

Profitability Analysis of Foreign Sector Banks in India

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ABSTRACT

Presence of Foreign Banks is one of the key drivers to increase competition and promote efficiency of the domestic banking system. They mainly cater to corporate banking and investment banking. Here an attempt has been made to study performance of foreign banks operating in India. Data from year 2001 to 2016 related to profitability indicators have been used to calculate various statistical values.

1. Introduction

The foreign banks not only help in channelizing foreign investments but they also bring efficiencies and boost competition in financial sector of the country. Their presence is one of the key drivers to increase competition and promote efficiency of the domestic banking system. The share of foreign banks in total assets of the banking sector in India is 6.5 per cent. They mainly cater to corporate banking and investment banking rather than undertaking large scale activities as would a domestic commercial bank also their operations are limited to urban areas only. The reasons are limited geographical reach and lack of expertise in local market. Out of the total of 318 foreign bank branches, 315 are in urban and metropolitan areas. Here an attempt has been made to study performance of foreign banks operating in India.

1.2 Objectives of Study:

1. To Study Profitability of Selected Foreign Banks In India.
2. To analyse the Profitability and give suggestions for improving the Profitability of selected Foreign banks.

1.3 Research Methodology

Data from year 2001 to 2016 related to profitability indicators like credit deposit ratio, return on equity, return on assets, intermediation cost to total assets and advances to deposits ratio of selected foreign sector banks have been used to calculate various statistical values like mean, median, Standard deviation and coefficient of variation.

1.4 Profitability Indicators:

Use of ratios like credit deposit ratio, return on equity, return on assets, intermediation cost to total assets and advances to deposits ratio have been made to evaluate profitability of foreign sector banks operating in India.

• Credit- Deposit Ratio:

Credit deposit ratio for all foreign sector banks is presented graphically in figure 1.1. The graph below shows a fluctuating trend in credit deposit ratio till year 2010, after which there was a sharp rise in it and again it followed a fluctuating trend afterwards with small rise, overall all the ratio increased from about 50 percent to around 70 percent for most of the foreign sector banks. Results of descriptive statistics for credit deposit ratio of foreign sector banks are presented in table 1.1. Mean cash deposit ratio is highest for Bank of America followed by The Bank of Nova Scotia. It is lowest for Oman International Bank and Abu Dhabi Commercial Bank Limited. Similarly Median cash deposit ratio is highest for The Bank of Nova Scotia followed by Bank of America and lowest for Oman International Bank, Abu Dhabi Commercial Bank Limited, and Societe Generale. Absolute variation is lowest for Oman International Bank and Citibank while it is highest for Bank of America, Societe Generale and The Bank of Nova Scotia. On the basis of relative measure of risk lowest is for Citi Bank, The Bank of Nova Scotia and Deutsche Bank. It is highest for Oman Bank, Abu Dhabi Commercial Bank Limited and Societe Generale.

Conclusion can be arrived at that Bank of America and The Bank of Nova Scotia have extremely high credit deposit ratio though it is good for profitability but it can also lead to liquidity problems in these banks, on this parameter their performance have been that of top performer. BNP Paribas, Bank of Bahrain and Kuwait, Citibank, Deutsche Bank, Societe Generale and Standard Chartered Bank are ranked good whereas Oman International Bank and Abu Dhabi Commercial Bank Limited have been found very poor in credit deposit ratio. Further low variation for credit deposit ratio has been found for Citi Bank and The Bank of Nova Scotia indicating stability in its credit deposit ratio. Whereas very high variation has been found in case of Oman International Bank and Abu Dhabi Commercial Bank Limited revealing fluctuation in their performance.

Table-1.1: Descriptive Statistics for Credit Deposit Ratio of Foreign Sector Banks.

