environment till the beginning of the 1990s, has been pushed into the choppy water of intense competition. The modern banking activity is marked by itineraries into un-chartered horizons mingled with risks and heavy competition. Globalization, deregulation, and advances in information technology during the last few years have brought about significant changes in the operating environment for banks operating in India.

KEY WORDS: Profitability, Performance, Foreign Sector Banks, Credit-Deposits Ratio, Banks

INTRODUCTION:

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. The survival of the banking system in India through the financial crisis has demonstrated its strengths and most foreign banks present in India believe that India is a market with undeniable potential. However, like their predecessors, they

continue to look for the best possible role they can play amidst the challenging political economy, heightened competition and changing financial services regulations.

Foreign Banks

Banks that does their operations and services at a foreign country that is rather not in close proximity to an individual. The Cayman Islands are a major international financial center and are a favorite choice of a foreign bank for its outsiders.

Review of Literature

Ajay Pathak and Subhasis Ray, (2006)¹, in their study “Determinants of Liquidity and Interest Rates Some Results for India During 1990-2005” This study is centered on understanding the ‘friction’ or the ‘push’; these items may have, on the overall liquidity. It also tries to find an answer to whether they have any effect on interest rate or not.

Amandeep, (1990)² made a study on “Profits and profitability of Indian nationalized banks”. The study observed that priority sector lending and rural banking do not have an adverse effect on the banks’ profitability to a significant extent. Hence, advances to the priority sector and opening of rural branches may be extended in the large interests of the society.

Anand, (1992)³ in his article on “Is Priority Sector Lending Still A drag On Profitability” He concluded that fixation of concessional rates at very low levels is not advisable as this often leads to the diversion of loans away from agriculture and also causes inflation. However, the analysis revealed that priority sector advances have not been and are not a drag on profitability.

Arulanandan and Namasivavam, (1987)⁴ conducted a study on “Deposit mobilization by central co-operative banks- A challenging Task”. An important observation of the study was that, the opening of the branches had helped in large measures the increase of deposit base of central co-operative banks substantially promoting the habit of saving among people.

Bhatia Saveeta and Satish Verma, (1998-99)⁵ in their work on “Factors determining profitability of Public Sector banks in India, an application of multiple regression model”, The analysis revealed that priority sector banks negatively. Net spread, which to a great extent depends on the management cum membership of the bank staff, influenced the profitability of banks

positively and significantly. High credit-deposit ratio was also observed to be influencing profitability positively. However, its impact was found to be statistically non-significant.

Objectives

- To Study Profitability position of Foreign Banks.
- To Compare Profitability position of foreign banks in India.
- To Offer suggestions for improving foreign banks performance.

Research Methodology

This study has evaluating the Profitability performance of all banks in foreign Sector in India, from the year 2000-2001 to 2009-2010 for 10 years.

Sources of Data

To accomplish the objectives of the Study, Primary and Secondary data were used. Primary data were collected from banks and secondary data has been collected from bank records, published and unpublished financial reports, journals, magazines, and websites.

Data Analysis

The Performance analysis of New Private Sector Banks in India were analyzed for the period of ten years from 2000-2001 to 2009-2010, with the help of the following tools and techniques.

Tools Used

- (1) Ratio
- (2) Mean
- (3) Standard Deviation
- (4) Co-efficient of Variation.
- (5) Correlation and Regression

