CHAPTER - 7
FINDINGS, SUGGESTIONS AND CONCLUSION

The focus of the present study was confined to three objectives namely competitiveness, financial performance and impact of competitiveness on financial performance. The results of these objectives have already discussed in the earlier chapters. The findings, suggestion and conclusion from the objectives have been discussed below:

7.1 Findings from competitiveness of Indian banking industry

- Statistics represented that in the year 2012-13, the percentage share of assets of SBI and its Associates have increased by 0.24 percent i.e. 21.54 percent than 21.29 percent in 2011-12. In the year 2015-16, the assets of SBI and its Associates have increased from 26066576 million (2014-15) to 28625141 million (2015-16) but the percent share of assets has reduced.

- It has been observed that the assets of other public sector banks have increased to 61992091 million in 2015-16 from 60721751 million in 2014-15 but the share of assets has reduced from 50.45 percent to 47.83 percent in the last two years of the study (2014-16).

- The percent share of assets of private sector banks has increased from 21.63 percent in 2014-15 to 25.40 percent in 2015-16 which depicted that assets of private sector banks have increased in proportion to assets of all SCBs.

- In year 2014-15, the share of assets of foreign banks has reduced to 6.27 percent than the previous year which further decreased to 6.21 percent in 2015-16. In the last few years there has been observed fluctuation in the growth in assets share of foreign banks.
As per the table 4.3, deposits of SBI & its Associates have increased during the period of study but the share of deposits has reduced. It has been observed that deposits of SBI and its Associates have increased but at decreasing rate. The deposits of public sector bank have reduced from 50.66 percent in 2004-05 to 42.08 percent in 2012-13 whereas, for private sector banks the deposits have increased from 17.12 percent in 2004-05 to 18.65 percent in 2013-14. (Table 4.2).

In the year 2010-11, percentage share of deposits of private sector banks has been observed at 17.86 percent while it has shown increment to 18.79 percent in 2012-13. Again, in 2014-15, the deposits of private sector banks have increased from 13958355 million in 2012-13 to 18344697 million in 2014-15.

The percentage share of deposits of foreign banks has increased from 4.70 percent in 2004-05 to 5.59 percent in 2006-07 but reduced in the subsequent years.

Statistics revealed that advances of SBI and its Associates have increased from 3447343 million in 2005-06 to 7617766 million in 2009-10. In year 2015-16, the share of advances has increased to 23.41 percent than 22.65 percent in 2014-15. The share of advances for SBI and its Associates has reduced from 23.90 percent in 2004-05 to 22.67 percent in 2013-14. In case of other public sector banks and foreign banks, the reduction in advances observed which means increase in competitiveness.

The advances of foreign banks have reduced from 1653846 million in 2008-09 to 1632604 million in 2009-10. Moreover, in 2015-16, the advances have increased to 3635508 million from 3275986 million in 2014-15.

In the year 2004-05, 60.78 percent assets have been held by top 5 banks which has gradually decreased to 59.8 percent in the year 2011-12.
Moreover, in 2015-16, it has reduced to 50.86 percent whilst the CR8 values have depicted that top 8 banks in the industry hold till 73.16 percent of assets in the year 2005-06. In the year 2011-12, the assets concentrated with top 8 banks have decreased to 67.39 percent whereas, in year 2014-15, it has reduced to 60.58 percent which means that some others banks have been preferred by the customers rather than top 8 banks for services.

- In the year 2015-16, the results depicted that HHI value has decreased to 0.18 through which it has been depicted that market concentration of assets has reduced and competitiveness has increased as the value approaching the benchmark of 0.15 points.

- From 2008-09 to 2010-11, the HHI value has decreased from 0.37 to 0.31 which depicted reduced concentration in deposits among different bank groups. In the year 2015-16, the results depicted that HHI index value has decreased to all time low of 0.18 from which it could be concluded that the concentration has reduced and hence competitiveness has increased.