Bank	Arithmetic Mean	Median	Standard Deviation (S.D.)	Coefficient of Variation (C.V.)
Abu Dhabi Commercial Bank Limited	29.96	28.07	17.94	0.60
BNP Paribas	97.27	101.52	22.14	0.23
Bank of America	129.98	126.45	44.52	0.34
Bank of Bahrain and Kuwait	71.45	70.50	14.28	0.20
The Bank of Nova Scotia	129.09	128.21	22.23	0.17
Citi Bank	75.74	74.62	7.50	0.10
Deutsche Bank	79.25	78.77	13.67	0.17
Oman International Bank	3.80	3.04	3.28	0.86
SocieteGenerale	62.19	56.09	31.40	0.50
Standard Chartered Bank	86.20	86.57	19.74	0.23

Source: Data has been compiled from various issues of Trend and Progress of Banking in India, RBI Publication.

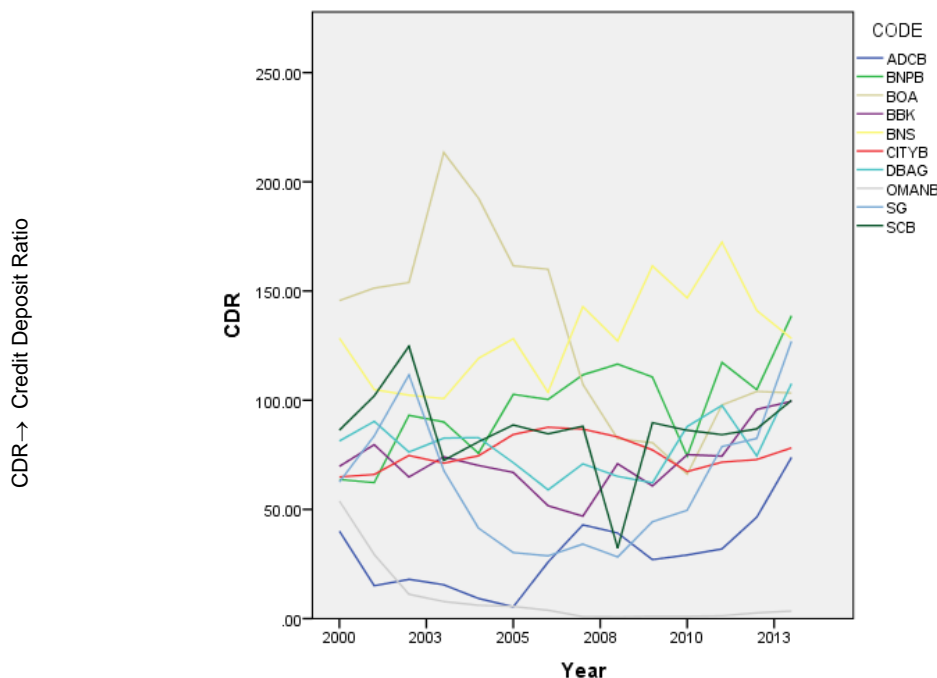


Figure-1.1: Credit Deposit Ratio

• Return on Equity:

Return on equity for all foreign sector banks is presented graphically in figure 1.2. No clear cut behaviour of return on equity emerges from the graph above. Strong fluctuations can be seen in this ratio which were more prominent between year 2004 and year 2006 for most of the foreign Sector banks under study. Overall there was small fall in return on equity between year 2000 and year 2013.

Results of descriptive statistics for return on equity of foreign sector banks are presented in table 1.2. Mean return on equity is highest for Standard Chartered Bank followed by Citibank. It is lowest for Oman International Bank and SocieteGenerale. Similarly median return on equity is highest for Standard Chartered Bank followed by Citi Bank and lowest for Oman International Bank, SocieteGenerale and BNP Paribas. Absolute variation is lowest for Bank of America and Citi Bank while it is highest for Abu Dhabi Commercial Bank

Limited, Bank of Bahrain and Kuwait and Oman International Bank. On the basis of relative measure of risk lowest is for Oman International Bank, Bank of America and Standard Chartered Bank. It is highest for Abu Dhabi Commercial Bank Limited, Bank of Bahrain and Kuwait, and SocieteGenerale.

