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A Critical Evaluation on Financial Performance of Foreign Banks in India

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Abstract

This paper aimed to assess the overall performance of foreign banks operating in India. It is found that with the onset of foreign banks operating in India has led the banking, finance and insurance industry contributes major share of FDI inflows in services sectors, with banking services seemed to be emerging recently, providing customized products and services. The nation's public and private sector banks also seem to adapt to latest technology advances and development relative to foreign banks innovative products and banking solutions. This study can also be used for further analysis to assess the performance of Indian consumers towards overall or specific performance of selective foreign banks in India.

Key words: *WOS model, Credit equivalent of off Balance sheet exposure, NPA, Ratio, PSLCS.*

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1. INTRODUCTION

Banking sector in India dates back to 18th century with the establishment of Bank of Hindustan in 1770 followed by the General Bank of India in 1786. There were a number of Public sector banks like Bank of Bengal, Bank of Bombay which came into existence between 1800 and 1850(including State Bank of India. These banks were founded as per the charters from British East India Company. With the trade relations developing between India and various other countries there was a keen interest from banks in other countries to invest in India and grow their customer base here. The banks were following the customers in some cases while in some other banks led new customers to enter new geographies and make investments.

After 1850's the British initiated the process of setting up foreign banks in India and it was followed by banks from countries viz. France, Germany, Japan, Holland and US. Some of the oldest foreign banks that entered India were:

- HSBC (then called the Mercantile Bank of India which started in 1853)
- Standard Chartered Bank (then called the Chartered Bank of India, Australia and China which started in 1858).

At present the Standard Chartered Bank is the largest foreign bank in terms of numbers, with 99 branches in 42 cities. As per the RBI discussion paper on presence of foreign banks in India (2011), there were 34 foreign banks operating in India as branches. Their balance sheet assets, accounted for around 7.65 percent of the total assets of the scheduled commercial banks as on March 31, 2010. If the credit equivalent to off balance sheet assets were included, the share of foreign banks was 10.52 per cent of the total assets of the scheduled commercial banks as on March 31, 2010, out of this, the share of top five foreign banks alone was 7.12 per cent.

1.1 List of major Foreign Banks in India

- ABN-AMRO Bank
- Abu Dhabi Commercial Bank
- Bank of Ceylon
- BNP Paribas Bank
- Citi Bank
- China Trust Commercial Bank
- Deutsche Bank
- HSBC
- JPMorgan Chase Bank
- Standard Chartered Bank
- Scotia Bank
- Taib Bank

Factors that are considered while approving the application of setting up the presence of foreign banks in India are as follows:

- Financial soundness of the foreign banks
- Economic and political relations between the home country of the foreign banks and India.
- International ranking of the bank
- Home country ranking of the bank

- International presence of the bank
- Rating given to the bank by international rating agencies

1.2 Reports

Foreign banks largely operate at higher levels of efficiency and maintain low net NPA ratios, due to exposure to the same group of clients, the risks are co-related. Interestingly, one of the biggest challenges facing foreign banks is client selection. Although the Indian economy has grown at a healthy rate, there are only a handful of Indian corporate with credible governance processes and global reputation required to pass muster with the credit divisions of these banks.. This automatically segments foreign banks as 'niche' service providers which often collide with the 'universal banking' policy regime.

In order to allay the concerns as well as take fullest advantage of foreign banks, RBI has set-up a regulatory framework based on recommendation given by several committees mentioned below. Main milestones can be identified with regard to regulatory policy changes as applicable to foreign banks. This is explained in detail below:

Narasimham Committee report *of 1991* recommended a structural reorganization of the Banking system in India to improve the efficiency of operations of banks here. There was a clear push for the foreign banks as they indicated an improvement in efficiency. Foreign banks were allowed to open branches in India as fully owned or as subsidiaries. They were also permitted to enter into joint ventures with private banks for merchant banking or investment banking. Also according to the committee report of 1998 the foreign banks seeking to set up business in India need to have a minimum start-up capital of $25 million as against the existing requirement of $10 million. The committee also provided for subsidiaries and Joint Ventures (JVs) to be treated at the same level as private banks **[Narasimham Committee 1998].**

In 2005 RBI proposed the twin track approach for stabilizing and making the banking sector more efficient. Under this there were 2 models of entry available which were the branch presence model and the other WOS (Wholly owned subsidiary) model. The roadmap was implemented in 2 phases: *The first phase (March 2005 – March 2009)* - there was more focus on consolidation of domestic banking system. During this phase foreign banks were allowed to enter India through establishment of branches or WOS or converting their existing branches into WOS, the clear trend was establishing branches.

The second phase began after reviewing the first phase (April 2009 onwards) and after the review there was keen interest on WOS model going ahead. Another roadmap for implementation was released in 2011 which again did not make WOS mandatory because of the WTO commitment. RBI expected that banks would switch to the WOS model once their assets exceeded the threshold of 0.25 percent of all holdings.

The proposed framework specified conditions as to when a foreign bank is allowed to only setup a WOS model and also suggests that it is mandatory to convert into a WOS model from branch form as and when any of these conditions come true. Some of the conditions that were mentioned in the report included adequate level of disclosures, the required level of supervision and others.

