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CONTENTS

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   REVIEW OF LITERATURE

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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   REFERENCES

   APPENDIX/ANNEXURE

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

FOREIGN BANKS IN INDIA: A LITERATURE REVIEW

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ABSTRACT

In response to statement by the current Governor of RBI, the study seeks to contribute to the debate relating to further deregulation of foreign banks in Indian context. The stakes in the debate are quite high and the debate need to be informed by history, theory as well as objective reality of foreign banks operating in India. In this context, the present study contributes to the debate by analyzing the evolution of foreign banks, beginning with the colonial era, up to the current period. It carries on the analysis till 2013 and concludes that foreign banks enjoy high profits despite entry of new foreign banks. Post reforms phase saw a significant rise in the number of banks after deregulation of entry was found to be accompanied by considerable fluctuations. It is not apparent how supposed benefits of entry of foreign banks will accrue to the economy in the absence of stability of new entrants.

KEYWORDS

Foreign banks, Economic History, Pre-reform, Post-reform.

JEL CLASSIFICATION

G21, N00, B15.

INTRODUCTION

Foreign banks have been demanding for a number of years that they be allowed to acquire local banks. Many visiting ministers and politicians have lobbied with the government and the RBI without much success. HSBC did acquire a stake in one of the new private banks — UTI Bank, renamed later as Axis Bank — but was curtly told by the RBI to lay off. In this context, it is significant that Reserve Bank of India Governor Raghuram Rajan announced that the central bank might finally allow foreign banks to take over Indian banks. It was, in his words (and as reported by Press Trust of India): "...going to be a big, big opening because one could even contemplate taking over Indian banks, small Indian banks and so on." The statement has provided a fresh impetus to the continuing debate on status of foreign banks in India. The current paper seeks to contribute to the debate by providing it the much-needed historical context, made possible by a very long period of operation of foreign banks in India. After all, the stakes in the debate is very high and the debate needs to be firmly rooted in history of foreign banking in India, theory of international banking and the objective scenario relating to operation of foreign banks in India. After all, there exists a voluminous literature arguing against deregulating foreign banks in emerging countries. In India as well there are studies (Charvaka, 1993; Vishwanathan, 1993; Deb, 2010; Murthy and Deb, 2011; Deb and Murthy, 2012a; Murthy and Deb, 2012b), which argue in favour of preserving the status quo for foreign banks in the country.

In the context of the debate, the objective of the present paper boils down analysis of the evolution of foreign banks in India since their inception with special reference to the present era of globalization of the banking industry. While the period covered by the chapter is long enough, it may be analytically useful to classify the period in three phases: the period till independence, the post WTO phase and the intervening period. Such a distinction may be rationalized on the basis of the policy regime followed during the said phases. A lasseiz faire policy followed during the period till independence gave to a stable phase of restricted policy regime for foreign banks, which in turn was replaced by a liberalized set of policies in the post reforms phase.

PLAN OF THE PAPER

Section I provides a glimpse of the extant literature. Section II is an account of evolution of foreign banks till independence of the country. Section III provides a brief outline of the policy regime relating to foreign banks till the onset of reforms. Section IV looks into a post reforms phase in the development of foreign banks with the help of statistical tools and graphs. This will provide the recent shape of foreign banks in the country with a view to carry forward the debate about foreign banks in near future. Section V provides the summary and conclusions.

SECTION I: REVIEW OF LITERATURE

Foreign banks operating in India have received scant research attention in the literature on banking. History of foreign banks has been reviewed by Panandikar and Mithani (1966) followed by Karunagaran (2006). Karunagaran (2006) provides an analysis of foreign banks in India in the colonial period based on descriptive analysis of data devoid of any theoretical framework and econometric analysis. However, Panandikar and Mithani (1966) is an excellent source for analyzing role of foreign banks in colonial India and our next section will be mainly based on the study.

Apparently, the earliest attempt to analyse the potential role of foreign banks in independent India was made by Viswanathan way back in 1993, the year in which Narasimham Committee Report (1991) was implemented. Viswanathan (1993) contributed to the literature through a critical assessment of foreign banks through a reference to experience of other countries with regard to foreign banks. She argued that the role of foreign banks in issuing and underwriting securities must be regulated to the extent necessary to ensure that the interest cost of obtaining financing directly on the capital market does not lead to an external debt burden in India similar to that which plagues Latin America.

