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IMPACT OF COMPETITION ON PERFORMANCE OF BANKS IN INDIA

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ABSTRACT

The Indian financial system consists of various pillars of which the banking sector is called the apex. The introduction of competition led to the entry of private sector banks and foreign banks as a milestone in the Indian banking industry. The new entrants came up with new technologies and new range of operational methods. Liberalisation and globalisation have completely changed the functioning of the Indian banking industry. The reforms in the financial sector have revolutionised the Indian banking sector completely. In the case of the banking industry, full competition may not be optimal because it is also needed to avoid a broad level of competition, it is essential for the welfare of the financial system. The result of all the reforms was the development of competition in the banking industry as the monopoly of public sector banks was abolished. Earlier, public sector banks were the only players in the Indian banking industry. Now they had to compete with their competitors in the market. Competitiveness has now become important for the survival of banks in the banking industry. Both concentration and competition have been used as similar terms. The present study has been done to study the competitiveness of the entire banking industry as a whole because the banking sector directly affects the economy of a country. The more competition there is, the more beneficial it will be for the economy. Therefore, it has become necessary to explore the competitiveness trend of the Indian banking industry. Furthermore, the time's demand is to know whether only large banks have held all assets, deposits and advances during the study period or decreased concentration during the time period. Most of the studies were conducted by taking and comparing certain banks, either public sector banks or private sector banks. The present study focuses on measuring the competitiveness, concentration and financial performance of the Indian banking sector in the particular context of scheduled commercial banks.

Keywords: *Banking, Economic, Developed, Globalisation, Profitable, Efficient, Competitiveness, Assets.*

Introduction

To promote and support economic growth, an efficient financial system is necessary. The existence of financial institutions may not be a mere parameter, but yes the way banks are intermediaries and the efficiency with which they provide services to customers certainly affects economic growth and their performance as well. Financial institutions have always been known for two main activities, one of which is the accumulation of funds, the other is to provide loans as part of a credit policy. The way bank intermediate between these two services affects their performance and the performance of the economy as a whole. It has been important for countries to have a stable and efficient banking system. Due to globalization, advances in developed markets, regulation and technology have made financial performance an important predictor of economic conditions. Thus there is always a demand for a profitable banking system to absorb the fiscal deficit. After the regulation of the banking system, it has

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become important to monitor the performance of emerging banks. It has become important to find out how banks are doing, their behaviour in times of pressure actually reflects the efficiency or performance of banks. Profitability can be enhanced by cutting costs or by imposing market power. Both key market structure indicators such as the number of banks in an industry and the concentration in the banking industry have been used to measure competition in the banking industry. The present chapter focuses on the impact of competition on the financial performance of banks. The impact has been measured to know whether profitability or performance may be influenced by competition or their performance because there may be any other factor that affects performance. The objective of this research paper is to study the competitiveness of scheduled commercial banks in India and the impact of competition on the financial performance of banks in India, focusing on the financial performance of scheduled commercial banks.

Why Competition is Necessary

Healthy and vibrant competition enhances the competitiveness of banks. Competition has always been important for the banking industry as it has enabled financial institutions to make greater efforts to convert competition into better competition. Competition can be defined at different levels such as firm level, industry level, nation level and global competition. For a firm, competitiveness is the ability to stand ahead of its competitors in terms of products and services, while the competitiveness of an industry can be defined as the level of concentration in the industry or how the industry has moved towards competition. Competition helps to become the basis for the development of market relations. Competitiveness is defined as the ability of a business to have equal opportunities for all business entities. The competitiveness of banks is an important feature for the developing economy. The competitiveness of a financial institution can be estimated with the help of different aspects such as:

- The ability of the bank to obtain a return on the property or a return on investment.
- Bank size measured by market share.
- Information Technology.
- Managing human resources and corporate.

Competition is defined as market concentration in the present study. Market concentration refers to the extent to which a firm holds a market share in an industry. Market share in the banking industry has been calculated using assets, deposits and advances. An increase in a firm's market share leads to an increase in market concentration which in turn reduces the competitiveness of the sector. In the present study, competitiveness is introduced in the light of market concentration.