The discussion paper released by the RBI in 2011 also covered points such as: The recent global financial crisis highlighted that (i) complex structures (ii) too big to fail (TBTF) and (iii) too connected to fail (TCTF) exacerbated the crisis. And that the post-crisis lessons support domestic

incorporation of foreign banks i.e. subsidiarisation. Setting up subsidiaries supports in ring fencing capital within the country. The local incorporation requirement for foreign banks is imposed by several jurisdictions, primarily in order to protect retail depositors and to limit operations of the systemically important banks. Branches are generally not allowed to take retail deposits or enjoy deposit insurance. The discussion paper weighed the benefits and drawbacks of the branch form of presence in comparison with the subsidiary form of foreign banks and indicated that the positives in the WOS form prevail over the weaknesses.
Following the ***RBI discussion paper*** being made open to comments in 2011, there were many comments/responses from many financial institutions across the world regarding the new framework. Though a few banking experts were of the opinion that the RBI's policy has been very liberal [**Parekh and Venkatesh, 2011**] in terms of the timelines allowed for changing into WOS or propagating the WOS form of presence there is another faction led by some of the biggest foreign banks of the country which are of an opposing viewpoint. According to Standard Chartered Asia CEO there are not enough incentives for the banks to go for the WOS form of presence. The tax structure, absence of national treatment all act as hindrance to the adherent to policy of RBI. According to audit experts the tax structure **[Dinesh U, Rebello J 2012]** is not clearly defined on conversion from branch to WOS form i.e. when they are looking for local incorporation. The BBA (British Bankers' Association) discussion paper is an elaborate response to the roadmap of RBI and looks at each of the important step taken by RBI **[Ashvin 2010]**.
The next leg of recommendations came through ***the Nair committee*** setup in 2011 to re-examine the classification that existed in priority lending sector and suggest revised guidelines with respect to these issues. The recommendations made were applicable to both domestic and foreign banks. The major changes that were done with regard to Foreign banks regulations was that the priority sector target was increased to 40 percent of ANBC (Adjusted Net Bank credit) or CEOBE (Credit equivalent of off Balance sheet exposure) whichever is greater. There was also a sub-target of 15 percent for exports and 15 percent for MSE sector. The committee also brought up the idea of non-tradable priority sector lending certificates (PSLCs) with foreign banks as well. According to the recommendations all foreign banks which have more than 20 branches will come under this condition and be required to satisfy a minimum priority sector lending of 40 percent as compared to 32 percent for other foreign banks. This served both as an incentive and a disincentive. Looking at it from RBI perspective this is more of involvement of foreign banks in true growth story of India. For banks with a large number of branches like Standard Chartered (99 branches) this regulation will not have much of an impact. But for banks with branches slightly above 20 this might be a big disadvantage. HSBC with 51 branches was one of them who faced this problem. Foreign banks are of the opinion that getting into the higher priority sector lending requirement bracket makes sense if they are given the license and required permissions to expand up to a large number like 100. Else it only ends up putting extra requirement on the banks without giving them the benefits of economies of scale.
RBI's Annual Policy Statement for 2010-11 brought out a realization that as international agreement on cross-border resolution mechanism for internationally active banks was not likely to be reached in the near future, there was considerable merit in subsidiarisation of significant cross-border presence. And that this would not only ease the resolution process, but would also

give a greater regulatory control and comfort to the host jurisdictions.

According to the latest norms released by the RBI, those foreign banks which have become "systematically important" (whose assets account for at least 0.25 percent of the total assets of all commercial banks) will have to convert to wholly owned subsidiaries of their parent. Those foreign banks which set up **wholly owned subsidiaries (WOS)** in India will be given "near national bank" treatment in India. This will allow them to open up new branches which will give them a level playing field vis-à-vis their Indian counterpart. This will also allow them to expand their branch network without seeking prior approval of the RBI (except in sensitive locations from the perspective of national security). As per the release of the framework for setting up of WOS by foreign banks in India, by the RBI, the policy is guided by two cardinal principles of (i) reciprocity and (ii) single mode of presence (the framework in the discussion paper of 2011 had indicated that these principles should guide the framework of the future policy regarding presence of foreign banks in India). The policy incentivizes the existing foreign bank branches which operate within the framework of India's commitment to the WTO to convert into WOS due to the attractiveness of near national treatment. Such a conversion is also desirable from the financial stability point of view [RBI, 2013].