Credit-Deposit Ratio

Table 1: Foreign Sector Banks Credit-Deposits Ratio

| S.No | Banks Name | Mean | Standard deviation | Co-efficient of variation |
|-------------|---------------------------|-------------|---------------------------|----------------------------------|
| 1 | Abu Dhabi Commercial Bank | 22.15 | 11.46 | 51.74 |
| 2 | Arab Bangladesh Bank | 75.11 | 40.47 | 53.88 |

| | | | | |
|----|--------------------------|--------|-------|-------|
| 3 | Bank of Ceylon | 82.51 | 45.80 | 55.51 |
| 4 | Bank of Nova Scotia | 122.80 | 15.94 | 12.98 |
| 5 | Bank of Tokyo Mitsubishi | 113.90 | 39.21 | 34.42 |
| 6 | BNP Paribas | 92.44 | 16.51 | 17.86 |
| 7 | Brclays Bank PLC | 33.37 | 39.87 | 119.4 |
| 8 | Citibank | 77.20 | 7.35 | 9.53 |
| 9 | DBS Bank | 100.83 | 81.85 | 81.18 |
| 10 | Deutsche Bank AG | 74.64 | 8.55 | 11.45 |
| 11 | Hongkong and Shang Bank | 62.75 | 6.45 | 10.28 |
| 12 | Krung Thai Bank | 69.28 | 65.46 | 94.48 |
| 13 | Mashreq Bank | 56.39 | 45.28 | 80.29 |
| 14 | Mizuho Corporate Bank | 199.61 | 87.75 | 43.96 |
| 15 | Oman International Bank | 12.84 | 19.39 | 151.0 |
| 16 | Societe Generale | 46.11 | 16.62 | 36.05 |
| 17 | Standard Chartered Bank | 90.73 | 12.56 | 13.85 |

The above table exhibits that, the Credit-Deposit Ratio across the various foreign banks during various years; the Mean ratio was minimum 12.84 percent for Oman International Bank and maximum 199.61 percent for Mizuho Corporate Bank. It reveals that Mizuho Corporate Bank has the best performance out of seventeen banks taken for the study. The standard deviation of Credit-Deposit Ratio for selected banks ranges between 6.45 and 87.75 percent. The lowest standard deviation found in Hong Kong and Shang Bank, which indicates low variation in the Credit-Deposit Ratio and the high standard deviation found in Mizuho Corporate Bank, it shows high variation in the Credit-Deposit ratio. The co-efficient of variation ranges between 9.53 and 151.00 percent. The minimum co-efficient of variation was for Citibank, This shows that Citibank has more consistency in the performance over the study period of 10 years, compared to other group of Foreign banks.