- In the year 2015-16, top 8 banks have only 47.49 percent deposits in the banking industry which indicated that share of deposits among few banks have reduced.

- The market concentration of advances for top 3 banks have increased from 48.68 percent to 50.59 percent from 2004-05 to 2006-07. However, the concentration has reduced to 40.29 percent in the year 2015-16 which depicted that the customers have approached other banks for availing advances. or they have preferred other banks rather top 3 banks.

7.2 Findings from the financial performance of Scheduled Commercial Banks

- SBI and its Associates have maintained 12.40 percent capital adequacy ratio which was quite higher as compared to the standard rate of 9
percent as set by the Reserve Bank of India during the study period (2005-16) whereas other public sector banks have maintained the capital adequacy ratio at 14.70 percent on an average. Moreover, Private Sector Banks have professed 14.55 percent capital adequacy ratio when computed on average basis whilst foreign banks have maintained the highest capital adequacy ratio at 15.75 percent in the year 2015-16.

- The advances to assets ratio of public sector banks has increased to 91.34 percent in 2012-13 than 89.40 percent in 2010-2011. It has also been observed that the ratio has suddenly decreased by 31.46 percent in 2013-14 as compared to 91.34 percent in 2012-13. Moreover, in the year 2015-16, the ratio has reduced to 60.40 percent. On an average, other public sector banks have been found at top most position in lending and ranked as first.

- From table 5.3, it has been observed that Government Securities to Total Investment ratio of SBI and its Associates has increased from 80.29 percent in 2010-11 to 83.74 percent in 2011-12. On an average, Government Securities to Total Investment ratio of SBI and its Associates has been observed around at 82 percent during the study period (2005-16).

- It has been observed that Government securities to total investment ratio of SBI and its Associates has increased from 80.29 percent in 2010-11 to 83.74 percent in 2011-12. In the year 2015-16, the G-sec to total investment ratio has decreased to78.73 percent. On an average, Government securities to total investment ratio of SBI and its Associates has been observed at 81.94 percent during the study period.

- Foreign banks operating in India invested around 77 percent of their investment in Government securities as they considered to be the risk free avenue for investment due to certainty of returns. Foreign banks have invested 83.76 percent in Government securities in the year 2007-08 whereas, it has further increased to 88.44 percent in 2014-15.
Table 5.4 depicted that other public sector banks have been ranked at first position followed by SBI and its Associates whereas, foreign banks have been ranked at third position followed by private sector banks during the period of study (2005-16). Table 5.4 clearly revealed that other public sector banks have maintained the highest capital adequacy ratio among all the bank groups moreover, SBI and its Associates have the highest ratio of Government securities to total investment which means they will have enough capital during economic shocks.

Out of Total Assets the NNPAs of SBI and its Associates have increased to 1.14 percent in 2011-12 as compared to 0.85 percent in 2008-09 meaning by, SBI and its Associates have been unable to recover their assets. The highest NNPAs as a proportion of total assets observed at 2.64 percent in 2014-15 however, it has reduced to 1.3 percent in 2015-16.

The NNPAs of foreign banks have reduced significantly during the first three years of study (2004-07) meaning by, the NNPAs reduced to 0.33 percent in the year 2007 in comparison to 0.42 percent in year 2004. Moreover, in the year 2015-16, the NNPAs of foreign banks have reduced to 0.22 percent than 0.37 percent 2014-15. On an average, 0.4 percent of the total assets of foreign banks found nonperforming, the least percentage among the entire bank groups during the study period (2004-2016).