According to the scheme for setting up of WOS by foreign banks in India, WOSs may also be permitted, to enter into mergers and acquisition transactions with any private sector bank in India subject to the overall foreign investment limit of 74 per cent. This would be considered after a review regarding the extent of penetration of foreign investment in Indian banks and functioning of the foreign banks (branch mode and WOS). The WOSs of the foreign banks may, at their option dilute their stake to 74 per cent or less in accordance with the extant FDI policy on foreign investment in banking sector and list on stock exchanges in India. Key features of the framework (Press release, RBI 2013):

- Banks which would be mandated entry into India only in the WOS mode: Banks with complex structures, banks which are not widely held, banks which do not provide adequate disclosure in their home jurisdiction, banks from jurisdictions having legislation giving a preferential claim to depositors of home country in winding up proceedings, etc.
- In the case of foreign banks for which the above conditions are not applicable, can opt for a branch or WOS form of presence
- A foreign bank opting for branch form of presence shall convert into a WOS as and when the above conditions become applicable to it or it becomes systemically important on account of its balance sheet size in India
- Foreign banks which commenced banking business in India before August 2010 shall have the option to continue their banking business through the branch mode. However, such banks will be incentivized to convert into WOS due to the attractiveness factor of near national treatment given to WOS
- When the capital and reserves of the WOSs and foreign bank branches in India exceed 20 per cent of the capital and reserves of the banking system, in order to avoid domination by foreign banks, restrictions would be placed on further entry of new WOSs of foreign banks/ capital infusion
- For new entrants, the initial minimum paid-up voting equity capital for a WOS shall be Rs. 5

billion. The existing branches of foreign banks desiring to convert into WOS shall have a minimum net worth of Rs. 5 billion

- A letter of comfort would need to be issued by the parent of the WOS to the RBI for meeting the liabilities of the WOS
- Corporate Governance: (i) Not less than two-third of the directors should be non-executive directors; (ii) A minimum of one-third of the directors should be independent of the management of the subsidiary in India, its parent or associates; (iii) Not less than fifty per cent of the directors should be Indian nationals/NRIs/PIOs subject to the condition that not less than 1/3rd of the directors are Indian nationals resident in India.
- Branch expansion guidelines as applicable to domestic scheduled commercial banks would generally be applicable to the WOSs of foreign banks except that they will require prior approval of RBI for opening branches at certain locations that are sensitive from the perspective of national security.
- Priority Sector lending requirement would be 40 per cent for WOS like domestic scheduled commercial banks with adequate transition period for existing foreign bank branches converting into WOS.
- On arm's length basis, WOS would be permitted to use parental guarantee/ credit rating only for the purpose of providing custodial services and for their international operations. However, WOS should not provide counter guarantee to its parent for such support.
- WOSs may, at their option, dilute their stake to 74 per cent or less in accordance with the existing FDI policy. In the event of dilution, they will have to list themselves.

1.3 Performance of Foreign Banks

In order to compare the performance of foreign banks with respect to Indian counterpart several performance indicators have been considered. To prove the point that Foreign banks are focusing only on urban areas proxy indicators like number of ATM branches opened in urban and rural areas are discussed. To understand the impact of foreign banks towards agriculture, their net advances towards agriculture is compared with Indian banks. In order to understand how foreign banks are managing their assets a comparison of return of assets is performed. A discussion on non-performing assets of various banks in India is done by analyzing Capital to Risk-Weighted Assets ratio.

1.4 Focus on Urban Areas

One of the clear trends that emerge from the growth of foreign banks is the kind of population that they cater to. The table in the appendix indicates the percentage of branches in rural areas for foreign banks (around 2 to 3 percent of total branches) and this number is negligible compared to the same percentage for other scheduled commercial banks (here rural and semi-urban branches account for 58 percent of the total branches). The key inferences that can be drawn from this are:

- Foreign banks clearly are focusing on expansion activities in urban areas. This makes sense because the initial amount of deposit required is also high and would not be feasible for people in rural areas.
- Over the last 20 years the number of rural branches in foreign banks have only increased to about 15 branches (in 1995 there were 3 branches) in comparison to the private sector banks

which have more than doubled their rural branches in the same time period.
However, licenses issued by the RBI are few in number; hence it is difficult to open branches in rural areas. This situation could be corrected if banks opt for wholly owned subsidiary structure, in which case banks will be forced to open at least 25% branches in rural area. However, they will also be entitled to open as many branches as they like in bigger cities. Therefore, the loss, if any, arising from operating rural branches can be absorbed by bigger branches in cities.

1.5 Priority Sector Lending

Priority Sector lending refers to those sectors which may not be as attractive to lenders as other sectors can be, but is important to the economy for various reasons, including providing source of livelihood to many. Major areas which are covered under priority sector lending are Agriculture, Small and micro enterprises, education, housing, export credit, etc.

1.6 Return on Asset

The Return on Asset is an Indicator of how efficiently the bank is managing its resources. Foreign banks are better in managing their resources as compared to public sector banks and private banks. With the entry of foreign banks it has been observed that the ROA of domestic banks have also increased significantly this may be due to the "spillover effect" which foreign banks' operations in India have over the other banks. Their operations might have encouraged domestic banks to adopt better practices of operations in order to compete with foreign banks. A trend of ROA for the Last decade can be seen below:
Return on Asset is the indicator of the efficiency in which the bank employs its resources, while return on equity is the indicator of the efficiency in which the bank uses its capital. As it can be seen from Tables 4 and 5, foreign banks are the most productive in using their resources while Public sector banks have used their funds more judiciously.