Viswanathan (1993) further argues that new innovations in securitised lending involve off-balance sheet transactions, which are not subject to the controls imposed on banks' balance sheet business. Under short-term notes or NIFs, a bank arranges to purchase an issuer's unsold notes at a price. NIFs involve contingent commitments, which generate fee income for banks, but are not captured as assets or liabilities on bank balance sheets under conventional accountancy procedures. NIFs are therefore off-balance sheet transactions, which avoid the regulatory constraints imposed on banks' balance sheet business. New innovations in securitised lending involve off-balance sheet transactions, which are not subject to the controls imposed on banks' balance sheet business. Under short-term notes or NIFs, a bank arranges to purchase an issuer's unsold notes at a pre-arranged price. NIFs involve contingent commitments those generate fee income for banks, but are not captured as assets or liabilities on bank balance sheets under conventional accountancy procedures. NIFs are therefore off-balance sheet transactions, which avoid the regulatory constraints imposed on banks' balance sheet business. Because they are not reported on balance sheets, off-balance sheet transactions make it difficult to determine the risk exposure of various sectors of the economic structure. Off-balance sheet activity may grow at rates, which exceed the capital of banking institutions and financial intermediaries. It may be remembered that it was the capital constraints faced by transnational banks in the early 1980s, which led to widespread off-balance sheet activity. Therefore, regulatory procedures must be developed which ensure that intermediation of the new financial innovations in international securitised lending by foreign banks in India does not expose the financial system to excessive risk.

Viswanathan (1993) should be credited with the fact that it underlines for the first time the significance of a discussion on off balance sheet activities in an evaluation of role of foreign banks in India. She sounded a note of caution to the policy makers' way back in 1993. The study due to Viswanathan appears to be the initial study relating to foreign banks operating in India. While it does not provide a theoretical framework or tests any hypotheses with a rigorous methodology, it raises a few apprehensions about the role of foreign banks on very valid grounds at a time when Dunkel draft was being made. The apprehensions expressed by the author have provided valuable directions for future research.

Next in line is a study authored by Charavaka (1993), which draws our attention to the mind-boggling levels of income and profit allowed to be earned by branches of foreign banks in India, largely from non-operating sources. Such, a phenomenal profit of foreign banks operating in India is termed by the author as Drain of Wealth.

The study used bank wise data relating to 1991-2 and 1992-93, which have been presented in two monographs by the Indian Banks' Association on the performance highlights of public sector banks and foreign banks in India. The author prepared a table based on the above data set, which shows that the profit levels of foreign banks have been vastly disproportionate to the their deposits. This leads Charvaka to look for reasons behind such phenomenal profits of foreign banks.

Charvaka argues that one should not grudge it if the foreign banks earn higher profits from genuine banking operations because of their superior operational efficiency. In fact, the bulk of their earnings are from treasury operations, from so-called portfolio management and from lending in the money. Market non-deposit resources mobilised essentially from other banks, financial institutions and public sector undertakings. While portfolio management operations are an off-balance-sheet activity, the inter-bank borrowings of some of the foreign banks are disproportionately high. Another aspect of public policy which has favoured the foreign banks is the extremely limited social obligation (such as priority sector lending) that they have been required to shoulder In sum, Charvaka concluded that the profits earned by the foreign banks, the bulk of them at any rate, are predatory in character not based on genuine banking operations.

The next studies contributed relate to Deb (2010), Murthy and Deb (2011) and Deb and Murthy (2012a, 2012b). Deb (2010) developed a rather rudimentary eclectic approach to analyse the affairs relating to foreign banks in India and argued in favour of preserving the status quo o the basis of econometric evidence. It was left to Murthy and Deb (2011) to develop a conceptual framework for analyzing corporate governance in foreign banks and commented adversely on corporate governance in banks. They ruled out further deregulation of foreign banks on the plea of better governance. Deb and Murthy (2012a) also conducted extensive empirical exercises this paper clearly establishes that foreign banks in India follow a distinct business model which consists of a high exposure in off-balance sheet activities, a tendency to be footloose and fair-weather friends, practice exclusive banking. The same authors developed a full-fledged framework in Deb and Murthy (2012b) based on Institutional Economics to analyse conduct of foreign banks in India and concluded against further deregulation of foreign banks in India.