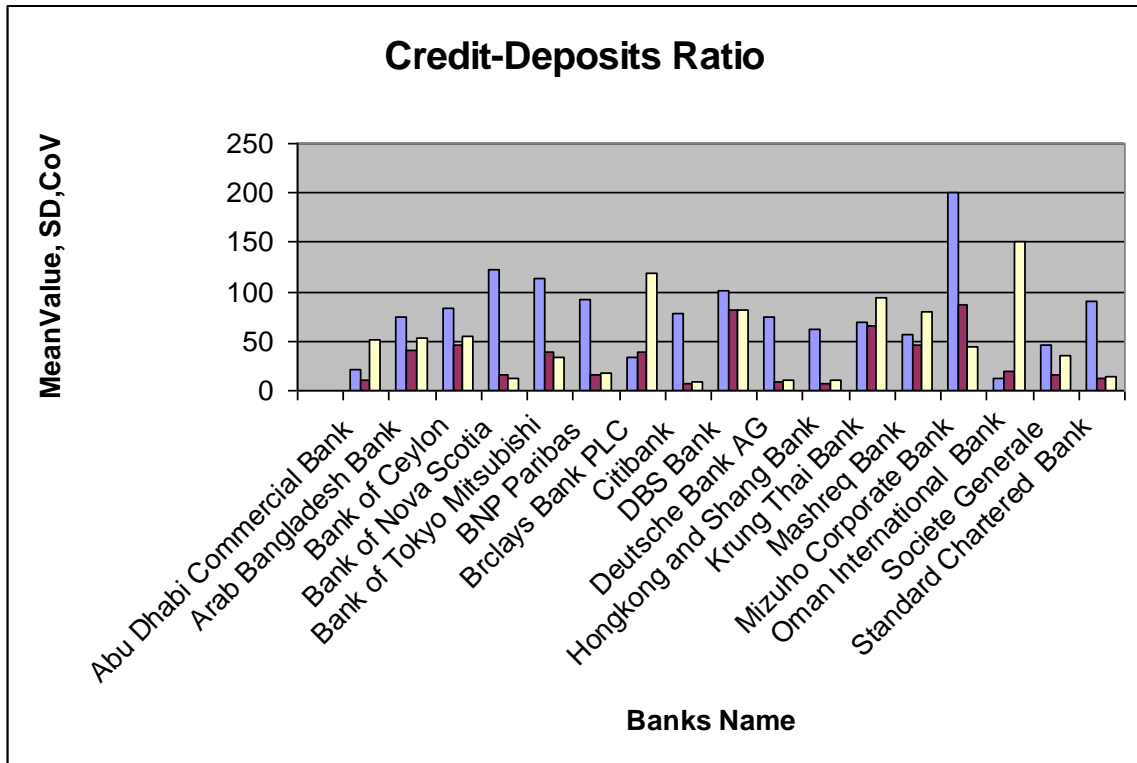


Table 2: Foreign Banks – Ratio on Interest Earned to Interest Expended

| S.No | Banks Name | Mean | Standard deviation | Co-efficient of variation |
|------|---------------------------|-------|--------------------|---------------------------|
| 1 | Abu Dhabi Commercial Bank | 73.94 | 21.80 | 29.48 |
| 2 | Arab Bangladesh Bank | 13.07 | 2.55 | 19.52 |
| 3 | Bank of Ceylon | 44.01 | 13.71 | 31.15 |
| 4 | Bank of Nova Scotia | 67.34 | 8.97 | 13.32 |
| 5 | Bank of Tokyo Mitsubishi | 40.22 | 9.10 | 22.63 |
| 6 | BNP Paribas | 55.44 | 15.06 | 27.17 |
| 7 | Brclays Bank PLC | 51.66 | 19.42 | 37.59 |
| 8 | Citibank N.A. | 41.92 | 9.58 | 22.85 |
| 9 | DBS Bank | 50.96 | 14.38 | 28.22 |
| 10 | Deutsche Bank AG | 50.53 | 18.51 | 36.64 |
| 11 | Hong Kong and Shang Bank | 47.26 | 12.06 | 25.51 |
| 12 | Krung Thai Bank | 20.37 | 14.97 | 73.48 |
| 13 | Mashreq Bank | 50.49 | 40.22 | 79.65 |
| 14 | Mizuho Corporate Bank | 50.48 | 15.67 | 31.03 |

| | | | | |
|----|-------------------------|-------|-------|-------|
| 15 | Oman International Bank | 91.22 | 24.88 | 27.27 |
| 16 | Societe Generale | 64.13 | 14.92 | 23.26 |
| 17 | Standard Chartered Bank | 45.19 | 8.23 | 18.22 |

The Interest Earned to Interest Expended Ratio across the various banks in Foreign Banks during various years is given in table 4.10 the Mean ratio was minimum 13.07 percent for Arab Bangladesh Bank and maximum 91.22 percent for Oman International Bank. It is inferred that Arab Bangladesh Bank has the best performance out of seventeen banks taken for the study. The standard deviation of Interest Earned to Interest Expended Ratio for selected banks ranges between 2.55 and 40.22 percent. The lowest standard deviation found in Arab Bangladesh Bank, which indicates low variation in the Interest Earned to Interest Expended Ratio and the high standard deviation found in Mashreq Bank, it shows high variation in the Interest earned to interest expended ratio. The co-efficient of variation ranges between 13.32 and 79.65 percent. Minimum co-efficient of variation was for Bank of Nova Scotia, this Bank has more consistency in the performance over the study period of 10 years, compared to other foreign banks.