1.7 Return on Assets

Table 1: Return on Assets

Bank Type	1999-00	2005-06	2011-12
Public Sector bank	0.6	0.8	0.9
Old Private Sector Bank	1.2	0.5	1.2
New Private Sector Bank	1.1	0.9	1.6
Foreign Banks	0.3	1.6	1.8

Source: Annual Reports of Various Banks

1.8 Case Study of HSBC, a Foreign Bank

Key findings about a foreign bank have been discussed in this section. The growth story of HSBC spanning over 150 years and the challenges and the situations of HSBC in India are presented below:

1.8.1 The Hong Kong and Shanghai Banking Corporation (HSBC)

HSBC began its operations in India as Mercantile Bank in October 1853. This bank had offices in 9 cities by 1855 and the next 100 years were passed with profitable for the bank. The Mercantile bank was acquired by the Hong Kong and Shanghai Banking Corporation Ltd in 1959 laying the foundation for today's HSBC group. The bank has grown tremendously over the last 150 years

following a strategy of 'Managing for Value', and the managing for value has undergone several changes throughout its existence in India. HSBC gave India its first ATM in 1987 and has been a major contributor in terms of the technology evolution of banks in India.

The HSBC group in India provides 24 hour banking services through the 140 ATMs throughout the country and is known for its high end technology based banking services like phone banking, internet banking, trade banking and treasury dealing services. HSBC in India offers a very wide range of services which include:

- **Retail Banking and Wealth Management:** The Bank has around 1.4 million customers worldwide and offers a wide range of services to these resident and non-resident Indian segments in India, USA, UK, Canada, Australia, Middle East and South East Asia.
- Commercial Banking
- Private Bank
- Global Markets
- Asset Management
- Audit Services
- Investment Banking and Institutional Equities Broking

This wide array of services is what differentiates HSBC from the rest of the banks. The technology inclination of HSBC coupled with the unique offerings has helped it to achieve the differential advantage compared to the other banks.

1.8.2 Sector focus: HSBC in India has focused equally on all sectors except a few industries like defense, aviation which HSBC cannot serve. Though there are not many rural area branches of HSBC the social concern is addressed by HSBC through the various projects launched like Mann Deshi, Micro financing, education of children etc.

1.8.3 Corporate Sustainability: Here there are 3 main areas in which HSBC works:

1. **Financial Inclusion**- Providing education to children in rural areas and also under-privileged kids, teaching live skills that will be essential for building a career and make them independent throughout. The focus is also on women empowerment and financial support to women to help them start businesses on their own or provide them education to make them capable to compete and survive in the industry. HSBC scholarship program, Future first investment in children program and Micro finance fund are all initial steps of HSBC towards this direction.
2. **Environment sustainability initiatives** - Focused on climate change, eco-system conservation, direct impact of reduction, business development and risk management. They have supported projects in climate change which work on impact of climate change on business and work with supported organizations in collaboration to tackle the challenge on a global level. Eco-system conservation and direct impact reduction measurement of any environmental sustainability measures are some of the other areas of focus for HSBC.
3. **Volunteering programs**: HSBC is keen on allowing its employees to be a part of the change that they drive by encouraging them to be a part of the various social and environmental initiatives that they come up with.

The key factors that make HSBC unique amongst the other foreign banks are:

- **Heritage and Long association:** HSBC has been in India for 150 years and has been an

integral part of the India growth story over the years. The long association has made it a trusted name across the country which is a key factor in establishing a connect with customers.

- **India is a part of the progress story:** The growth rates in India have been high compared to the other developed countries which have almost stagnated. There is mutual benefit obtained both for HSBC and for India.
- **Environment sustainability:** The work HSBC has carried out in this sector is encouraging and has made the other banks progress in this direction as well.

1.8.4 Attitude towards RBI's regulatory policies: HSBC India Ms. Naina Lal Kidwai in her interview [Press trust of India, 2013] tells that the attitude of RBI has been a positive one and the regulations that have been brought out will be adhered to by HSBC. Even to the recent news that RBI might want foreign banks to only run as subsidiaries, Ms. Naina remarked that HSBC would be willing to go the way described.

1.9 Inference

The number of branches of HSBC has increased from 28 in 2001 to 48 by the end of 2015 which is one of the highest in India as compared to other foreign banks. The Return on asset has increased from a mere 0.96% in the year 2000 to more than double to 1.98% in 2012 which is above the average value of all the foreign banks combined. The net non-performing assets (as a percentage of Net Advances) have come down from 1.04% in the year 2000 to a mere 0.62% in the year 2012. This is again lower than the average of 1% of all foreign banks combined. The return on equity has increased from 11.83% in 2011 to 13.88% in the year 2012, while the average for all foreign banks is a mere 6.33%.

The entire analysis above indicates that if a foreign Bank stays engaged with a developing country like India, the rules allow it to maintain a healthy profit without compromising on its social obligations.

