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NON-FUND BASED INCOME IN INDIAN BANKING SECTOR: A COMPARATIVE CASE STUDY

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ABSTRACT

The banking sector in India is on a rising trend. The Indian banking sector has shown strong improvement over the last decade and has supported the country's trade and industry growth. Banking sector has taken the advantage of technology to provide its customer quicker and also to do more with less. Promising technologies have changed the banking trade from paper and branch based banks to "digitized and networked banking services. Today the banking industry is stronger and capable of withstanding the pressures of competition. Internationally accepted prudential norms have been adopted, with higher disclosures and transparency, Indian banking industry is gradually moving towards adopting the best practices in accounting, corporate governance and risk management (Thakur, 2018). The signal of diversification became noticeable in the Indian banking sector in eighties and nineties. The reforms opened areas like investment in banking, leasing, merchant, banking, and factoring, hire purchase and mutual funds for the commercial banks through setting up of separate subsidiaries. Non fund income relates to bank and creditor income derived primarily from fees. Examples of non-fund income include deposit and transaction fees, insufficient funds (ISF) fees, annual fees, monthly account service charges; inactivity fees, check and deposit slip fees, among others.

***KEYWORDS**: Fund Based Income, Non-Fund Income, Non-Traditional Activities, ISF.*

Introduction

Indian banking industry is going through IT revolution. A combination of regulatory and competitive reason has led to increasing importance of total banking automation in the Indian Banking Industry. Information Technology is basically used in two different ways in banking, firstly in Communication and Connectivity and secondly in Business Process Re-engineering. Information technology enables sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets. To compete in today's economic environment, it is essential for the Indian Banks to adopt the latest technology.

The India banking industry has been steadily shifting away from traditional sources of revenue generating business like loans and advances to non- traditional activities that generate fee income, service charges, trading revenue, and other types of NII. Not only the banks in the private sector are making headway into diversifying their operations, the public sector banks are also in the lead in their operations in a competition. Non-interest income is a mixture of heterogeneous components that differ in terms of their relative importance. Some sources of fee income have been available to depository institutions for many years, but have recently taken on a more dominant position in the overall financial management strategies of banks. These include deposit service charges, credit card fees, and fees associated with electronic funds transfer.

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Types of Bank Income

There are two broad sources of bank income or revenues.

- Fund Based Income
- Non-fund Based Income.

Fund Based Income

The income of the bank in the form of interest from the loan provided is fund based income. This implies that any income arising due to fund corpus of the bank (e.g. Interest) in known as interest or fund based income. Loans are fund-based products. To make a loan, a bank or NBFC has to borrow money and ensure that the cost of borrowing is less than the cost of lending. In fund based business, money in the form of cash is involved in the transaction.

Non-Fund Based Income

Non fund income relates to bank and creditor income derived primarily from fees. Examples of non-fund income include income generate from issue of Cheques, Demand Draft, Mail Transfers Commission, Bank Wire Transfer, Service Charges, deposit and transaction fees, insufficient funds (ISF) fees, annual fees, monthly account service charges; inactivity fees, check and deposit slip fees, among others. Institutions charge fees that provide nonfund income as a way of generating revenue and ensuring liquidity in the event of increased default rates. Non-fund income makes up a significant portion of most banks revenue

Objectives of the Study:

- To examine the involvement of non-fund based income in the total income of the selected banks operating in India.
- To make comparison between the fund based and non fund based income of the selected banks operating in India for the financial year 2008 -2017.

Scope of the Study

The ideas of non fund income in banking sector have a vast scope in other areas of various financial and non-financial institutions. These institutions can use these ideas and extend their financial product range, which can enhance their profitability. Also, when the company grows, the employees will also be benefited in term of financially as well as non-financially. Geographical Scope: The study examined data for selected commercial banks in India from the period 2008 to 2017 financial years.

Researching Literature

As in many other emerging economies, India until recently was heavily regulated with the banking sector aligned to meet social and economic development. The institutional structure of the financial system is characterized by (a) banks, either owned by the Government, RBI or private sector (domestic or foreign) and regulated by the RBI; (b) development financial institutions and refinancing institutions, set up either by a separate statute or under Companies Act, either owned by Government, RBI, private or other development financial institutions and regulated by the RBI; and (c) non-bank financial companies (NBFCs), owned privately and regulated by the RBI. The legislative framework governing public sector banks (PSBs) was amended in 1994 to enable them to raise capital funds from the market by way of public issue of shares. The Reserve Bank of India (RBI), which urged banks to pursue non-interest income sources in its report on Trend and Progress of Banking in India, 2002-03. This report states that "the future profitability of public sector banks would depend on their ability to generate greater non-interest income and control operating expenses." "Non-interest income is becoming an increasingly important part of overall profitability." Some banks— generally the larger ones— are generating healthy amounts of income through fees and other lines of business.

Research Gap

After a depth study from numbers of literature it was found that non fund based income has required a lot of intentness in Indian promising banking sectors. Basically not many research works have been conducted on a comparative study of non-fund based income in connection with IDBI bank and ICICI bank in India for the financial year of 2008-2017.