SECTION II: FOREIGN BANKS IN INDIA: LAISSEZ FAIRE POLICY TILL INDEPENDENCE

The issue related to the development of foreign banks in colonial India in a completely laissez faire situation and the impact of foreign banks on development of banking in its initial period deserves severe attention. During the colonial period, the term which was generally used for foreign banks in India and China were exchange banks in Western countries and the primary function of these banks was concerned with providing a financing facility for trade in India and china, and other the countries which are characterized by without a gold standard, having extensively fluctuating exchange rates. Supernatural profits in banking lured the nationals from a number of countries having trade relations with India to establish banks in India. They may be bifurcated into two groups: those with a substantial proportion of business in India and agencies of large banks with a major business abroad. The section will analyze the development of foreign banks in the colonial period and also analyze the factors that affected the course of their development. It also involves evaluating the contribution made by foreign banks to the development of the banking industry in the country.

The core area under which exchange banks retained their monopoly till independence was financing foreign trade. Until 1955 the Imperial bank was barred by law from dealing in bills of exchange outside India. However Indian joint stock banks were lies in exception zone. Some of them were substantially engaging in the said business. There are multiple forces which were working behind monopoly of the foreign banks over the business of financing foreign trade and therefore serve as a difficulty for the Indian banks to stand up with the competition facing from the stronger banks. These banks had a competitive advantage of larger capital and reserves as well as access to large funds from London Discount market at low rates over Indian banks. On the other hand, Indian banks are not able to involve in arbitrage process and direct exchange transaction as they had few branches at important foreign exchange centers. Lastly, internal business more or less fully absorbed their limited financial resources.

Another prominent function played by the exchange banks was financing the movement of goods from or to Indian ports, to or from the distributing, or collecting centers in the interiors of India through opening branches in up-country centers. Other ways which are used to obtain a footing in the interior was by controlling Indian joint stock banks through the purchase of their shares which led to the reduction in the Indian banks to exchange bank branches for all practical purposes. The movement of goods between them and the ports has to be financed by importers and exporters through Indian joint-stock banks or other agencies as there is an absence of any branches of the exchange banks in up-country centers. However, exporters and importers were in favour of using up-country branch of an exchange bank because they provided cheaper services.

While on the one side financing foreign trade was almost a monopoly and other side exchange banks involved in every kind of banking business in which they had to compete with the Indian banks. A large number of areas in which competition spanned were the provision of advances, mobilization of deposits, negotiation of bills and financing of internal trade in the country and undertaking of agency business in India. They succeeded in attracting very large deposits in the country, through judicious use of the rate of interest on fixed and current account, which was very higher than their requirement for financing foreign trade. As this would lead to a larger deposit, foreign banks entered into new lines of business which was earlier solely done by Indian joint stock banks. Therefore there was further expansion of activities of foreign banks during the Second World War when restrictions were imposed on foreign trade. During this whole period, foreign bank offered a serious competition was faced by Indian banks in financing internal trade which was at least 15 times as large as the foreign trade. On the other hand, though the Indian joint stock banks were trying to get business in foreign trade and foreign exchange, it was practically a monopoly of the foreign banks until the Independence of India, despite some attempts on the part of some Indian joint stock banks.

Since the foreign banks exposed to the risk of fluctuating exchange rate, the same was largely eliminated by the setting up of Sterling Exchange Standard as well as by the process of conversion, by which cautious bankers almost balanced their sale and purchase of foreign exchange. They also started gradually to develop their internal business, which some of them found more profitable than their exchange business, Apart from having riskless and profitable business of foreign exchange. Therefore over a period of years, They developed as wealthy concerns, doing profitable business and paying substantial dividends from year to years irrespective of global depression between the two world wars. The profits were reflected in a number of purchases of domestic banks, absorption of banking business and acquisition of controlling interest in financial companies and an increase in the number of Indian branches from 69 in 1960 to 90 in 1964.

Interestingly, while on the one side profits led to the substantial expansion in the operation of the foreign banks but it did not lead to any entry, as may be expected in a market. This was an exception to what was happening in the other part of the banking industry, where domestic private players were operating. Although foreign banks play a very important function to the economy through financing of foreign trade, which was beyond the capacity of domestic banks for a number of reasons during the colonial period, they have also able to create entry barriers by building a strong goodwill for themselves . This prevented the emergence of competitive forces in the market. In spite of the fact that the government followed an open door policy for three quarters of a century, the fewer number of foreign banks present due to the opposition from existing banks regarding to entry of new banks. It was exceedingly difficult to start a new exchange bank except under the aegis of some important financial house, which has already established a strong position in India. The bank of America could establish a branch in the country in 1961 because it is one of the largest and most powerful banks in the world.