2. REVIEW OF LITERATURE

Extensive studies have been conducted efficiency performance of banks in recent years, like **1.Keshari and Paul(1994)** concluded that foreign banks as a group have been found to be less efficient than domestic banks and the standard deviation of technical efficiency of foreign banks was slightly higher than that of domestic banks. However, the efficiency differences were not significant. **2. Bhattacharyya et al. (1997)** report that publicly-owned Indian banks were more efficient followed by foreign-owned banks and privately owned banks during 1986 to 1991. **3.Sarkar and Das (1997)** compared performance of public, private and foreign banks forth year 1994-1995 by using measures of profitability, productivity and financial management and found that public sector banks competing poorly with the other two categories. **4. Das (1997)**, which analyzed overall efficiency-technical, allocative and scale efficiency of public sector banks in the period 1990-96, found a decline in overall efficiency that is mainly because of the decline in technical efficiency, which was not compensated by an improvement in locative efficiency. **5.Kumbhakar and Sarkar (2003)** noted that significant total factor productivity (TFP) growth has not been observed in Indian banking sector during the deregulatory regime. **6. Ram Mohan and**

Ray (2004) reported an improvement in the revenue efficiency of Indian banks. They were also, noticed convergence in performance between public and private sector banks in the post-reforms era. **7. Shanmugam and Das (2004)** studied efficiency of four different groups of banks (State Bank of India (SBI) group, nationalized banks, privately-owned domestic banks and foreign banks) operating in India from the years 1991 to 1999. They reported that the State Bank group and the foreign banks group performed better than their counterparts. **8. Sathye (2003)** measured the productive efficiency Indian banks for the period 1997-98. The study found that the public sector banks had higher mean effect scores as compared to private and foreign banks in India. **9.Gupta et al. (2008)** concluded that SBI and its associates have the highest efficiency, followed by private sector banks, and the other nationalized banks. **Ketkar and Ketkar (2008)** observed that the efficiency scores of all banks, in general, have improved regardless of their ownership during the period of reforms. In addition, the nationalized banks have registered the strongest gains that indicate an improvement in bank profitability. **10. Kumar and Galati (2008)** noted that the exposure to off-balance sheet activities, staff productivity, market share and size are the major determinants of the technical efficiency of public sector banks.

11. Mohan, (2005) He has analysed the dimensions of banking sector. He observed that improved efficiency in banking can result in improved profitability, suitable innovations with greater safety and soundness. Inefficient financial system contributes to resource generation, intermediation and allocation and hence contributes to economic growth and risk mitigation process. **12. (Barr &Seism, (1994)** Some studies proved that banks are more efficient with high efficiency scores and are more capable to survive as compare to banks which have low efficiency scores, Thus, there is a significant importance of the assessment of performance and efficiency judgment of the financial institutions. **13. Marco, Carmen and Francisco [2006]** analysed the performance measures of the banks (domestic/foreign) as against the performance of the country and track the changes during the financial crisis and how there was a difference between the domestic and foreign banks in this regard. **14. Cárdenas, Graf and Dougherty [2008]** explained the implication of a foreign banks' entry to the financial system of the host country, the financial viability of a local subsidiary and the possible effects on the market dynamics. **15. Claessens and Horne [2012]** provides a detailed database of bank ownership for several countries over 1995-2009 and reviewed their performance during this period. **16. Schnitzler and Lehner [2006]** analyzed the impact of foreign bank entry on host countries particularly emphasizing on the transition period in the context of emerging markets by studying impact of foreign banks. **17. Cull and Peria [2010]** provided insight on foreign banks participation in emerging economies. According to author, the participation of foreign banks has increased, but process has not been uniform. Eastern Europe & Latin America were quick to adopt this model but Middle-east and Asia were late comers. Elimination of barriers, reduced information cost of operating in foreign markets has been the reasons for foreign banks to participate in a host country. Hope, **18. Laurenceson and Qin [2008]** analyzed the impact of foreign bank participation on Chinese banking sector by studying several Chinese commercial banks. They also discussed how the presence of foreign banks did enhance the competitive environment in China's banking sector. **19. Ghosh [2012]** discusses how foreign

banks have an impact on domestic profitability. The paper concluded that foreign banks presence improved profitability and asset quality. **20. Sanyal and Shankar [2008]** talked about the productivity differences that existed pre and post 1991 reforms and results showed that the productivity gap between Indian private banks, public and foreign banks has dramatically increased due to faster productivity growth by Indian private banks. **21. According to Charvaka [1993]**, phenomenal profits by foreign banks is not due to highly efficient banking operations, but on account of treasury operations, portfolio management and lending in the money market, non-deposit resources mobilized essentially from other banks, financial institutions and public sector undertakings. Policy has favored foreign banks, in terms of limited social obligation and in contrast, Indian banks have a disadvantageous position in several aspects including social responsibilities, rural banking, priority sector lending, etc. They also face losses from small and big borrowers. According to research emerging from the RBI, two aspects are highlighted. First, there are opinions in favor of foreign banks by extending support and concerns were expressed over the presence of the same in the country regarding the attitude of RBI towards foreign banks there have been a number of views expressed. Despite the promotion of foreign banks in India, there have been concerns in RBI regarding the increasing footprint of foreign banks in the country **22. Mohan (2009)** Most of the foreign banks in India have confined their work to the areas of Investment Banking and Foreign Exchange Market and have paid much attention to the other "priority sector" in the country. This results in presence in the country which could result in the top management of the bank paying little attention to the operations. Hence, any transgression committed by these banks which can have significant impact on the financial market of the host country but have a little effect on the overall global operations of the bank. Sometimes, even strong regulatory action taken by regulators against such global banks has had negligible market impact on them and hence there is loss of regulatory effectiveness as a result of the presence of big financial conglomerate.