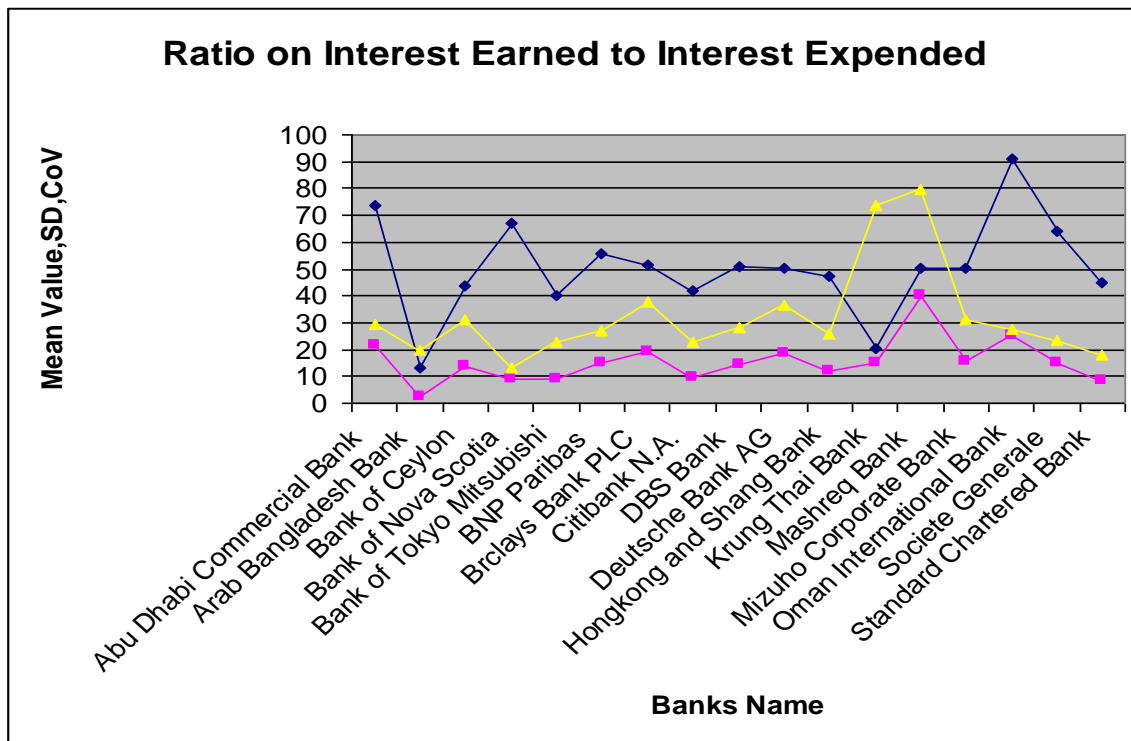


Table 3: Foreign Banks - Operating Expenses to Total Income

| S.No | Banks Name | Mean | Standard deviation | Co-efficient of variation |
|------|---------------------------|-------|--------------------|---------------------------|
| 1 | Abu Dhabi Commercial Bank | 12.53 | 8.45 | 67.45 |
| 2 | Arab Bangladesh Bank | 30.37 | 5.96 | 19.62 |
| 3 | Bank of Ceylon | 20.09 | 4.76 | 23.69 |
| 4 | Bank of Nova Scotia | 11.64 | 3.13 | 26.91 |
| 5 | Bank of Tokyo Mitsubishi | 23.61 | 9.20 | 38.97 |
| 6 | BNP Paribas | 34.55 | 8.56 | 24.78 |
| 7 | Brclays Bank | 30.74 | 3.50 | 44.05 |
| 8 | Citibank | 31.42 | 5.48 | 17.45 |
| 9 | DBS Bank | 23.11 | 10.60 | 46.05 |
| 10 | Deutsche Bank | 34.04 | 9.14 | 26.86 |
| 11 | Hongkong and Shang Bank | 30.94 | 5.65 | 18.26 |
| 12 | Krung Thai Bank | 46.82 | 18.70 | 39.87 |
| 13 | Mashreq Bank | 26.13 | 13.30 | 51.04 |
| 14 | Mizuho Corporate Bank | 27.54 | 5.95 | 21.60 |
| 15 | Oman International Bank | 20.33 | 12.30 | 60.52 |
| 16 | Societe Generale | 31.04 | 10.10 | 32.42 |
| 17 | Standard Chartered Bank | 27.84 | 4.40 | 15.82 |

