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A REVIEW ARTICLE ON EVOLUTION AND INCOME OF SELECTED PUBLIC SECTOR BANKS IN INDIA

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ABSTRACT

In response to raising number of banks in India, the study seeks to contribute to the debate relating to public sector banks in Indian context. The stakes in the study are quite high and the study need to be informed by history, theory as well as objective reality of public sector banks operating in India. In this context, the present study contributes the analysis of income and the evolution of public banks, beginning with the colonial era, up to the current period. It carries on the analysis till 2014 and concludes that public sector banks enjoy high profits despite the existence of private sector banks, cooperative banks, rural banks and also foreign banks.

KEYWORDS: study, public sector banks, cooperative banks.

INTRODUCTION:

Indian economic environment is passing through path breaking reform measures. The financial sector, of which the bank industry is the major player, has also been undergoing a metamorphic transformation. Today the banking industry is very stronger and competent of adjusting with the pressures of stiff competition. While internationally established prudential norms have been adopted, with higher disclosures and clearness, Indian banking industry is steadily moving in the direction of adopting the best practices in accounting, corporate governance and risk management. Interest rates are being deregulated, while the firmness of directed lending is being more and more reduced.

Today, we are having a fairly developed banking system with diverse classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, local rural banks and co-operative banks along with the Reserve Bank of India as the central Head of the system. In the banking field, there has been an unparalleled growth and diversification of banking sector has been so astonishing that it has no equivalent in the annals of banking nowhere in the world.

During the last 46 years since 1969, remarkable changes have taken place in the banking sector. The banks have discarded their customary functions and have been innovating, getting better and coming out with new types of the services to provide to the rising needs of their customers. Substantial branch expansion in the rural and undeveloped areas, mobilization and proper allocation of savings and diversification of credit facilities to the either to mistreated areas like small scale industries sector, agricultural and other selected areas such as export sector etc. have resulted in the widening of the monetary infrastructure and transferred the primary character from class banking to mass banking.

There has been considerable modernization and diversification in the business of major commercial banks. Many of them have engaged in the areas of consumer credit, credit cards, merchant banking, leasing, mutual funds etc. A few banks have already set up special branches for merchant banking, leasing and mutual funds and many more are following the process of doing so. Some banks have established factoring business.

PLAN OF THE PAPER

Section I is an explanation of evolution of public sector banks till independence of the country. Section II provides a glimpse of the existing literature. This will provide the recent shape of public sector banks in the country with a view to carry forward the study about banks in near future. Section III provides conclusion.

SECTION I: EVOLUTION OF PUBLIC SECTOR BANKS

Public sector in the banking industry emerged with the nationalization of Imperial Bank of India (1921) and creating the State Bank of India (1955) as a part of integrated scheme of rural credit proposed by the All India Rural Credit Survey Committee (1951). The Bank is exclusive in several respects and it enjoys a position of pre-eminence as the mediator of RBI wherever RBI has no branches. It is the solitary largest bank in the country with large international presence, with an association of 48 overseas offices spread over 28 countries covering all the time zones. The main purpose of establishing the SBI was 97 to provide extensive banking facilities in rural areas by establishing as a first step 400 branches within a period of 5 years from July 1, 1955. In 1959, eight banking companies performing in formerly princely states were taken over by the SBI, which later came to be known as Associate Banks. Later, two of the subsidiary banks', viz., the State Bank of Bikaner and Jaipur were amalgamated to form the State Bank of Bikaner and Jaipur, thus form eight banks in the SBI group then creating banks in the state bank group. The Public sector in the Indian banking go broadened with two rounds of nationalization-first in July 1969 of 14 major private sector banks each with deposits of Rs. 50 Crores or more, and then after in April 1980, 6 more banks with deposits of not less than Rs. 2 Crores each. It resulted in the construction of public sector banking with a market share of 76.87 per cent in deposits and 72.92 per cent of assets in the banking industry at the end of March 2003. With the combination of 'New Bank of India' with 'Punjab National Bank' in 1993, the number of nationalized banks became 19 and the number of public sector banks 27. The number of branches of public sector banks, which was 6,669 in June 1969, increased to 41874 by Mach 1990 and again to 46,752 by March 30, 2003. The public sector banks thus came to engage in a chief position in the Indian banking panorama. It is however, important to note that there has been a stable turn down in the share of PSB's in the total assets of SCB's during the latter - half of 1990s. Whilst their share was 84.5 per cent at the end of March 1996, it declined to 81.7 per cent in 1998 and further to 81 per cent in 1999.