Methodology of Study

This study is derived from secondary data. This secondary data is collected from journals, magazines, annual reports of studied banks, articles, research thesis, publications, and internet resources. IDBI bank and ICICI bank are selected for this study and to find out the year to year growth rate of these selected banks with respect to income from non-fund income or fund-based income. This study is covered the data of last ten years starting from year 2008 to 2017 of the selected banks in India. The most commonly used average is the arithmetic mean, briefly referred to as the mean. The mean can be found by adding all the variables and dividing it by total number of the years taken. It gives a brief picture of a large group which is represents and gives a basic of comparison with other groups. Standard deviation is also known as root mean square deviation for the reason that it is the square root of the mean of the square deviation from arithmetic mean.

Hypothesis of the Study

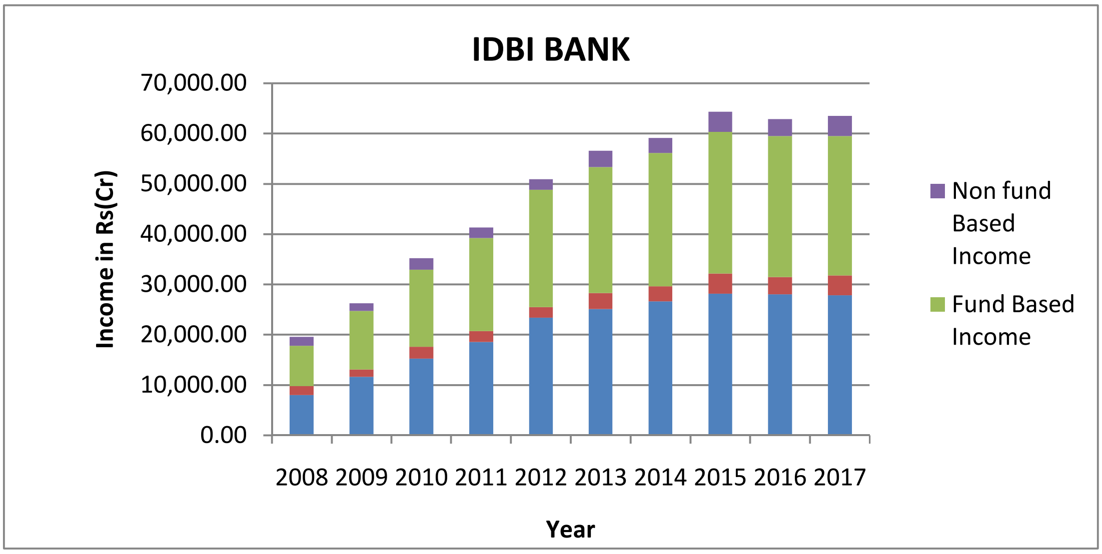
- There is no significant difference in the contribution made by non-fund based income in the total income of IDBI bank and ICICI bank in India.
- There is no significant difference in the comparative ratio of fund based income and non fund based income of IDBI bank and ICICI bank in India.

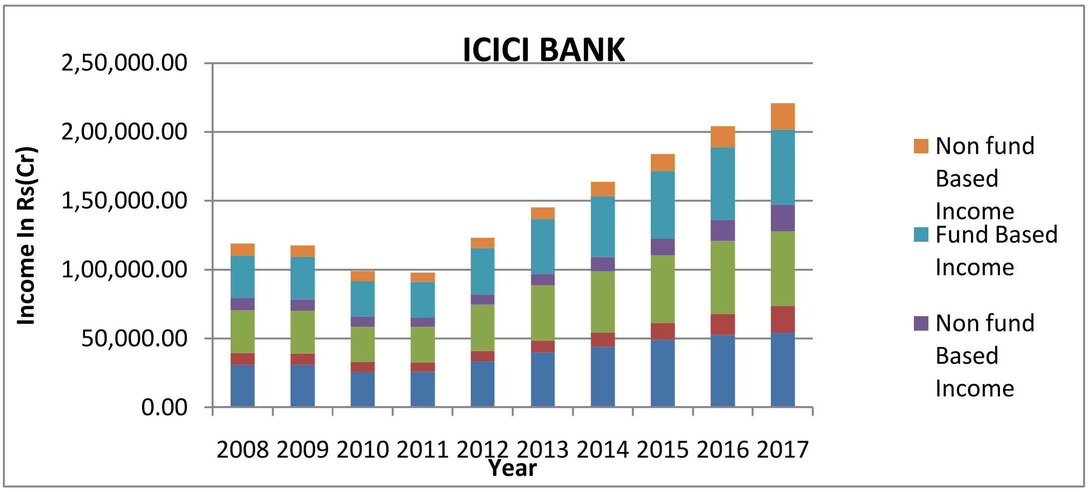
Table 1: Comparative Income of Fund Based Vs. Non Fund Based