The above table reveals that, the Operating Expenses to Total Income Ratio across various banks in Foreign Sector during various years, the mean ratio was minimum 11.64 percent for Bank of Nova Scotia and maximum 46.82 percent for Krung Thai Bank. It is inferred that Bank of Nova Scotia has the best performance out of seventeen banks taken for the study. The standard deviation of Operating Expenses to Total Income Ratio for selected banks ranges between 3.13 and 18.70 percent. The lowest standard deviation found in Bank of Nova Scotia, which indicates low variation in the Operating Expenses to Total Income Ratio and the high standard deviation found in Krung Thai Bank, it shows high variation in the Operating Expenses to Total Income. The co-efficient of variation ranges between 15.82 and 67.45 percent. Since minimum co-efficient of variation was for Standard Chartered Bank, it is inferred that Standard Chartered Bank has more consistency in the performance over the study period of 10 years, compared to other Foreign banks.

Table 4: Foreign Sector Banks Ratio on Operating Expenses to Total Funds

| S.No | Banks Name | Mean | Standard deviation | Co-efficient of variation |
|------|---------------------------|------|--------------------|---------------------------|
| 1 | Abu Dhabi Commercial Bank | 1.16 | 0.64 | 55.02 |
| 2 | Arab Bangladesh Bank | 3.72 | 1.77 | 47.71 |
| 3 | Bank of Ceylon | 1.96 | 0.57 | 29.11 |
| 4 | Bank of Nova Scotia | 1.04 | 0.26 | 25.29 |
| 5 | Bank of Tokyo Mitsubishi | 2.76 | 1.53 | 55.49 |
| 6 | BNP Paribas | 3.47 | 0.72 | 20.65 |
| 7 | Brclays Bank | 4.15 | 2.02 | 48.68 |
| 8 | Citibank | 3.50 | 0.57 | 16.16 |
| 9 | DBS Bank | 1.84 | 0.31 | 16.76 |
| 10 | Deutsche Bank | 3.86 | 0.92 | 23.72 |
| 11 | Hongkong and Shang Bank | 3.16 | 0.59 | 18.78 |
| 12 | Krung Thai Bank | 3.93 | 1.60 | 40.74 |
| 13 | Mashreq Bank | 3.74 | 2.04 | 54.45 |
| 14 | Mizuho Corporate Bank | 2.40 | 0.43 | 17.83 |
| 15 | Oman International Bank | 2.11 | 0.51 | 24.19 |
| 16 | Societe Generale | 2.64 | 0.39 | 14.83 |
| 17 | Standard Chartered Bank | 3.01 | 0.39 | 12.88 |

It is found from the above table that, the Operating Expenses to Total Funds Ratio across the various banks during various years, the Mean ratio was minimum 1.04 percent for Bank of Nova Scotia and maximum 4.15 percent for Brclays Bank. It is inferred that Bank of Nova Scotia has the best performance out of seventeen banks taken for the study. The standard deviation of Operating Expenses to Total Funds Ratio for selected banks ranges between 0.31 and 2.04 percent. The lowest standard deviation found in DBS, Bank which indicates low variation in the Operating Expenses to Total Funds Ratio and the high standard deviation found in Mashreq Bank, it shows high variation in the Operating Expenses to Total Funds. The co-efficient of variation ranges between 12.88 and 55.49 percent. Since minimum co-efficient of variation was for Standard Chartered Bank, it is observed that Standard Chartered Bank has more consistency in the performance over the study period of 10 years, compared to other foreign banks.