Significance of the Study

The present study focuses on the impact of competitiveness of banks in India and on their financial performance. The study was limited to the Indian banking industry only. Only commercial banks have been selected for the study. The study has also focused on the concept of competition and its measurement. Secondary data have been analyzed to examine the competitiveness and financial performance of all commercial banks. The present study will be in addition to the prevailing knowledge as there have been very few studies in India using the parameters used in the present study.

Literature Review

Krasovskis 2016, In this paper, researchers analyze the key features of the competitive environment in the Latvian banking industry based on concentration indicators. Researchers have evaluated the competitiveness of the Latvian banking industry for the first time by applying the K Bank Concentration Ratio and HHI Index. The results showed a moderate level of competition in the industry. In addition, the five largest banks held the dominant market share in terms of assets, deposits and advances. Previously, the industry was less concentrated and market share was more evenly distributed among the players.

Jayaraman and Srinivasan, 2014, in the present study, the researchers evaluated the financial performance of 34 Indian banks operating in India, excluding foreign and regional rural banks. For the purpose of the study, the researchers have selected banks whose total assets are more than 100 billion rupees. The study was totally founded on secondary data. Different input and output variables have been identified using the mediation approach. The results of the present study showed that only five banks were found to be cost-effective out of the total sample, while nine banks were found to be revenue efficient and ten banks profitable.

Kumar, 2013, researcher has focused on the total factor productivity of the Indian banking sector by DEA taking into account public, private and foreign banks operating in India and multi-regression. A total of 10 banks from all three bank groups have been selected for the present study. In the present study deposits, borrowings, and immovable properties are considered as input variables; and investment and net interest income as output variables for the period 2004 to 2012.In addition, the Indian banking industry has been found to be productive during 2008 and 2010. However, the importance of technology is highlighted. The researcher has supported the technology by saying that electronic transactions enhance the financial performance of banks.

Kabir and Day, 2012 In this research paper, researchers use the CAMEL model to compare the financial performance of the top two banks in the Bangladesh banking industry. The study was conducted on IFIC and EXIM Bank of Bangladesh from 2004 to 2007. The results of the study showed that IFIC Bank has performed better in terms of capital adequacy ratio, leverage, asset quality, and earning potential. On the other hand, Exim Bank was ahead of IFIC Bank in terms of management efficiency. Therefore, based on the results of the study, Exim Bank was found to be stronger than IFIC Bank.

Abbas F, Tahir M, Rehman M, 2012 Researchers have selected the top five banks from twenty scheduled commercial banks operating in Pakistan to compare financial performance during 2007-2011. In the present paper, financial performance is analyzed using return on assets, return on equity and return on capital etc. The results showed that high assets, capital and equity had no impact on the performance of banks in Pakistan. However, the return on assets, capital and equity has had a significant impact on the performance of the banks considered under the study.

Objectives of the Study

- To assess the competitiveness of Commercial Banks in India.
- To evaluate the economic performance of Commercial Banks in India.
- To study the impact of competitiveness on the financial performance of Commercial Banks in India.

Hypothesis for Study

Ho_1: There is significant impact of competitiveness on the financial performance of Commercial banks.

Ho_2: There is no significant impact of competitiveness on the financial performance of Commercial banks.

Research Design

Descriptive research design has been used in the present study. Descriptive in the sense it explains a pre-dominant phenomenon regarding performance and concentration of Scheduled Commercial Banks.

Sample Size for the Present Study

The present study has been performed on Commercial Banks in India. 2 public sector Banks viz. SBI and PNB and 2 private sector banks viz. ICICI Bank and HDFC Bank have been selected for the study for a comparative analysis.