Out of the total advances provided, the Net NPAs of SBI and its Associates have increased to 1.64 percent in 2011-12 in comparison to 1.1 percent in 2009-10 meaning by, SBI and its Associates have been unable to recover their advances thus forming an alarming rate of nonperforming assets. The highest NPAs as a proportion of total advances observed at 2.95 percent in 2013-14 whereas, it has reduced to 2.02 percent in 2015-16 whilst on an average, the nonperforming assets of SBI and its Associates calculated at 1.66 percent during the study period (2005-16).
foreign banks observed to have 6.89 percent net nonperforming assets as a part of their net advances which has reduced significantly to 1.88 percent in the year 2006-07 but again it has increased from 1.93 percent in 2007-08 to 3.46 in 2009-10 which questions the asset quality of foreign banks. Moreover, 74.55 percent reduction in the ratio has been observed from 2013-14 to 2014-15.

In 2012-13, reduction in total investment to total assets ratio of SBI and its Associates observed meaning by, the total investment to total assets ratio decreased to 22.90 percent as compared to 23.56 percent in 2011-12. Further, the total investment to total assets ratio has reduced by 1.66 percent in 2013-14 moreover, it has further reduced to 21.9 percent in 2015-16.

In the year 2010-11, there has been observed decrement in the ratio value against previous year 2009-10 whereas, the ratio has decreased from 25.67 percent in 2014-15 to 23.99 percent in 2015-16 which depicted that private sector banks have been focusing on profitability.

On an average, foreign banks have been identified at fourth rank as the ratio of total investment to total assets found at 31.67 percent, which has been highest among all the other SCBs. They have been ranked fourth because more proportion of total investment to total assets describes poor profitability of banks.

Statistics revealed downfall in the return on equity ratio of SBI and its Associates during 2007-10. In 2009-10, the income on shareholder’s worth has decreased by 11.37 percent in 2010-11. In the year 2011-12, the return on equity has increased to 16 percent than 14.11 percent on 2010-11. Further, the return on equity ratio reduced by 34.40 percent in 2013-14 as compared to 16 percent in 2011-12. In the year 2013-14, 34.4 percent reduction in ROE has been observed whereas, in 2015-16, 35.79 percentage change in ROE depicted the inability of bank group in generating returns on shareholder’s worth moreover, on an average,
other public sector banks have generated 13.09 percent income on net worth. On an average, foreign banks have been identified at the last position as they have been able to generate 11.57 percent income on shareholder’s net worth.

- In 2013-14, the profit against per employee ratio of SBI and its Associates has decreased to 0.46 percent than 0.60 percent in 2012-13 whereas, it has increased from 0.47 percent in 2014-15 to 0.5 percent in 2015-16. On an average, the profit per employee ratio of SBI and its Associates observed at 0.41 percent during the study period (2005-16).

- On an average, other public sector banks have been found at third position with an average profit of 0.45 percent against each employee. In year 2015-16, the PPE of foreign banks has decreased from 4.56 percent in 2012-13 to 3.59 percent in 2014-15 which has further reduced to 3.48 percent 2015-16. On an average, foreign banks have been identified at the top most position in profit per employee.

- In the succeeding years, it has been observed that total advances to total deposits ratio of SBI and its Associates has increased from 77.43 percent in 2009-10 to 81.99 percent in 2011-12. Moreover, in 2013-14, the value of total advances against total deposits has increased by 0.40 percent than 2012-13 whereas 0.57 percent increase has been observed during 2015-16. On an average, the total advances to total deposit ratio of SBI and its Associates observed as 77.14 percent during the study period meaning by, SBI and its Associates have converted 77.14 percent of its deposit into high earning advances.

- The total advances to total deposit ratio of private sector banks has increased to 78.13 percent in 2008-09 than that of 70.34 percent in 2004-05. Further, in the year 2010-11, there has been observed positive growth of 1.63 percent as compared to the lending rate of 76.86 percent in 2009-10 moreover, 4.56 percent increase in the ratio has been observed in the year 2015-16 as compared to 2014-15.
Table 5.12 clearly revealed that other public sector banks had 0.45 percent profit against every employee wherever it stood at 2.7 percent for foreign banks which makes foreign banks sounder in terms of profit earned against each employee.