It can be concluded that Standard Chartered Bank and Citi Bank have been performing excellent, Bank of America, The Bank of Nova Scotia and Deutsche Bank are ranked good whereas Oman International Bank, SocieteGenerale, Bank of Bahrain and Kuwait, BNP Paribas and Abu Dhabi Commercial Bank Limited have been found poor in return on equity, with Oman International Bank showing negative return on equity. Variation is very high for Abu Dhabi Commercial Bank Limited, Bank of Bahrain and Kuwait and, SocieteGenerale indicating fluctuating return on equity whereas Bank of America, Standard Chartered Bank and Citibank have shown low variation in return on equity revealing consistency in their performance.

Table-1.2: Descriptive Statistics for Return on Equity of Foreign Sector Banks.

Bank	Arithmetic Mean	Median	Standard Deviation (S.D.)	Coefficient of Variation (C.V.)
Abu Dhabi Commercial Bank Limited	5.42	6.75	23.02	4.25
BNP Paribas	4.57	6.58	8.57	1.88
Bank of America	12.65	12.38	3.62	0.29
Bank of Bahrain and Kuwait	4.71	8.91	13.12	2.79
The Bank of Nova Scotia	13.67	15.53	6.57	0.48
Citi Bank	18.59	20.12	5.68	0.31
Deutsche Bank	14.23	12.90	6.26	0.44
Oman International Bank	-.3450	1.950	9.00	-26.09
SocieteGenerale	2.98	5.22	7.63	2.56
Standard Chartered Bank	23.44	22.38	7.07	0.30

Source: Data has been compiled from various issues of Trend and Progress of Banking in India, RBI Publication.

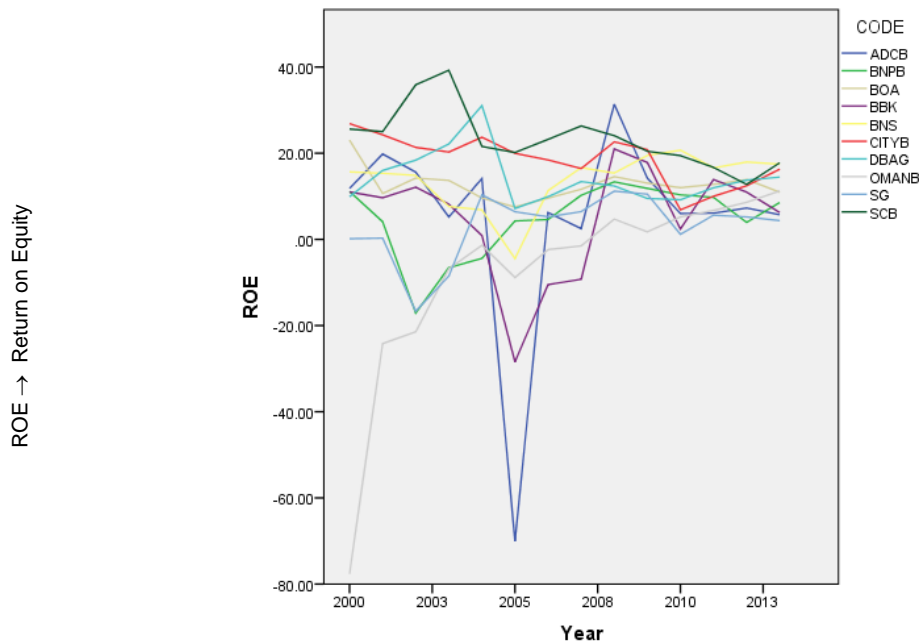


Figure-1.2: Return on Equity

• Return on Assets:

Return on assets for all foreign sector banks is presented graphically in figure 1.3. It shows fluctuating trend of return on assets of all the ten foreign sector banks. No clear cut behaviour emerged as sharp rise and fall can be seen in this ratio between year 2004 and 2008. Overall there was marginal fall in this ratio during the study period.