3. Analysis of SOME STATISTICS

Key Variables: The following key variables have been used for statistical analysis:
Internal financial values such as Return on Assets, Return on Capital, Income Growth Rate and Profit per Employee and we also used external factors such as GDP growth rate , investment, borrowing, advances, net profit, capital etc.
Statistical Tools used are:

- correlation
- regression
- ratio

Analysis of internal financial values such as Return on Assets, Return on Capital, Income Growth Rate and Profit per Employee and we also used external factors such as GDP growth rate.

3.1 Percentage Trend on Business per Employee and Profit per Employee of Foreign Banks

The table 2 below shows the trend percentage of business and profit per employee earned by the India's foreign banks during the period 2008 - 2013.

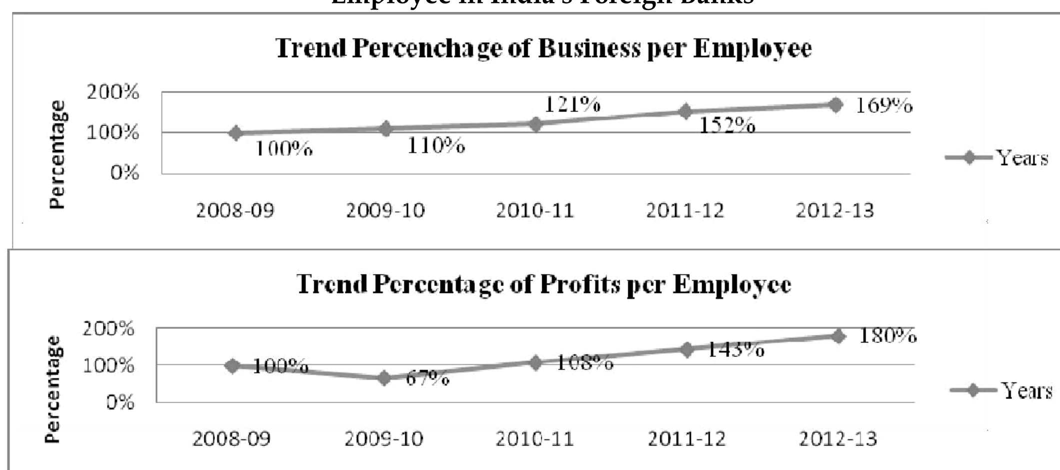
Table 2: Table showing Percentage Trend of Business per Employee in India's Foreign Banks

Year	Business Per Employee (₹ in Crores)	Trend %	Profit Per Employee (₹ in Crores)	Trend %
2008-09	12.83	100%	0.254	100%
2009-10	14.11	110%	0.169	67%
2010-11	15.55	121%	0.275	108%
2011-12	19.56	152%	0.364	143%
2012-13	21.73	169%	0.456	180%

Source: Profile of Banks 2013

The table aforesaid shows that as the foreign banks established their presence in India through branch expansion and wholly owned subsidiaries, the business earned on per employee basis by the foreign banks has a steady increasing trend year on year with 110% in 2009-10, 121% in 2010-11, 152% in 2011-12 and 169% in 2012-13. The profits earned on per employee basis by the India's foreign banks has a steady increasing trend from the year 2009-10 with 67% that has declined compared to the previous year in 2008-09 that has earned profits of ₹ 254 crores. Then the profits earned show an increasing trend with 108% in 2010-11, 143% in 2011-12 and 180% in 2012-13. It is inferred that the India's foreign banks earn a considerable rate of business and profits out their total employees working in the organization.

Chart 1: Chart showing Percentage Trend of Business per Employee and Profit Per Employee in India's Foreign Banks



Report on Trends and Progress of Banking in India, RBI publication

3.2 Percentage Trend on Deposits, Investments and Advances of India's Foreign Banks

The table below shows the trend percentage of annual deposits, investments and advances of the India's foreign banks during the period 2008-2013.

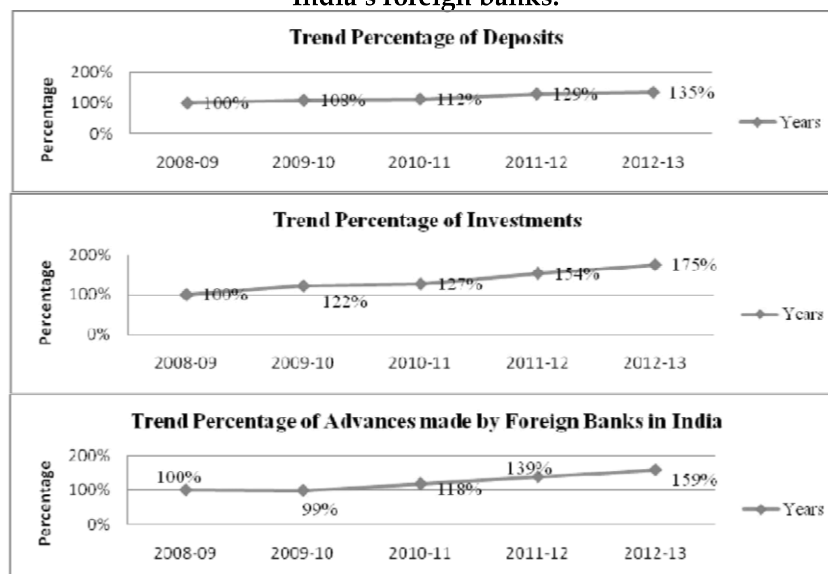
Table 3: Table showing the Trend Percentage of Deposits in India's Foreign Banks