The table 5.13 depicted that in 2010-11, the negative growth rate in profit has been observed and the profit has changed from 4.51 percent to (-) 4.58 percent. Whereas, the reduction of 28.9 percent has been observed in the year 2015-16 as compared to 2014-15 which indicated that the profit of SBI and its Associates has reduced during 2014-16.

Private sector banks have been found in the position to generate net profit though at decreasing rate. The percent change in net profit observed at 6.65 percent in 2015-16 than 9.52 percent in 2014-15.

In the year 2015-16, 1.69 percent increase in NIM of foreign banks has been observed against the previous year (2014-15). On an average, foreign banks have been identified at the top most position with 3.9 percent net interest margin, meaning by, they have been able to generate the higher interest on their advances then the interest surrendered on deposits.

It has been observed that non-interest income to total assets ratio of SBI and its Associates have reduced to 1.03 percent in 2012-13 from 1.28 percent in 2010-11 whereas, in 2015-16, it has increased to 1.23 percent as compared to 1.12 percent in 2014-15 depicted that increased income from fee based activities. However, in case of other public sector banks the fee based income of banks have increased from 0.91 percent in 2014-15 to 0.94 percent in 2015-16.

The non-interest income to total assets ratio of foreign banks has decreased to 2.02 percent in 2011-12 than 3.68 percent in 2008-09. Moreover, the ratio has decreased to 1.59 percent in 2015-16 depicting 20.1 percent decrease from the year 2014-15. On an average, foreign banks have been identified at the top most position in case of non-interest income to total assets.
In 2013-14, the liquid assets to demand deposits ratio of SBI and its Associates has increased by 11.64 percent from 2012-13. The ratio has decreased from 105.99 percent in 2014-15 to 102.96 percent in 2015-16. On an average, the liquid assets to demand deposit ratio of SBI and its Associates observed at 92.06 percent during the study period depicted that SBI and its Associates have offered 92.06 percent liquidity to the depositors.

In the year 2010-11, there has been observed downfall of 12.95 percent in liquid assets to demand deposits ratio of private sector banks as compared to the lending rate of 85.10 percent in 2009-10. In the subsequent years, the ratio has decreased from 76.25 percent to 56.77 percent in 2015-16.

It has been observed that liquid assets to total deposit ratio of SBI and its Associates have decreased from 12.30 percent in 2010-11 to 8.73 percent in 2012-13. Moreover, in 2013-14, the liquid assets against total deposits have increased by 2.41 percent from 2012-13. The liquid assets against total deposits have decreased by 11.18 percent in 2014-15 than 2.41 percent change in 2013-14. On an average, the liquid assets to total deposit ratio of SBI and its Associates observed at 10.24 percent during the study period and has been ranked at third position due to less liquid assets against deposits.

The liquid assets to total deposit ratio of other public sector banks has decreased to 6.57 percent in 2011-12 than 7.42 percent in 2010-2011. It has also been observed that the ratio has suddenly increased by 54.23 percent in 2013-14 as compared to 0.76 percent change in 2012-13. However, 34.87 percent reduction has been observed during 2014-15 whereas, the ratio has increased from 6.65 percent in 2014-15 to 7.42 percent in 2015-16.

The liquid assets against total deposits ratio of foreign banks came to the lowest point at 17.09 percent in 2009-10. Further, the liquid assets to
total deposit ratio has increased to 19.81 percent in 2010-11 than 17.09 percent in 2019-10. The ratio has decreased by 9.14 percent in 2014-15 against 2013-14. In the year 2015-16, the ratio has decreased to 14.21 percent than 17.18 percent in 2014-15.

Statistics revealed that liquid assets to total assets ratio of SBI and its Associates have decreased from 7.19 percent in 2011-12 to 6.84 percent in 2012-13. The liquid assets against total assets have increased by 3.07 percent in the year 2013-14 but in the year 2015-16, it has reduced by 1.93 percent as compared to 2014-15. On an average, the liquid assets to total assets ratio of SBI and its Associates observed at 8.03 percent during the study period (2005-16).