During the British Regime, Foreign banks operated in Indian under a situation of complete freedom. They were not subject to any legal restrictions in India including the statutory obligations to which the Indian joint–stock banks have been subject to. The controlling part of these banks was done from abroad, their directors and shareholders were foreigners and there was no statutory compulsion on them to get their accounts audited by recognizing auditors. As, they also did not obligated to publish separate information regarding, their Indian business in their balance sheet, so transparency about their business was nil.

The Indian money market was subjected to various weaknesses in a complete laissez-faire for foreign banks in India. On the one side they are able to obtain a large chunk of fund from India but these funds were not secured by any regulations and at the same time, the depositors had no priority claim even on the assets of these foreign banks at the time of any crisis. The second weakness relates to the fact that foreign banks worked on the basis of inadequate cash reserves in India. As high opportunity cost was associated with keeping high reserves. Thus the main reason of crisis of banking in India at the beginning of the First World War was the inadequacy of cash reserves of these banks. Learning their lesson they started keeping a larger proportion of reserve for a few years but again the proportion decreased in order to make large profits. They argued that although they were maintaining low cash reserves, they had enough liquidity in the form of investments in Government securities and treasury bills.

The foreign banks had a virtual monopoly in the area of financing of the foreign trade of India. These banks generally collected funds in the form of deposits from India and used the same to finance foreign trade. Since the major portion of the deposit was captured by the foreign banks leading to deprivation of trading profits by Indian banks. Similarly The profit earned by the foreign banks in India from brokerage on goods shipments, on currency exchange, on insurance, on freight obtained and on short term loan to traders were also moved out of the country to the foreigners who have major share of these foreign banks. Therefore the foreign banks in India used to create a negative image of Indian commercial houses before the foreign traders and simultaneously provided enhanced images of foreign houses operating in India even with low standing. The reason for this difference was that being a foreigner, the managers of the foreign banks was not able to keep themselves in close touch with their Indian clients. As they had lack of social contact with Indian client, they had to rely upon the reports of the subordinate members for information regarding their financial standing. Therefore overseas exporter started following discriminating practice by overseas towards an Indian importer. It is argued that the main reason for showing reluctance behavior by the overseas exporter to grant favored status to Indian importer is due to indifferent references supplied to them by foreign banks. While the majority of foreign commercial houses were allowed to import goods at credit terms, Indian merchants were allowed to do so, on cash transactions alone. This symbolized that the former enjoys the extensive credit, while the latter is restricted to business on cash basis alone. Interestingly, while foreign banks finance foreign trade, they not only acted against the interest of Indian exporters as well as importers. They also did not provide a level playing field for Indian commercial houses vis-à-vis foreign commercial houses involved in international trade. It may be argued that foreign banks engaged in to boost up asymmetric information between buyer and seller in international market. Since Foreign export houses working in India have connections in abroad and they were able to obtain market information about India from foreign banks. But the Indian exporters lacked proper information regarding the markets.

The sterling bills were used to finance a large part of the export and import trade. With regard to the export trade Indian exporters were allowed to draw bills on the London Money Market (LMM) and availed discount facilities provided by it. However, with regard to import trade, Indians did not get benefits of London discount market and they were denied the benefits of Indian markets also as their bills were drawn in sterling. Foreign import houses got the advantages of drawing bills on the London offices of the foreign banks which accepted them and discounted in the London market at the low rate. The shipping documents were sent to Indian offices which thus got a benefit over their Indian competitors. The latter was denied this advantage on the ground that they have no London offices.

The development path of Indian joint stock banks was adversely affected by the foreign bank as they had a monopoly over financing of the foreign trade of India. The import bills are drawn in sterling in the case of imports from Europe and the U.S.A. and in yens in the case of imports from Japan. These bills, of a very large value in the aggregate, were very safe investment, as they were on credit and had the signature of the drawers and the acceptance of the drawees on them. They were also a profitable investment, because the foreign banks earned interest on them at 4 per cent at least for a period of 2 to 3 months. But being drawn in foreign currency, the bills were rendered useless in the money market in India. This facility was not available to the Indian banks for investments, and the foreign banks had an exclusive monopoly over the same. It may also be said that functioning of foreign banks led to classification of the Indian money market into two parts: the European and the Indian component. As foreign banks had an easy access to the London money market led to the development of a dual structure of the Indian money market during the British rule and this undermined the control by the government.