Results of descriptive statistics for return on assets of foreign sector banks are presented in table 1.3. Mean return on assets is highest for Standard Chartered Bank followed by Citi Bank. It is lowest for SocieteGenerale and Bank of Bahrain and Kuwait. Similarly median return on assets is highest for Citi Bank followed by Standard Chartered Bank and lowest for Abu Dhabi Commercial Bank Limited, BNP Paribas and Bank of Bahrain and Kuwait. Absolute variation is lowest for Standard Chartered Bank and Citi Bank while it is highest for Oman

International Bank, Bank of Bahrain and Kuwait and Abu Dhabi Commercial Bank Limited. On the basis of relative measure of risk lowest is for Standard Chartered Bank, Citi Bank and Deutsche Bank. It is highest for Bank of Bahrain and Kuwait, Oman International Bank and SocieteGenerale.

Conclusion can be drawn that Standard Chartered Bank, Citi Bank, and Bank of America have been excellent in return on assets, Abu Dhabi Commercial Bank Limited, BNP Paribas, BNJ, Deutsche Bank and Oman International Bank have been good whereas SocieteGenerale and Bank of Bahrain and Kuwait have been found poor in return on assets. Further, high variation in return on asset has been found for Bank of Bahrain and Kuwait and Oman International Bank whereas Standard Chartered Bank and Citi Bank have shown low variation indicating consistent return on assets.

Table-1.3: Descriptive Statistics for Return on Assets of Foreign Sector Banks.

Bank	Arithmetic Mean	Median	Standard Deviation (S.D.)	Coefficient of Variation (C.V.)
Abu Dhabi Commercial Bank Limited	.8307	.5100	1.41	1.70
BNP Paribas	.8857	.8350	1.03	1.16
Bank of America	2.41	2.49	.99217	0.41
Bank of Bahrain and Kuwait	.7621	.9800	1.98	2.60
The Bank of Nova Scotia	1.50	1.73	.84761	0.57
Citi Bank	2.55	2.81	.83369	0.33
Deutsche Bank	1.90	1.72	.77628	0.41
Oman International Bank	1.58	1.70	4.01	2.54
SocieteGenerale	.6571	1.05	1.23	1.87
Standard Chartered Bank	2.61	2.68	.61709	0.24

Source: Data has been compiled from various issues of Trend and Progress of Banking in India, RBI Publication.