The liquid assets to total assets ratio has increased to 9.35 percent in 2013-14 than 8.77 percent in 2012-13 however, the liquid assets to total assets came to the lowest point at 5.4 percent in 2015-16.

On an average, Government securities to total assets ratio of SBI and its Associates has been observed at 21.99 percent during the study period (2005-16). Similarly, other public sector banks have shown decline in ratio by 15.9 percent in 2005-06 as compared to 29.10 percent in 2004-05. On an average, the asset proportion of other public sector banks in Government securities computed at 22.18 percent that indicating the level of total assets in Government securities of other public sector banks to meet their SLR requirements.

Foreign banks have kept 29.58 percent of their total assets in Government securities in the year 2014-15, the highest rate observed during the study period (2005-16) which depicted that they have strong position to meet their statutory obligations.

Table 5.21 revealed that foreign banks have kept the highest amount of their total assets in the form of Government securities to meet their SLR requirements. Foreign banks have been ranked at first position meaning
by, foreign banks have maintained highest liquidity. Other public sector banks have been found at second position in group rankings as they have maintained the highest liquidity against demand deposits. SBI and its Associates and private sector banks have been sharing the common rank because they have maintained same liquidity during the study period (2005-16).

7.3 **Findings from the impact of competitiveness on financial performance of Scheduled Commercial Banks**

- Statistics in table 6.4 represents the Pillai’s trace value found to be 0.259 with F value at 11.425. The values found to be significant at 5 percent level of significance as the p value observed at 0.000 which was less than 0.05. Hence the null hypothesis has been rejected and it has been stated that competitiveness has significant impact on the financial performance of SBI and its Associates during (2005-16).

- The F value for profit per employee has been observed at 1.965 which has been found significant as the p-value (0.000<0.05) in tests between subjects effects for other public sector banks (Table 6.6).

- The value of Wilks’ lambda found at 0.931 with the F value of 9.602. These values found significant at 5 percent level of significance because the p value (0.000) was less than 0.05. Hence the null hypothesis has been rejected and it has been stated that competitiveness has significant impact on the financial performance of other public sector banks (Table 6.7).

- The table 6.10, the Pillai’s trace value found to be 0.121 with F value at 1.359. The F value found to be significant at 5 percent level of significance as the p value observed at 0.000 which was less than 0.05. Hence the null hypothesis has been rejected and it has been stated that competitiveness has significant impact on the financial performance of private sector banks during (2005-16).
The statistics in the table 6.11 represents the Levene’s test results, the null hypothesis has been accepted as all the significant values found >0.05. Hence, it has been stated that covariance among dependent variables found to be the same. In milieu of the above, it has been observed that all dependent variables could be studied together.

The value of Wilks’ lambda found at 0.814 with the F value of 1.328. These values found significant at 5 percent level of significance because the p value (0.000) was less than 0.05. The null hypothesis has been rejected and it has been stated that competitiveness has significant impact on the financial performance of foreign banks (Table 6.13).