Another dimension of working of foreign banks in India, which is so significant for development of the banking industry, is related to adverse development of indigenous banking skill. While foreign banks in India have been working almost a century, no Indian was appointed in the superior grade of services. Indians were offered only lower level job like the job of cashiers, clerks and other lower posts. In fact, they had made no mechanism for selection of qualified Indians as apprentices for training and appointment in the grades of officers. They preferred appointing their officers from abroad paying them high salaries. Indian banking experts and intellect were thus refused managerial and executive jobs to which it had every right in the sense that the foreign banks used to receive a huge portion of their profits from Indian customers and depositors.

An objective of our analysis is to know both the positive and negative impact of working of foreign banks on development of the banking industry in India. They significantly played vital role in financing foreign trade at a time when Indian joint stock banks were not capable of providing such a service. This led some growth of foreign trade in India, which was regarded to be very crucial at the time when domestic industries were being destroyed through various omissions and commissions. In a grim situation where major portion of the Indian working force was being pushed to already over-burden agricultural sector, the foreign trade sector was growing and provided new jobs. This is a very important contribution of the foreign banks in India during the colonial period. Though foreign banks played an important role in promoting the foreign exchange business, foreign trade-related financing and bills discounting, etc, they were always criticized to be more favourable to European traders at the cost of Indian business interest. For instance, the Indian traders unlike the European businessmen were required to deposit 10 per cent to 15 per cent of the value of the merchandise with them to open a confirmed letter of credit. Further on one side they were able to made inroads into areas exclusively dominated by Indian joint stock banks but this also brought some major improvements in the functioning of the Indian joint-stock banks. Due to this reason, some Indian joint stock banks entered successfully in financing foreign trade. Although the dominance part of the foreign banks remained intact until the Independence of India, despite the efforts made on the part of some Indian joint stock banks.

While financing foreign trade was a riskless and highly profitable activity, as theory suggests excess profitability did not encourage entry. In spite of the fact that government followed an open door policy for three quarters of a century, due to the opposition to the entry of new foreign banks by the existing banks the number of foreign banks remained small. Alongside, entry barrier created by foreign banks in terms of strong goodwill led to the perpetuation of their monopoly in financing foreign trade. Clearly the market for financing foreign trade in which foreign banks had dominance was very imperfect. In order to preserve their monopoly over the financing of foreign trade, they created serious hurdles in the process of development of indigenous joint stock banks through various means. They produced information asymmetry in the market for exports at the cost of domestic exporters. The easy access to the foreign banks to the London money market led to the development of a dual structure of the Indian money market during the British rule. Foreign banks, while financing foreign trade, acted against the interest of Indian exporters as well as importers. They did not provide a level playing field for Indian commercial houses vis-à-vis foreign commercial houses engaging in international trade. They reaped the fullest advantage of a situation of laissez faire and conducted their operations with zero transparency. Last but not least, they produced an adverse impact on the development of indigenous banking skills necessary for development of the banking market in the country.

SECTION III: FOREIGN BANKS: THE PRE-REFORMS ERA

A general distrust of foreign capital by policy makers in newly independent countries was the norm in the early era of policy making. India was no exception. The distrust extended to market mechanism as an instrument of economic development in the early attempts towards the development of the third world. The policy makers sought to use a public sector dominated inward looking development model to deliver the goods. Banking was no exception. There occurred two episodes of nationalization in 1969 and 1980, which severely curtailed private stakes in banking in the country. The policy regime which did not favour domestic private capital in banking in the country remained hostile to the participation of foreign capital in banking.

SECTION IV: FOREIGN BANKS: THE POST REFORMS ERA

Until the mid-1990s, the banking systems in most of Asia remained heavily regulated, and barriers to foreign competition were prohibitively high. However, in the aftermath of the East Asian crisis of 1997-98, financial sector restructuring, including the revamp of the financial regulations, has been an important element in the structural adjustment programmes in Indonesia, Korea, Thailand and the Philippines. Broadly, governments in the crisis-hit regional economies have restructured their financial systems by shutting down commercial banks and finance companies, merging some existing institutions and nationalizing others, injecting public funds to recapitalized viable banks, putting in place systematic asset resolution strategies, as well as easing regulatory impediments to foreign bank entry.