Correlation and Regression:

Correlation gives the relationship between the variables and regression gives the dependence of one variable on the other. Here profit per employee is dependent variable and depends on Advances to Assets, Return on Assets, Operating Income to Total Income, Interest Expended to Total Income, Business per Employee, Credit Deposit, Capital Adequacy and Debt Equity. To find out which are the independent variables, that influence the dependent variable, profit per employee the stepwise regression analysis is done.

The following table gives the correlation co-efficient (R) and co-efficient of determination (R^2).

Table 5: Correlation Co-efficient of Foreign Banks

| R | R^2 |
|----------|-------------------------|
| 0.667 | 0.445 |

$R^2 = 0.445$ indicate that 44.5% change in profit per employee is influenced by the independent variables, Advances to Asset, Return on Assets, Operating Income To Total Income, Interest Expended to total Income, Business Per Employee, Credit Deposit, Capital Adequacy and Debt Equity. The following ANOVA table ensures the dependence of the Profit per Employee on the above said independent variables since the sig (P) < 0.05, level of Significance.

Table 6: ANOVA of Foreign Banks

| | Sum of Squares | df | Mean Square | F | Sig. |
|------------|-----------------------|-----------|--------------------|----------|-------------|
| Regression | 9.574 | 5 | 1.915 | 26.332 | 0.000 |
| Residual | 11.926 | 164 | 0.073 | | |

The following table gives the regression co-efficient

Table 7: Co-efficient of Foreign Banks

| Variables | Co- efficient | Sig. |
|---------------------------------------|---------------|-------|
| Constant | 0.707 | 0.000 |
| Return on assets | 0.079 | 0.000 |
| Advances to Assets | -0.003 | 0.000 |
| Operating in Expenses to total income | -0.010 | 0.000 |
| Interest expended to total income | -0.005 | 0.000 |
| Business per employee | 0.007 | 0.015 |

Regression equation is, Y (profit per employee) = $0.707 + 0.079x_1 - 0.003x_2 - 0.010x_3 - 0.005x_4 + 0.007x_5$.

Where, X_1 = Return on Assets, X_2 = Advances to Assets, X_3 = Operating in come to total income, X_4 = Interest expended to total income, X_5 = Business per employee.

Profit per Employee is an important tool for analysis of financial performance. The above equation says that, if Return on Assets increase by 100 units, then Profit per Employee will increase by 7.9 percent. Advances to Assets were -0.003 percent, Operating in Expenses to Total Income was -0.010 percent and Interest expended to Total Income was -0.005 percent these three are reducing Foreign Sectors profit per employee. Business per employee was 0.007 percent this gives good performance, so it is also best for the banks performance. It is observed that Foreign banking sector has excellent management efficiency.

Findings

1. Mizuho Corporate Bank (199.61 %) has the best performance out of seventeen banks taken for the study. Citibank has more consistency in the performance over the study period
2. Arab Bangladesh Bank (91.22) has the best performance out of seventeen banks taken for the study. Bank of Nova Scotia, this Bank has more consistency in the performance over the study period
3. Bank of Nova Scotia (11.64) has the best performance out of seventeen banks taken for the study. Standard Chartered Bank has more consistency in the performance over the study period

4. Bank of Nova Scotia (1.04) has the best performance out of seventeen banks taken for the study. Standard Chartered Bank has more consistency in the performance over the study period.
5. Business per employee was 0.007 percent this gives good performance, so it is also best for the banks performance. It is observed that Foreign banking sector has excellent management efficiency.

SUGGESTION

The banks may concentrate on mobilization of more deposits. More focus is needed on the deposit mobilization to attract deposits. The establishing expenses were the second largest item of the total expenses of commercial banks in India. The banks are improved in income generation it should look towards diversity into a wide range of financial services. The banks may adopt the new marketing strategies to attract the proposed customer and to retain the existing customers with the aim of improving the profitability.

CONCLUSION:

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. The worlds of banking and financial sectors are changing very fast and banks are transforming themselves with the focus on knowledge.

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