7.4 Conclusion

The aim of the present research was to gain enhanced understanding of the Competitiveness and financial performance of Scheduled Commercial Banks in India. The present study provided deep knowledge of market concentration and competitiveness in the Indian banking industry. The banking reforms of 1991 have been credited for the concept of competitiveness. The rivalry to achieve market share increased in the industry when private sector banks and foreign banks were allowed to open their branches or subsidiaries in India. Earlier, there were only few public sector banks in India working under the guidelines of the Government of India. With the entry of private sector banks and foreign banks, the new technologies were introduced in banking industry. These new entrants had full computerised branches to provide services to the customers. It has been very difficult to induce such computerisation in public sector banks. Due to the competition induced in the industry, public sector banks were imposed with the new technology. The entry of private sector and foreign banks proved to be a boon for the industry due to increased competition among banks. The effective competition always results in competitiveness. Competitiveness and market concentration are the two terms used interchangeably. Reduction in concentration increases the competitiveness of an industry. Competition among firms reduces the market concentration as the customers can approach the alternatives for the services.
As far as the competitiveness of Indian banking is concerned, the Indian banking industry has become competitive during the study time period (2005-16). During the initial years of the study, Indian banking industry was highly concentrated because few large banks were holding major proportion of assets, deposits and advances. Gradually, the market concentration for assets, deposits and advances has reduced. The reduction in concentration is a sign of increasing competitiveness in the industry. Though Indian banking industry is approaching competitiveness but it has not achieved the high level of competitiveness. Moreover, it can be concluded that Indian banking industry has moved from highly concentrated to moderate concentrated industry which in fact, tends to be good for a vibrant economy.

Moreover, the financial performance of banks is revealing that foreign banks and private sector banks have surpassed SBI and its Associates and other public sector banks. From the present study, it can be concluded that the main reason for non-performance of other public sector banks have been their asset quality, efficiency of management and lack of earning. Though, public sector banks have been careful in granting loans but due to lack of strict actions, they have been unable to recover the advances granted by them. In the current scenario, there has been observed some big business tycoons who have not repaid even a single penny out of thousands crore amount granted to them by public sector banks. Such type of burning issues must be focus by each bank groups so as to increase the performance.

In totality, it can be concluded that the competitiveness is introduced by effective competition and banks are struggling for a reasonable market share in the industry. Ultimately, the customer is benefitted through competition as the banks perform better than their rivalry for providing services. The study results justified that competitiveness impact the financial performance of banks. In order to survive in competitive world, each and every bank focuses on technology, infrastructure, design of banking products and the most important banking services. By working on all these above mentioned parameters, banks increase their performance as well as market share.
7.5 Limitations of the study

The limitations of the present study were:

- The present study covered a time period of ten years. For in-depth study and wide-ranging results, longer time period could be taken for observing long term trend of competitiveness of Indian banks.

- The study has been carried out by dividing the banks into four different bank groups to represent the whole banking industry while the Regional Rural Banks could have been included.

- The comparison among different bank groups could have been performed that might have revealed the inter group competitiveness and performance of banks.

7.6 Suggestions

The following suggestion came out from the present study:

- Scheduled Commercial Banks must focus on being more competitive in terms of providing services. In case of banking industry, banks could not be competitive on the price of services due to the similarity of service providing cost.

- Banks need to be highly competitive in information technologies. Some private sector banks and foreign banks have launched the robots for banking services. In the same way, other public sector banks could focus on implementation of technology.

- Other public sector banks are not performing very well in the banking sector and that might be the reason for the Government to move towards the merger of banks into few large banks.

- The concept of financial inclusion proved to be a boon for banking industry as the inclusion has increased the deposits with banks but public sector banks must focus on business correspondents in order to achieve
the high performance standard already set by private sector and foreign banks.

- Public sector banks must be aware while granting advances. More the blunt lending, higher are the non-performing assets. Being careful is not sufficient but the strict actions are required to recover the NPAs.

- Competitiveness is always bliss for customer and it definitely increases the customer base. Government must focus on competitiveness of banks and must approach for less concentrated banking sector. There are very less chances of economic failure due to failure of small banks while the few big banks could fail the overall economy.

7.7 Aspirations for Future Research

- The present study evaluated the competitiveness on the basis of market size, for comprehensive understanding the concept of competitiveness some other aspects like information technology and human resource could be considered for future research.

- The present study could be taken up with inclusion of Regional Rural Banks.

- Non-performing assets are one of the burning issues these days which must be considered for study. The further research could be taken up on calculation of competitiveness by taking non-performing assets into consideration.

- The present study measured the competitiveness and financial performance of all Scheduled Commercial Banks on group wise basis, comparison among different bank groups could be performed.