After a period of relatively robust performance in the late 80's, the Indian economy entered into a period of unprecedented liquidity crisis during 1990-91. The macroeconomic crisis was precipitated mainly by the growth of public spending through 1980s that increased the budget deficit as a proportion to GDP, while external factors played a contributory role. The macro imbalance, fueled by a budget deficit and financed by external borrowing and decumulation of reserves was accompanied by accelerating inflation to double digit levels. The macroeconomic crisis became the occasion for undertaking substantial microeconomic reforms, known as structural reforms. They were broadly in the area of industrial licensing and regulation, foreign trade and financial sector. The structural reforms were undertaken in July 1991 at the behest of the IMF, which sanctioned $2.2 billion as stand-by credit to India.

As a precursor to financial sector reforms, Narasimham Committee was set which submitted its report in 1991. It suggested that the policy towards foreign banks be made more liberal through creation o level playing field for foreign banks. While structural reforms and Narasimham Committee (1991) set the tone of a liberal policy towards domestic and foreign capital in the economy. A proximate cause of liberal treatment of foreign banks has been the World Trade Organization Agreement on Trade in Financial Services which requires gradual easing of restrictions on foreign banks.

The nature of entry policies relating to foreign banks changed favourably after India ratified the agreement establishing the WTO in December 1994. Its original schedule in the Financial Services Agreement committed foreign bank presence only through branches at the rate of five licences per year. It denied the entry of foreign banks if the market share of assets of foreign banks exceeds 15 percent of the total assets of the banking system. It treated an ATM outside branch premises as a separate branch. India also invoked an MFN exemption in all areas of financial services meaning that it offers are based on reciprocity. India offered to improve upon some of its commitments provided its major trading partners were also prepared to make substantial improvements in their stance on the movement of natural persons. It was felt that India possessed a fair advantage in the availability of skilled manpower in several hi-tech areas such as computer software, engineering consultancy, etc. and it was in India's interest that free movement of these personnel was allowed into the developed markets abroad. India's improved negotiating brief included a liberalized policy on ATMs (i e, an ATM will not be treated as a separate branch) and increasing the number of new branches to eight. In the negotiations that took place in June1995, India's major trading partners made the following demands on India: –India should lift its MFN exemptions if other members do the same. – India should increase the number of licences and provide a gradual increase in the market share on assets of the foreign banks. – Market share itself should be defined assets or total assets on and off the balance sheet. – Subsidiaries and joint ventures should made an effort to capture the openness of a country's current and capital account in their openness index, as this has a bearing both on the possibility of cross-border trade in financial services and the conditions for establishing foreign commercial presence.

In the context of the above regulatory changes in favour of foreign banks, let us look at certain aspects of evolution of foreign banks in the country. Although policy towards foreign banks took a favourable turn in 1994 we extended the time period for analysis a little backwards to 1992. It may be remembered Narasimham Committee was constituted in 1991, whose recommendations about the liberalizing banking industry were implemented in 1993. Such an exercise will be of some use to future researchers to put our results relating to foreign banks in a comparative prospective. The years 1992 and 1993 immediately proceed 1994, which saw no change in the number of foreign banks. This serves as a background against which changes in number of foreign banks over time will be analyzed. Table I provides the number of foreign banks over the time period 1992-2013

TABLE I: NUMBER OF FOREIGN BANKS DURING 1992-2013.

Year	Number of Foreign Banks (NFB)
1992	25
1993	25
1994	23
1995	27
1996	31
1997	40
1998	42
1999	44
2000	42
2001	42
2002	40
2003	36
2004	33
2005	31
2006	29
2007	29
2008	28
2009	31
2010	32
2011	34
2012	41
2013	43