SECTION II: REVIEW OF LITERATURE

Public sector banks in India have received scant research attention in the literature on banking. Various researches have been conducted on income of banks. Banking income can be divided into two types:
-Fund based or interest income
-Non fund based or non interest income

Mr.Christos Staikouras, Geoffrey Wood and Rosie Denney (2000) wrote a paper titled ***"Bank Non-Interest Income: A Source of Stability?"*** In the era of deteriorating net interest margins, depository institutions have recognized new service areas over the precedent two decades, moving from conservative lending to areas that generate non-interest income. The change is very important for financial stability of banks. The more unbalanced is a bank's earnings stream, the further risky the institution is. The aim of the paper was to look at whether the gradual move into fee-earning activities has condensed the variability of banking system profits. The conventional wisdom in the banking industry is that income from fee-based products are more stable than loan-based earnings, and that fee-based activities decrease bank risk via diversification. The results do not hold up that view. However, there is the prospective for diversification benefits in the case of German commercial banks, the UK buildings societies, and small German banks; although it appeared to be quite incomplete since in all cases fee income was less constant.

Rosie Smith, Christos Staikouras and Geoffrey Wood (2003) wrote a paper titled ***"Non-Interest Income and Total Income Stability"*** They exposed that Banks can differ noticeably in their sources of income. Some pay attention on business lending, some on household lending, and some on fee-earning activities. More and more, however, most banks have been diversifying into fee-earning activities. Such diversification is either acceptable (by the bank) or welcomed (by commentators), or both, as plummeting the bank's exposure to risk. Diversification across a mixture of sources of earnings is welcomed for, it is claimed, and diversification decreases risk. Whether it does of course depend on how sovereign of each other the various earnings sources are. Conventionally fee Income has been very steady; but, also traditionally, it has been a small part of the income stream of most banks. Has non-interest income remained steady, or at least unrelated with interest income, as banks have enlarged its importance in their earnings? This paper tries to examine the inconsistency of interest and non-interest income, and their interrelation, for the banking systems of EU countries for the years 1994-98. It is found that the amplified importance of non-interest income did, for most but not all categories of bank alleviate profits in the European banking industry in those years. It is not, however, habitually more stable than interest income.

Amine Tarazi, Laetitia Lepetit, Emmanuelle Nys, and Philippe Rous (2007) wrote a paper titled ***"Bank Income Structure and Risk: An Empirical Analysis of European Banks"***. The objective of this paper is to consider the relationship between bank risk and services diversification in the changing arrangement of the European banking industry. Based on a broad set of European banks for the period 1996-2002, the paper first shows that banks growing into non-interest income activities attend higher risk and higher insolvency risk than banks which mainly deliver loans. However, allowing for size effects and dividing non-interest activities into both trading activities and commission and fee activities they demonstrate that the positive link with risk is mostly accurate for small banks and fundamentally driven by commission based and fee based activities. An advanced share of trading presentation is never associated with higher risk and for small banks it implies, in some cases, lesser asset and defaulting risks.

Narasimha Prakash and Dr.S.Ramesh (2015) wrote a paper titled **"A comparative analysis of sources of income of commercial banks in India during 2009-2013."** The intention of the research is to investigate the involvement of the individual sources of income in the total income of the banks and to inspect the disparity in the different sources of income under different banking groups. The period covered was five years from 2008-09 to 2012-13. The methodology used was ratio analysis of important income ratio that included ratio of interest/discount earned to total income, ratio of income on investments to total income and ratio of other income to total income. The selected area of banks are: SBI and its associate banks, Nationalised banks, public sector banks, old private sector banks, new private sector banks, foreign banks and all scheduled banks. They also analysed the actual income sources of different banking groups for the five year period which was followed by the different ratios calculated. They concluded that the trends and the averages for the five year period under study of different sources of income show that the SBI and its associate banks, other nationalised banks and old generation private sector banks portray somewhat similar picture. When banks are in a position to bolster their non interest income, they will be in a position to go for higher quality assets which commands a lower price. for this reason, the effect of condensed interest earnings can be remunerated by augmentation in the non interest incomes and improve in general quality of assets.

SECTION III: CONCLUSION

The importance of public sector banks is increasing day by day even in the era of globalisation. Even in the stiff competition with private sector banks, cooperative banks and foreign banks, public sector banks are performing very well in generating fund based and non fund based income. Public sector banks are now offering various unconventional services to generate more non fund based income; in fact that is the need of the hour!! The government of India has adopted new criteria through which only banks that are more efficient only be rewarded with extra capital for their equity so that they can further strengthen their position.

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