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AN ANALYTICAL STUDY OF FUND BASED INCOME OF SELECTED PUBLIC SECTOR & PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

A major part of the income is earned through fund based activities. At the same time, it involves a large share of expenditure also in the form of interest and brokerage. In recent times, a number of banks have started accepting deposits by offering a very high rate of interest. When the cost of deposit resources go up, the lending rate also should go up. It means that such banks have to compromise the quality of its investments. A fee based income, on the other hand, does not involve much risk. But it requires a lot of expertise on the part of a bank to offer such services. In the face of declining net interest margins, depository institutions have entered new product areas over the ancient times, moving from traditional lending to Areas that generate Non-fund Based Income. The change is of importance for financial control. The more unbalanced is a bank's earnings stream, the more unsafe the institution is. The traditional wisdom in the banking industry is that earnings from fund-based products are steadier than loan-based earnings and those fund-based activities lessen bank risk via diversifications.

KEYWORDS

fund based income, public sector bank, private sector bank.

INTRODUCTION

A bank is a business organization engaged in the business of borrowing and lending money. A bank can earn income only if it borrows at a lower rate and lends at a higher rate. The difference between the two rates will represent the costs incurred by the bank and the profit.

Besides performing the usual commercial banking functions, banks in developing countries play an effective role in their economic development. The majority of people in such countries are poor, unemployed and engaged in traditional agriculture. There is acute deficit of capital. People need initiative and enterprise. Means of transport are untrained. Industry is low. The commercial banks help in solving these obstacles and promoting economic development. The role of a commercial bank in a developing country is very important. Some of the major important roles of commercial banks in a developing country are as follows:

1. Mobilizing economy for Capital Formation:
2. Financing Industry:
3. Financing Trade:
4. Financing Agriculture:
5. Financing Consumer Activities:
6. Financing Employment Generating Activities:
7. Help in Monetary Policy:

Bank also provides a number of services to its customers for which it charges commission. This is also an important source of income. The followings are the various sources of a bank's profit:

1. Interest on loans
2. Interest on investments
3. Commission, brokerage, etc.

Commercial banks also deal in foreign exchange. They sell demand drafts, issue letters of credit and help remittance of funds in foreign countries. They also act as agents in foreign exchange. Banks earn income out of these operations.

FUND BASED INCOME

1. "Fund based income is generated over the life of loans that have been securitized in structures requiring financing treatment (as opposed to sale treatment) for accounting reasons; loans held for investment; loans held for sale; and loans held for securitization.

2. "Fund based income is generated from what is known as 'the spread'. The spread is the difference between the interests a bank earns on loans extended to customers. Corporate etc and the interest paid to depositors for the use of their money. It is also earned from any securities that the banks own such as treasury bills or bonds."

REVIEW OF LITERATURE

Chidambaram R. M and Alamelu (1994) defined the problem of declining profit margins in the Indian Public Sector Banks as compared to their private sector counterparts. It was observed that in spite of similar social obligations; almost all the private sector banks have been registering both –high profits and high growth rate with respect to deposits, advances and reserves as compared to the public sector banks. Regional orientation, better customer services, proper monitoring of advances and appropriate marketing strategies are the secrets behind the success of public of the private sector banks.

SBI Research Department(2000) Economic Research Department of State Bank of India analysed the Performance of the 27 Public Sector Banks for the year 1999-2000 vis-a-vis the preceding year. Selecting four different categories of indicators-Business Performance, Efficiency, Vulnerability and labor productivity indicators, performed the analysis. Altogether, 39 indicators were selected for this reason. For the reason of analysis, 27 PSBs disaggregated into four groups, namely, the SBI, ABs (7), the SBGs (8), the NBs (19). During 1999-2000, the PSBs exhibited better show in terms of several parameters studied above.

Nevertheless, the problems of NPAs and capital adequacy remain to be taken care of. Researchers in this paper had opinion that greater operational flexibility and functional autonomy should be given to PSBs especially to strengthen their capital base.

Sahila Chaudhry(2012) made an effort to analyse the performance of selected public and private banks in India on the basis of parameters recommended in CAMEL Model, i.e. C-capital adequacy, A-asset quality, M-management efficiency, E-earnings quality and L-liquidity, which is divided into seven sections. First

section includes a brief review of some of the past studies. Second section covers the scope, objectives, hypotheses and research methodology of the research. In third, fourth, fifth, sixth and seventh section, an effort is made to analyse the capital adequacy, asset quality, management efficiency, earnings quality and liquidity of six banks in all selecting 3 banks from each category i.e. State Bank of India (SBI), Punjab National Bank (PNB) and Bank of Baroda (BOB) from public sector and ICICI, HDFC and AXIS from private sector banks in India for a period of 12 years, i.e. 2000 to 2011.

RESEARCH PROBLEM

In a market driven banking sector, competition is the most dynamic elements. Bank can differ markedly in their sources. Some focus on business lending, some on household lending and some on fee-earning activities. Increasing competition is going to be the key problem for the banking sector will have to face. Due to market competition in Indian banking industry, the model of banking business is changing phenomenally. This research emphasizes on the fund Based Income of selected public sector banks and private sector banks for the period of five years from the year 2008 to 2012.