SOURCE: RBI, Statistical handbook of RBI

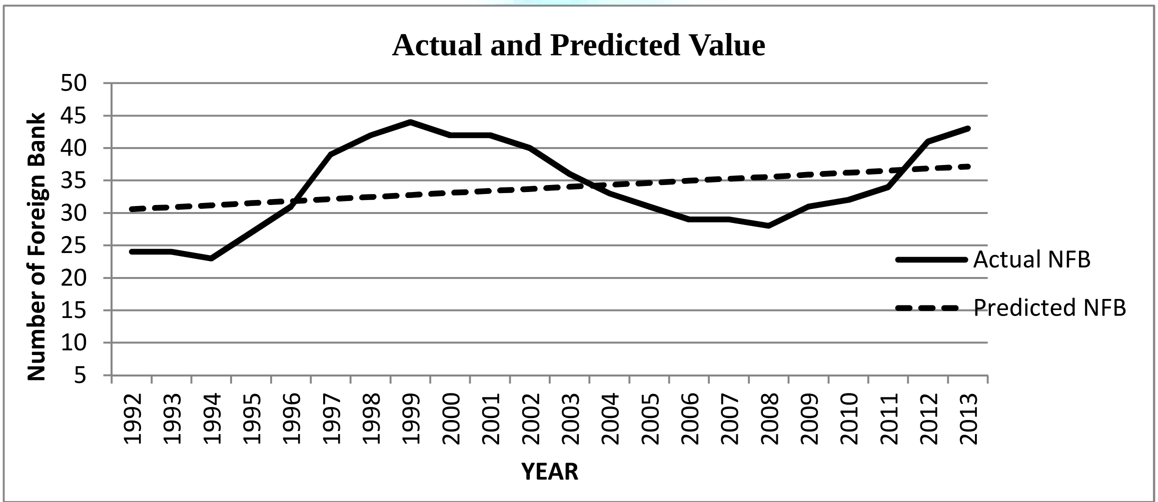
A cursory look at the above table reveals that, the number of foreign banks rises during the first half of the period and then falls during the latter half but again rises at the end of later half gradually. It appears from the above data that a number of new foreign banks entered after being enthused by the new liberal policy, but started withdrew after the new scenario was exactly not in accordance with their expectations. However they again started to enter at the end of the later half century, as the whole world is suffered by the global financial crisis and India is in a much better position than other part of the world in terms of financial soundness. It will be a very interesting exercise to analyze these new banks, their source countries and how they are different from the foreign banks who remain committed to India. These detailed bank level issues will be taken up in the next chapter, while the current chapter will provide a broad analysis at the level of the industry.

Let us statistically examine growth in foreign banks in the country.

TABLE II: REGRESSION RESULTS RELATING TO NUMBER OF FOREIGN BANKS DURING 1992-2013

Regression Statistics					
Multiple R	0.2987				
R Square	0.0892				
Adjusted R Square	0.0436				
Standard Error	6.6619				
Observations	22				
ANOVA					
	Df	SS	MS	F	Significance F
Regression	1	86.9635	86.9635	1.9594	0.1768
Residual	20	887.6273	44.3813		
Total	21	974.5909091			
	Coefficients	Standard Error	t Stat	P-value	
Intercept	-593.6843	448.3124	-1.3242	0.2003	
YEAR	0.31338	0.22387	1.3998	0.1768	

FIGURE I: PROVIDE THE GRAPH RELATING BOTH THE ACTUAL AND THE PREDICTED VALUES OF NUMBER OF FOREIGN BANKS (NFB) DURING THE TIME PERIOD 1992-2013



After looking how the number of foreign banks was evolving during the 1992-2013. Let us look at some of their conduct and performance variables during the said period. We begin by looking at variables relating to conduct: provisioning behaviour, interest income, spread, interest expenditure and Intermediation cost. Table II provides each of these variables in the above order.

SECTION V: CONCLUSION

The objective of the chapter was to analyze the evolution of foreign banks in India through different phases. The chapter rationalizes discussion of the process of evolution in three distinct phases. The first phase runs up to independence, the second relates to pre-liberalization period and the third may be christened as the post-reforms period. During the first phase, it is observed that foreign banks carried on a virtual monopoly in a very profitable business with no transparency and negligible risk, defended their monopoly against domestic as well as foreign competition through various means, created an adverse impact on the development of the banking market through thwarting development of local banking talent, while undermining the authority of the central bank. However, it needs to acknowledge that they played a very significant role in financing foreign trade at a time when Indian joint stock banks were not capable of providing such a service. In the second phase, the policy regime in the country remained hostile to the participation of foreign capital in banking. The third phase with its liberal policy regime introduced a fair amount of dynamism in the industry. Post reforms phase saw a significant rise in the number of banks by more than 70% of what was in the beginning of the time period of the study. However, such a rise was found to be accompanied by considerable fluctuations. It is not apparent how supposed benefits of entry of foreign banks will accrue to the economy in the absence of stability of new entrants

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