Year	IDBI Bank			ICICI Bank		
	Fund Based Income (Crore)	Non Fund Based Income (Crore)	Total Income (Crore)	Fund Based Income (Crore)	Non Fund Based Income (Crore)	Total Income (Crore)
2008	8,020.84	1,751.26	9,772.10	30,788.34	8,878.85	39,667.19
2009	11,631.63	1,475.72	13,107.35	31,092.55	8,117.76	39,210.31
2010	15,272.63	2,341.96	17,614.59	25,706.93	7,292.43	32,999.36
2011	18,541.24	2,143.23	20,684.47	25,974.05	6,647.89	32,621.94
2012	23,369.93	2,112.18	25,482.11	33,542.65	7,502.76	41,045.41
2013	25,064.30	3,219.51	28,283.81	40,075.60	8,345.70	48,421.30
2014	26,597.51	2,978.75	29,576.26	44,178.15	10,427.87	54,606.02
2015	28,153.99	4,007.63	32,161.62	49,091.14	12,176.13	61,267.27
2016	28,043.10	3,410.36	31,453.46	52,739.43	15,323.05	68,062.48
2017	27,791.37	3,967.60	31,758.97	54,156.28	19,504.48	73,660.76
Average	**21,248.65**	**2,740.82**	**23,989.47**	**38,734.51**	**10,421.69**	**49,156.20**
Standard Deviation	**7414.9225**	**902.7694**	**8211.4968**	**10820.2693**	**4138.5809**	**14621.1859**

Sources: Money Control.com

Figure1: Comparative Income of Fund Based Vs. Non Fund Based





Sources: Collected and compiled data

Analysis of Variable

IDBI Bank (Industrial Development Bank of India) is counted among the largest commercial banks of India. The bank was established in 1964 and is headquartered in Mumbai. IDBI has played a major role in building the nation during the last 55 years. The bank has about 3900 ATM centers and 2000 branches including one in Dubai. The Life Insurance Corporation of India (LIC) has received a final approval on 29th June 2018 from Insurance Regulatory and Development Authority of India (IRDAI) to hold up to 51% stake in IDBI. **Its Market Capitalization is** Rs.25, 087.14crores and **total Assets are** Rs. 252,130.23 crore. ICICI Bank is 2nd largest private sector bank in India with market cap of INR 184,547.26 crore. ICICI Bank founded in 1994 and It's headquarter is in Mumbai, Maharashtra, India & registered office in Vadodara, Gujarat, India. ICICI Bank has been consistently holding the second place for the long time and it was awarded as best bank by Global Business Development in 2014. It operates Network of 4,850 branches & 14,404 ATMs in India and available in 19 countries in the world.

Interpretations of Results

We can observe from the above table-1 shows that the Non-fund Based Income of IDBI Bank from the year 2008 to 2017. Non-fund Based income was highest Rs 4,007.63 Crore in year 2015, and it was lowest Rs 1,475.72 crore in the year 2009. Non-fund based income represents mix trends. The Average Non fund based income is Rs 2,740.82 Crore. From the year 2013 to 2017 non fund income were higher than average Non fund based income. The above table- 1 also shows the Non-fund Based Income of ICICI Bank from the year 2008 to 2017. Non-fund Based income was highest Rs 19,504.48 crore in Year 2017 and it was lowest Rs 6,647.89 crore in the year 2011.It represents the mix up trends. The Average Non fund based income is Rs 10,421.69 crore. From the year 2014 to 2017 non fund income were higher than average Non fund based income. We can observe that non fund based income of IDBI Bank on an average is Rs. 2,740.82 i.e., approximately 11 % of its total income. However, the ICICI Bank collects on an average Rs. 10,421.69 i.e., approximately 21 % of its total income as non fund based income. The difference of 10% average is huge. The Standard Deviations for the non fund based income are 902.7694 and 4138.5809 respectively for the IDBI Bank and ICICI Bank.

Findings and Conclusion

From the above interpretation of data it is concluded that ICICI Banks have a better contribution ratio of non-fund based income to total income which is 21%. In IDBI Banks this ratio comes to 11% only. This refers that more than 1/5th of total income of ICICI Banks come from non-fund based sources. Non-fund based income is comes from non-fund based activities. So the ratio of non-fund based income to fund based income also suggests improved non-fund based activities of the ICICI Banks operating in India in comparison to IDBI Banks. This shows the better services to the customers. Increases in noninterest income tend to be associated with higher profitability, higher variation in profits, and a worsened risk-return tradeoff for the average commercial bank during specific periods of times. The income source of commercial bank includes interest income and noninterest income. Obviously, when the expanding of traditional interest income business faces limitations from relatively stable population and increasingly intense horizontal competition, developing the noninterest income business becomes a main means to maintain and increase the total income level that has been experienced by international banks. Noninterest income can increase the total level of income of commercial banks in several ways. Over the past two decades, the banking industry has been transformed by sweeping deregulation and rapid technological advances in information flows, communications infrastructure, and financial markets. Deregulation fostered competition between banks, nonbanks, and financial markets where none existed before. In response to these competitive threats and opportunities, many banks embraced the new technologies that drastically altered their production and distribution strategies and resulted in large increases in noninterest income. In contrast, many other banks have continued to use traditional banking strategies for which noninterest income remains relatively less important.

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