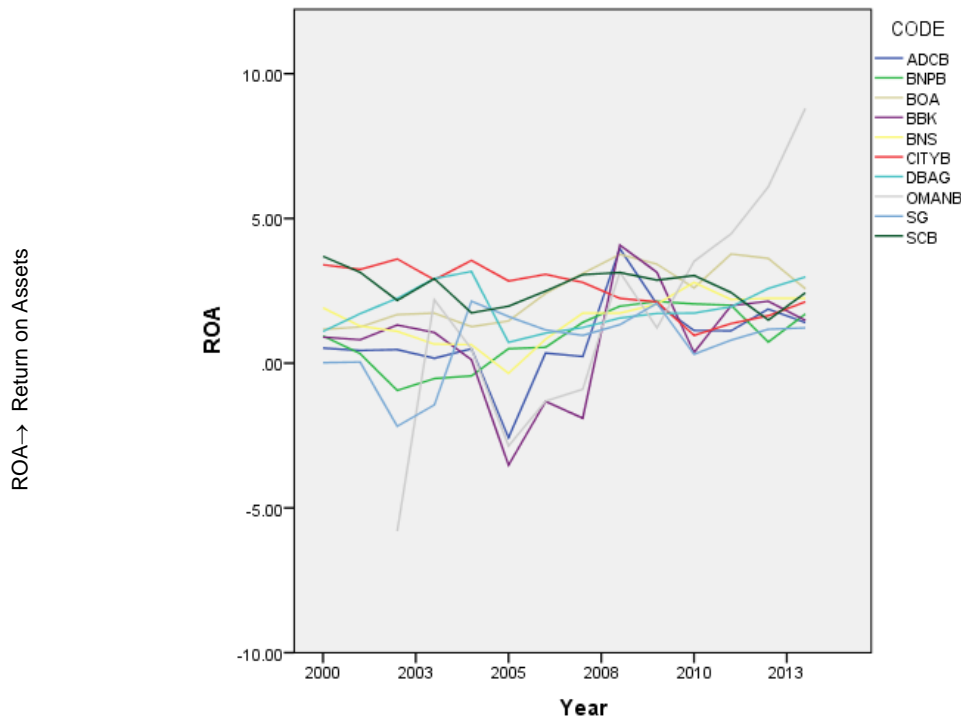


Figure-1.3: Return on Assets

• **Intermediation Cost to Total Assets:**

Intermediation cost to total assets for all foreign sector banks is presented graphically in figure 1.4. The graph above clearly shows very high level of inconsistency in intermediation cost to total assets ratio of ten foreign sector banks. Small change can be seen in this ratio for all the selected foreign sector banks between year 2000 and year 2013

Results of descriptive statistics for intermediation cost to total assets of foreign sector banks are presented in table 1.4. Mean intermediation cost to total assets is highest for Deutsche Bank followed by Citi Bank. It is lowest for The Bank of Nova Scotia and Oman International Bank. Similarly median intermediation cost to total assets is highest for Deutsche Bank followed by Citi Bank and lowest for The Bank of Nova Scotia, Oman International Bank, and Abu Dhabi Commercial Bank Limited. Absolute variation is lowest for The Bank of Nova Scotia and SocieteGenerale while it is highest for Abu Dhabi

Commercial Bank Limited, Deutsche Bank, and Bank of America. On the basis of relative measure of risk lowest is for Standard Chartered Bank, SocieteGenerale and BNP Paribas. It is highest for Abu Dhabi Commercial Bank Limited, Bank of America, and The Bank of Nova Scotia.

It can be concluded that The Bank of Nova Scotia has shown lowest intermediation cost to total assets ratio making it best bank, Abu Dhabi Commercial Bank Limited, Bank of America, Bank of Bahrain and Kuwait, SocieteGenerale, and Standard Chartered Bank have been good in keeping low levels of this ratio whereas BNP Paribas, Deutsche Bank, and Citibank performed quite poorly with high intermediation cost to total asset ratio. Further variation has been quite low for Standard Chartered Bank and SocieteGenerale indicating consistent performance whereas variation has been quite high for Abu Dhabi Commercial Bank Limited and Bank of America.

Table-1.4: Descriptive Statistics for Intermediation Cost to Total Assets of Foreign Sector Banks.

Bank	Arithmetic Mean	Median	Standard Deviation (S.D.)	Coefficient of Variation (C.V.)
Abu Dhabi Commercial Bank Limited	1.62	1.66	0.949	0.59
BNP Paribas	3.03	3.08	0.48	0.16
Bank of America	1.82	1.83	0.75	0.41
Bank of Bahrain and Kuwait	2.1	1.98	0.415	0.2
The Bank of Nova Scotia	0.967	0.97	0.289	0.3
Citi Bank	3.17	3.44	0.613	0.19
Deutsche Bank	3.78	3.81	0.796	0.21
Oman International Bank	1.51	1.46	0.395	0.26
SocieteGenerale	2.37	2.34	0.372	0.16
Standard Chartered Bank	2.704	2.63	0.378	0.14

Source: Data has been compiled from various issues of Trend and Progress of Banking in India, RBI Publication.