Data Collection

The presented study is based on secondary data. Secondary data are taken from a variety of sources. The time frame of the present study is five years from 2016-17 to 2020-21. Data on all variables and ratios are drawn and compiled from the database on the Indian economy, including statistical tables relating to banks in India; published by the RBI, moneycontrol.com, and from the official website of the Indian Banks' Association. After collecting all the necessary data, the normality of the data is checked. The generalizability check is performed to decide whether to apply statistical tests to the data, parametric or non-parametric

Data Analysis

Secondary data have been analyzed using software such as MS-Excel and statistical package for social sciences (SPSS). To analyze the data, different statistical techniques have been applied, but the camel model has been found to be the best for data analysis of the financial situation of banks. The CAMEL model is based on bank ratios and is always desirable to evaluate the financial performance of banks. The main objective of this model is to measure the performance based on the ranking of banks. The CAMEL model has a total of five components: capital adequacy, asset quality, management efficiency, income quality and liquidity. Although for the purpose of our study we have used different ratios commonly used in camels models including asset quality ratio and management ratio.

Result and Analysis

Let's have an analysis of the impact of competitiveness on the financial performance of banks. The impact has been measured in order to know whether the profitability or the performance affected by the competition or their might be certain other factors that affect the performance. As in the banking system, technology has played an essential role. Similarly, human resource and the services increase market share of the bank which in turn make the firm enjoy competitive position in market.

Table 1: Selected Ratios of Various Banks Selected for the Purpose of Study

Year	Bank	Return on Assets	Return on Equity	Return on Advances	Capital Adequacy Ratio	Ratio of Net NPA To Net Advances
2021	State Bank of India	0.48	8.40	7.18	13.74	1.50
	Punjab National Bank	0.15	2.29	7.78	14.32	5.73
	Hdfc Bank Ltd.	1.97	16.61	8.92	18.79	0.40
	Icici Bank Limited	1.42	12.27	8.31	19.12	1.24
2020	State Bank of India	0.38	6.40	7.97	13.06	2.23
	Punjab National Bank	0.04	0.63	7.70	14.15	5.78
	Hdfc Bank Ltd.	2.01	16.40	10.12	18.52	0.36
	Icici Bank Limited	0.81	7.05	9.34	16.11	1.54
2019	State Bank of India	0.02	0.39	7.85	12.72	3.01
	Punjab National Bank	-1.25	-23.24	7.87	9.73	6.56
	Hdfc Bank Ltd.	1.90	16.50	10.50	17.11	0.39
	Icici Bank Limited	0.39	3.15	8.72	16.89	2.29
2018	State Bank of India	-0.19	-3.21	8.06	12.60	5.73
	Punjab National Bank	-1.60	-29.54	7.46	9.20	11.24
	Hdfc Bank Ltd.	1.93	17.87	10.33	14.82	0.40
	Icici Bank Limited	0.87	6.61	8.37	18.42	5.43
2017	State Bank of India	0.41	6.31	7.88	13.11	3.71
	Punjab National Bank	0.19	3.30	7.92	11.66	7.81
	Hdfc Bank Ltd.	1.88	17.95	10.22	14.55	0.33
	Icici Bank Limited	1.35	10.33	8.81	17.39	5.43

Source: https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!4

Table 2: Tests of between-Subjects Effects for Commercial Banks

Tests of Between-Subjects Effect for Commercial Banks			
Source		**F**	**Sig.**
HHI (Independent Variable)	Capital Adequacy Ratio	0.753	0.000
	Net NPAs to Net Advances	1.125	0.000
	Return on Equity	10.10	0.000
	Return on Assets	4.105	0.000
	Return on Advances	15.001	0.000
	Ratio of Deposits to total Liabilities	0.881	0.000

Source: Study results obtained using SPSS.

Table 1 demonstrates individual multivariate linear regression values for every dependent variable. From above table, it has been analysed that the independent variable (HHI) has F value at 0.753 for the first dependent variable i.e. capital adequacy ratio which has been found significant at 5 percent level of significance as the p value found at 0.000 which has been less than 0.05 percent. In case of Advances to Assets ratio, the F value of 0.951 found to be statistically significant as the p value (0.000<0.05). In case of Net NPAs to Net Advances ratio, the F value of 1.125 found to be statistically significant as the p value (0.000<0.05). The F value for Total Investment to total Assets has been observed at 0.451 which has been found significant as the p-value (0.000<0.05). The F value for total Assets to Total Deposit has been observed at 0.881 which has been found significant as the p-value (0.000<0.05). Moreover, for net interest margin the F value of 0.451 has been found statistically significant as the p-value has been found less than 0.05 percent level of significance. Government securities to total investment of commercial banks have F value of 0.661 found significant at 5 percent significance level due to p-value (0.000<0.05). For other dependent variables too, the p-value found to be less than the significant level of 5 percent. In milieu of the above, it could be interpreted that F values for all the dependent variables found to be significant. The test between subject effects also revealed the significant results; hence the independent variable impacted the dependent variables significantly.