Year	Deposits (₹ in Crores)	Trend %	Investments (₹ in Crores)	Trend %	Advances (₹ in crores)	Trend %
2008-09	214076.4	100%	130353.7	100%	165384.6	100%
2009-10	232099.5	108%	159290.9	122%	163260.4	99%
2010-11	240666.8	112%	165499.3	127%	195510.6	118%
2011-12	276947.7	129%	200651.1	154%	229848.8	139%
2012-13	287999.7	135%	228063.1	175%	263679.9	159%

Source: Profile of Banks 2013

The table shows that the deposits, investments and advances of India's foreign banks are at an increasing trend year on year irrespective with the number of branches and subsidiary companies held by the banks. It shows that in the year 2009-10 the deposits have increased to 108% from 2008-09, 112% in 2010-11, 129% in 2011-12 and 135% in the year 2012-13. The banks have shown a steady increase with efficient management in their annual deposits. The investments of India's Foreign Banks is at an increasing trend with 122% in the year 2009 -10, 127% in 2010-11, 154% in 2011-12 and 175% in 2012-13 from the base year value. It is inferred that the foreign banks in India have made a good amount of investments in accordance to the revenues earned by these banks competing with the public and private sector banks with steady cash flows. The advances to various sectors seemed to abide the norms of Reserve Bank of India with regard to priority sector lending targets. It is inferred that the aggregate advances of all foreign banks in India is at an increasing trend from the year 2009-10 showing 99%, 118% in the year 2010-11, 139% in 2011-12 and 159% in the year 2012-13.

Chart 2 : Chart showing the Percentage Trend of Deposits, Investments and Advances in India’s foreign banks.



Report on Trends and Progress of Banking in India, RBI publication

3.3 Percentage Trend of Capital Adequacy Ratio (Car/Crar) and Net Non-Performing Asset (NPA) Ratio of India's Foreign Banks

The table below shows the trend percentage of the capital adequacy and net non-performing asset ratio's of India's foreign banks during the period 2008 - 2013.

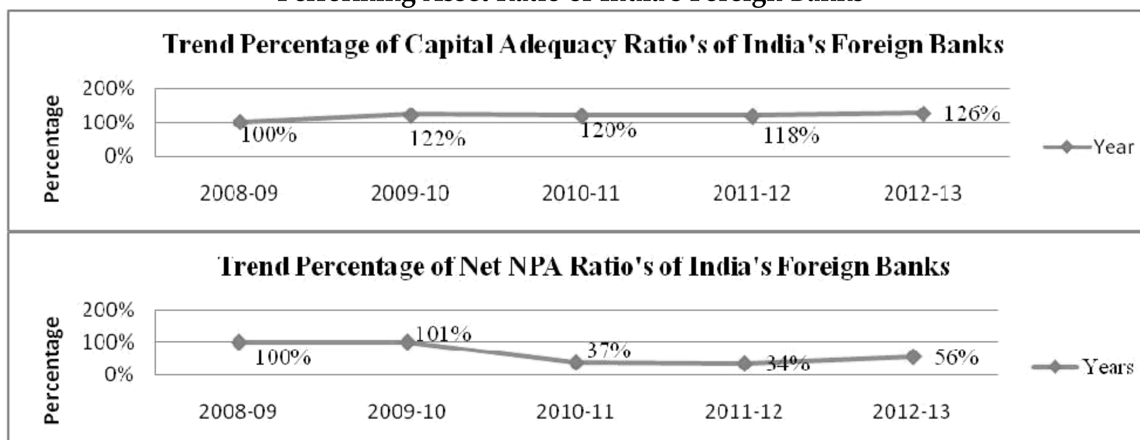
Table 4: Table showing the Trend Percentage of Capital Adequacy Ratio's of India's Foreign Banks

Year	CAR/CRAR (%) (%)	Trend %	Net NPA ratio (%) (%)	Trend %
2008-09	14.19	100%	1.81	100%
2009-10	17.26	122%	1.82	101%
2010-11	16.97	120%	0.67	37%
2011-12	16.75	118%	0.61	34%
2012-13	17.88	126%	1.01	56%

Source: Profile of Banks 2013

The table shows that the capital adequacy ratio maintained by foreign banks in India has increased to 122% in the year 2009-10 from the base year value, then declined a little to 120% in the year 2010-11, 118 % in the year 2011-12 and again shows an increasing trend with 126% in the year 2012-13. The net non-performing asset ratio of foreign banks in India are volatile in nature with trend percentages of 101% in 2009-10, then a sharp decrease in the year 2010-11 with 37%, 34% in 2011-12 and then has minimally increased to 56% in the year 2012-13. It is inferred that the foreign banks have higher efficiency with reduced Net NPA ratios for the loans and advances made except for the year 2009-10.