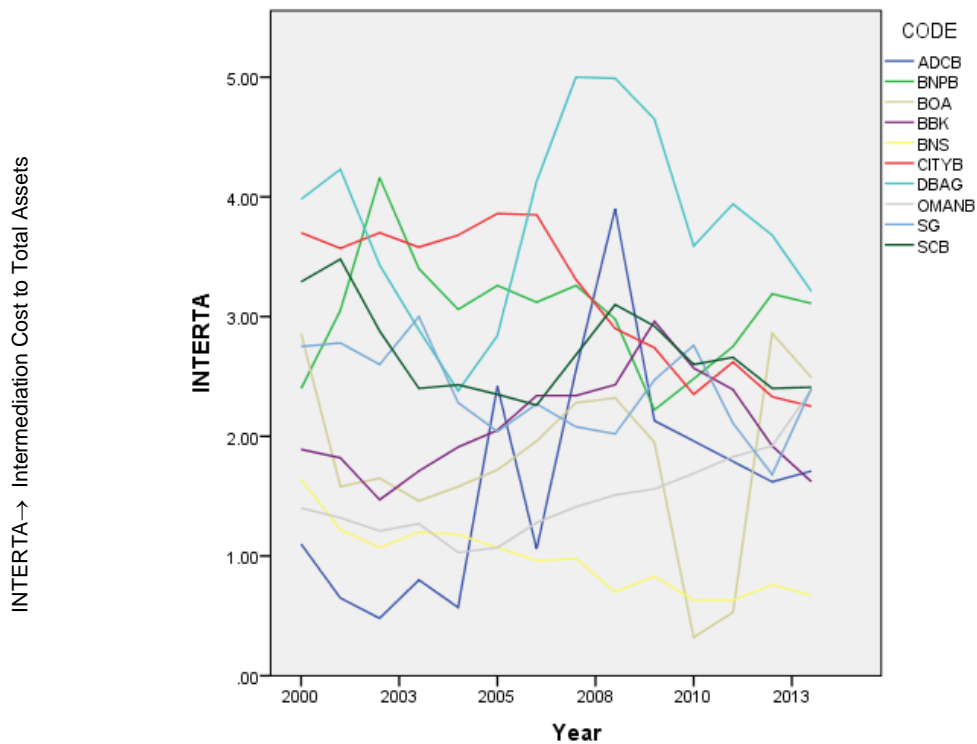


Figure-1.4: Intermediation Cost to Total Assets

• Return on Advances:

Return on advances for all foreign sector banks is presented graphically in figure 1.5. Graph below clearly shows a general fall in return on advances ratio from around 13 percent in year 2000 to around 10 percent in 2005 of foreign sector banks under study, however after 2005 there was sharp rise in this ratio (which was quite sharp in case of Oman International Bank) till year 2009 after which there is some consistency in this ratio till year 2013.

Results of descriptive statistics for return on advances of foreign sector banks are presented in table 1.5. Mean return on advances is highest for Standard Chartered Bank followed by Citi Bank .It is lowest for The Bank of Nova Scotia and Oman International Bank .Similarly median return on advances is highest for Standard Chartered Bank followed Citi Bank and lowest for Oman International Bank, The Bank of Nova Scotia, and Bank of America . Absolute variation is lowest for Standard

Chartered Bank and Citi Bank while it is highest for Oman International Bank, BNP Paribas, Deutsche Bank, and The Bank of Nova Scotia .On the basis of relative measure of risk lowest is for Standard Chartered Bank, Citibank and Bank of Bahrain and Kuwait .It is highest for Oman bank, BNP Paribas, and The Bank of Nova Scotia.

Conclusion can be drawn that top performance in return on advances has been shown by Standard Chartered Bank, Citi Bank, Abu Dhabi Commercial Bank Limited, BNP Paribas, Bank of America, Bank of Bahrain and Kuwait, Deutsche Bank, Oman International Bank and SocieteGenerale have been good on this indicator whereas The Bank of Nova Scotia showed poor performance with lowest return on advances ratio. Coefficient of variation has been low for Standard Chartered Bank and Citi Bank revealing consistent return on advances whereas Oman International Bank has shown highest Coefficient of variation indicating fluctuation in its performance.