HYPOTHESIS

1. There is no significant difference between the fund based income of the selected public sector banks.
2. There is no significant difference between the fund based income of the selected private sector banks.

OBJECTIVE OF THE RESEARCH

The objective of the paper is to analyse fund based income of selected public sector banks and find out if there is any significant difference between the fund based income. The fund based income is selected from 2008 to 2012.

RESEARCH DESIGN and METHODOLOGY

DATA COLLECTION

The data has been collected from the annual reports of the company. Further, the data available from Prowess and Capitaline are also used. The data collected from these sources have been used and compiled with due care as per need of the research.

SCOPE OF RESEARCH

The data are collected of the following five public sector banks and five private sector banks:

Sr. No	Bank	Acronym
PUBLIC SECTOR BANKS		
1	State Bank of India	SBI
2	Canara Bank	CB
3	Punjab National Bank	PNB
4	Bank of India	BOI
5	Bank of Baroda	BOB
PRIVATE SECTOR BANKS		
1	ICICI Bank	ICICI
2	HDFC Bank	HDFC
3	Axis Bank	Axis
4	Karur Vyasya Bank	KVB
5	Federal Bank	FB

PERIOD OF RESEARCH

The period of the research is five years from 2007-2008 to 2011-2012.

LIMITATIONS OF RESEARCH

Following are the major limitations of the research.

1. The research is based on secondary data only.
2. The research cannot be generalized.
3. The limitation of fund based income is limitation of the research
4. Researcher has limited knowledge and skill about subject is also limitation of the research.
5. The research covers five years data only.

TOOLS AND TECHNIQUES OF ANALYSIS

The research has been made converting the collected data in to relative measures such as fund based income, non fund based income and total income to research the financial health of the public sector banks and also statistical tool such as mean and standard deviation were also applied to analyse the consistency, strength and overall trends in the fund based income.

DATA ANALYSIS AND INTERPRETATION

TABLE 1-FUND BASED INCOME OF SELECTED PUBLIC SECTOR BANKS

	SBI	CB	PNB	BOI	BOB
2008	48,950.31	14,200.74	14,265.02	12,355.22	11,813.48
2009	63,788.43	17,119.05	19,326.16	16,347.36	15,091.58
2010	70,993.92	18,751.96	21,466.91	17,877.99	16,698.34
2011	81,394.36	23,064.01	26,986.48	21,751.72	21,885.92
2012	1,06,521.45	30,850.62	36,428.03	28,480.67	29,673.72
TOTAL	3,71,648.47	1,03,986.38	1,18,472.60	96,812.96	95,163.04
MEAN	74,329.69	20,797.28	23,694.52	19,362.59	19,032.61
COMBINED MEAN	31,443.34				

CHART 1: FUND BASED INCOME OF SELECTED PUBLIC SECTOR BANKS

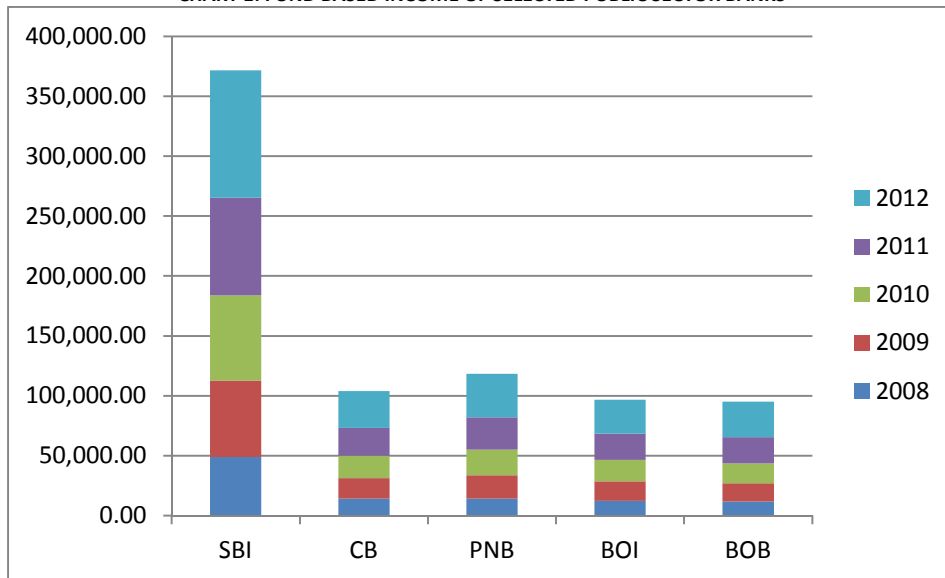


TABLE 2: FUND BASED INCOME OF SELECTED PRIVATE SECTOR BANKS

	ICICI	HDFC	Axis	KVB	FB
2008	30,788.34	10,115.00	7,005.32	1,134.03	2,515.44
2009	31,092.55	16,332.26	10,835.49	1,446.09	3,315.38
2010	25,706.93	16,172.90	11,638.02	1,757.95	3,673.24
2011	25,974.05	19,928.21	15,154.81	2,217.70	4,052.03
2012	33,542.65	27,286.35	21,994.65	3,270.37	5,558.39
TOTAL	1,47,104.52	89,834.72	66,628.29	9,826.14	19,114.48
MEAN	29,420.90	17,966.94	13,325.66	1,965.23	3,822.90
COMBINED MEAN			13,300.33		