Hypothesis Testing

On the basis of above analysis, the null hypothesis has been rejected and it has been stated that the competitiveness has impacted the financial performance of other public sector banks significantly during the time period of study. For a comprehensive view of measuring impact of independent variable on dependent variables, the multivariate linear regression has been applied and the results have been discussed below:

Table 3: Multivariate Linear Regression results for Commercial Banks

Other Public Sector Banks				
Effect		**Value**	**F**	**Sig.**
Intercept	Pillai's Trace	1	5345314.841	0.000
	Wilks' Lambda	0	5459424.935	0.000
HHI	Pillai's Trace	0.143	2.21	0.000
	Wilks' Lambda	0.919	10.153	0.000

Source: Study results obtained using SPSS

Table 3 represents the multivariate linear regression results for measuring impact of competitiveness on the financial performance of other public sector banks during the study period. Pillai's trace found to be the positive valued statistics. The increasing values of Pillai's trace demonstrates the effect have a say more to the model. Wilks' lambda also found to be a positive valued statistics where the values lie between 0 and 1. The decreased values depict more contribution in the model by effect. In the above table, the Pillai's trace value found to be 0.143 with F value at 2.21. 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 commercial banks. Similarly, the value of Wilks' lambda found at 0.919 with the F value of 10.153. These values found significant at 5 percent level of significance because the p value (0.000) was less than 0.05.

Recommendations and Suggestions

The following suggestion came out from the present study:

- Banks should be more focused on being competitive in providing varied nature of services to their customers. However, they should avoid being competitive for price.
- Banks shall also be competitive in upgrading their information technology. They might use the robots for the purpose of their business-like foreign banks uses.
- The financial inclusion is found to be a boon for Banking Industry because it has increased the deposits in the banks, but public sector banks has also to concentrate on business correspondence to achieve the high-level performance.
- Banks has to be more careful in advancing the loan. They have to strict actions in case of nonpayment of loan i.e. for recovery of the loan.

Conclusion

From the present study, it can be concluded that the main reason for commercial banks being non-performing has been their asset quality, efficiency of management, and lack of income. While commercial banks are exercising caution in lending, in the absence of strict action, they have been unable to recover advances they have made. In the current scenario, some big business tycoons have been seen who have not repaid even a penny out of the thousands of crores given to them by commercial banks. Such burning issues should be focused by each bank group to enhance performance. Overall, it can be concluded that competition starts from effective competition and that banks are struggling for a fair market share in the industry. Ultimately, the customer gains through competition as banks perform better than their competitors in providing services. The results of the study justified that competition affects the financial performance of banks. To survive in a competitive world, each bank focuses on technology, infrastructure, design of banking products and most importantly banking services. By working on all these above-mentioned parameters, banks increase their performance as well as market share.

Limitations

The limitations of the present study were:

- The present study is covering only a time period of 5 years only. In our opinion for in-depth study and deep results, longer time period could be taken for observing trend of long term for evaluating the competitiveness of Indian banks.
- The study has been carried out by taking the data of four banks only to represent the whole banking industry while the Cooperative and Regional Rural Banks could have been included.
- The comparison among different bank groups could have been performed which perhaps have shown the inter group competitiveness.

Scope for Further Research

- The present study evaluated the competitiveness on the idea 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.
- This study can be preoccupied with inclusion of Regional Rural Banks.
- Non-performing assets are one amongst the burning issues nowadays which must be considered for study. The further research might be preoccupied on calculation of competitiveness by taking non-performing assets into consideration.
- This study measured the competitiveness and financial performance of all Scheduled Commercial Banks on group wise basis, comparison among different bank groups can be performed.

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