Chart 3: Chart showing the Percentage Trend of Capital Adequacy Ratio and Net Non-Performing Asset Ratio of India's Foreign Banks



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3.4 Percentage Trend of Return on Equity and Return on Assets of India's Foreign Banks

The table below shows the trend percentage of return on equity and return on assets of India's foreign banks during the period 2008 - 2013.

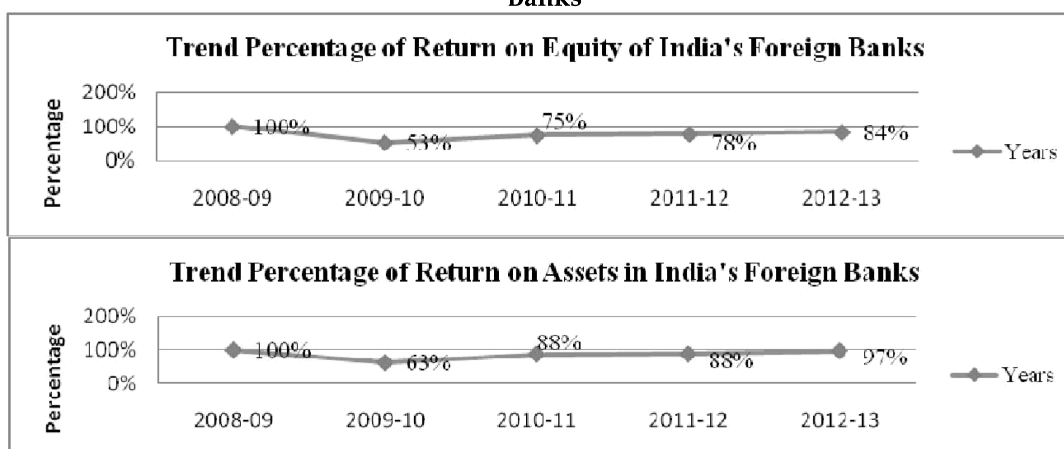
Table 5: Table showing the Trend Percentage of Return on Equity of India's Foreign Banks

Year	Return on Equity in (%)	Trend in %	Return of Assets in (%)	Trend in %
2008-09	13.75	100%	1.99	100%
2009-10	7.34	53%	1.26	63%
2010-11	10.28	75%	1.75	88%
2011-12	10.79	78%	1.76	88%
2012-13	11.52	84%	1.94	97%

Source: Profile of Banks 2013

The table shows that the percentage trend of return on equity in foreign banks in India is been gradually increasing from the base year value (13.75), that has started to decline in the year 2009-10 (7.34) at 53% and has regained its position with an increasing trend of 75% in the year 2010-11, 78% in the year 2011-12 and 84% in the 2012-13. The percentage trend of return of assets in India's Foreign Banks has started to an increasing trend from the year 2009-10 at 63%, 88% in 2010-11 and 2011-12, and 97% in the year 2012-13. It is inferred that the foreign banks have balanced to maintain a steady increase in return on equity and assets from the year 2009-10 onwards.

Chart 4: Chart showing the Percentage Trend of Return on Equity and Assets of India's Foreign Banks



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4. RESULTS AND DISCUSSIONS

The finding of the overall performance of foreign banks shows the following:

- It is found that the India's foreign banks have shown a considerable amount of increasing trend during all the five years (2008-13) in terms of revenue generated through business per employee and profit per employee that stands at 169% and 180% in the last fiscal period.
- It is found that the India's foreign banks have shown a considerable amount of optimum increasing trend in deposit, investments and advances ensuring large amount of customer base, ploughing profits to profitable investments balancing the standard capital adequacy ratio norms.

- as prescribed by RBI and providing necessary advances to high priority sectors, that stands at 135%, 175% and 159% in the last fiscal period.
- It is found that the CRAR of India's foreign banks are at an increasing trend, above the standard norms, that stands at 126% in the last fiscal period. The Net NPA ratio of India's foreign banks is at a decreasing trend that proves a favorable amount of efficient management in clearing the advances. At the same time the NPA ratio has slightly increased from 34% to 56% in the last fiscal period.
- The return on assets and return on equity is found to be moderately increasing from the base year 2008-09 onwards, that stands at 97% and 84% in the last fiscal period.

From the results it shows that the effectiveness of foreign banks operating in India has covered a large customer base, due to their fast, efficient working style and better customer service that is found to be excellent and consistent throughout the study period. In spite of the economic slowdown in 2009-10, these banks have regained its position in the succeeding financial years that provides the foreign banks in India, a launch pad for greater business expansion.

5. CONCLUSION

In present work, we studied to assess the overall performance of foreign banks operating in India and it is found that with the onset of foreign banks operating in India has led the banking, finance and insurance industry contributed major share of FDI inflows in services sectors, with banking services seemed to be emerging recently, providing customized products and services. The nation's public and private sector banks also seemed to adapt the latest technology advances and development relative to foreign banks innovative products and banking solutions. This study could also be used for further analysis to assess the performance of Indian consumers towards overall or specific performance of selective foreign banks in India.

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