CHART 2: FUND BASED INCOME OF SELECTED PRIVATE SECTOR BANKS

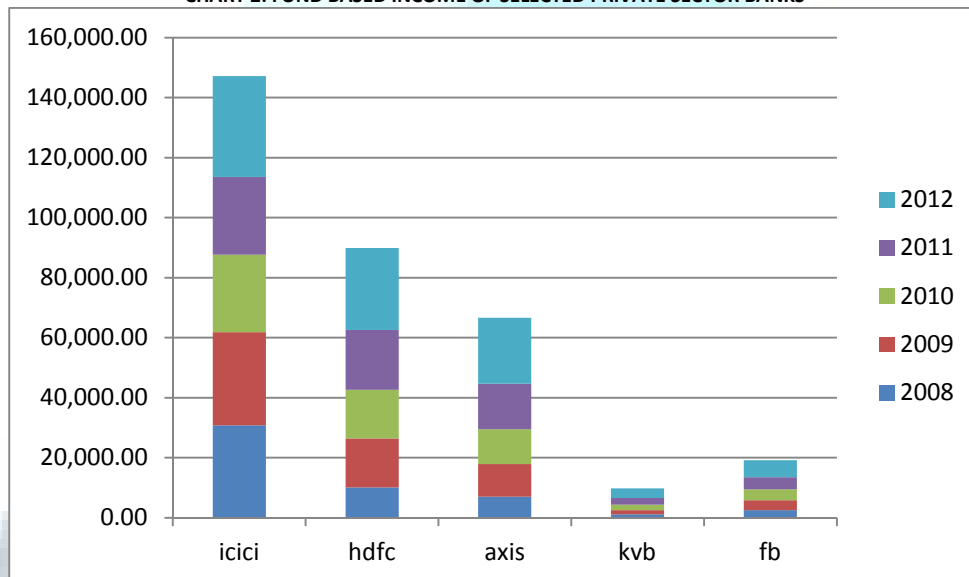


TABLE 3: ANOVA FOR FUND BASED INCOME OF SELECTED PUBLIC SECTOR BANKS

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	11562964953	4	2890741238		
ESS	2649668931	20	132483446.6	21.81964097	2.87
TSS	14212633884	24			

The above table-3 expresses the one way ANOVA statistical analysis of the fund Based Income of 5 Public Sector Banks in India. The researcher has carried out the research with null hypothesis that there is no significant difference in fund Based Income of Public Sector Banks. So, it needs to be tested by one way ANOVA. Analysis of Variances brings out the value of F that is $F=21.81964097$. This value reflects the score of fund Based Income among sampled public sector banks at 5% level of significant. F value is 21.81964097 whereas F table value is 2.87 which is less than F value. Therefore null hypothesis is rejected and alternative hypothesis accepted that there is a significant difference in fund based Income of Public sector banks.

TABLE 4: ANOVA FOR FUND BASED INCOME OF SELECTED PRIVATE SECTOR BANKS

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	6922252425	4	1730563106		
ESS	364036938	20	18201846.9	95.07623694	2.87
TSS	7286289363	49			

The above table-4 expresses the one way ANOVA statistical analysis of the fund Based Income of 5 Private Sector Banks in India. The researcher has carried out the research with null hypothesis that there is no significant difference in fund Based Income of Private Sector Banks. So, it needs to be tested by one way ANOVA. Analysis of Variances brings out the value of F that is $F=95.07623694$ This value reflects the score of fund Based Income among sampled private sector banks at 5% level of significant. F value is 95.07623694 whereas F table value is 2.87 which is less than F value. Therefore null hypothesis is rejected and alternative hypothesis accepted that there is a significant difference in fund based Income of Private sector banks.

CONCLUSION

A major part of the income is earned through fund based activities. At the same time, it involves a large share of expenditure also in the form of interest and brokerage. In recent times, a number of banks have started accepting deposits by offering a very high rate of interest. When the cost of deposit resources go up, the lending rate also should go up. It means that such banks have to compromise the quality of its investments. A fee based income, on the other hand, does not involve much risk. But it requires a lot of expertise on the part of a bank to offer such services.

In the face of declining net interest margins, depository institutions have entered new product areas over the ancient times, moving from traditional lending to Areas that generate Non-fund Based Income. The change is of importance for financial control. The more unbalanced is a bank's earnings stream, the more unsafe the institution is. The traditional wisdom in the banking industry is that earnings from fund-based products are steadier than loan-based earnings and those fund-based activities lessen bank risk via diversifications.

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