Table-1.5: Descriptive Statistics for Return on Advances of Foreign Sector Banks.

Bank	Arithmetic Mean	Median	Standard Deviation (S.D.)	Coefficient of Variation (C.V.)
Abu Dhabi Commercial Bank Limited	9.87	8.84	2.19	0.22
BNP Paribas	9.12	8.14	2.94	0.32
Bank of America	8.09	7.65	2.28	0.28
Bank of Bahrain and Kuwait	9.86	10.02	2.10	0.21
The Bank of Nova Scotia	7.63	6.82	2.33	0.31
Citi Bank	11.25	10.63	1.93	0.17
Deutsche Bank	9.09	9.61	2.33	0.26
Oman International Bank	8.66	6.10	8.65	1.00
SocieteGenerale	8.77	9.08	2.25	0.26
Standard Chartered Bank	11.39	10.72	1.91	0.17

Source: Data has been compiled from various issues of Trend and Progress of Banking in India, RBI Publication.

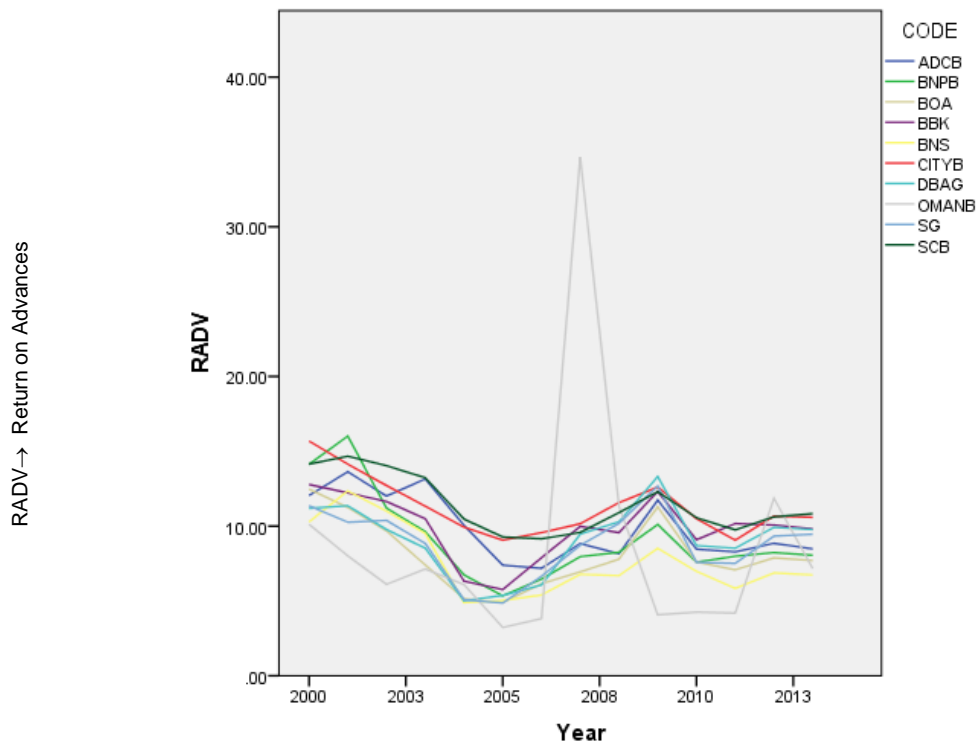


Figure-1.5: Return on Advances

2. Conclusion

Mean credit deposit ratio is highest for Bank of America .Median credit deposit Ratio is highest for The Bank of Nova Scotia. Absolute variation is lowest for Oman International Bank. Coefficient of variation is lowest for Citi Bank.

Mean and median return on equity is highest for Standard Chartered Bank followed by Citi Bank .It is lowest for Oman International Bank and SocieteGenerale. Absolute variation is lowest for Bank of America. Coefficient of variation is lowest for Oman International Bank.

Mean return on assets is highest for Standard Chartered Bank .Similarly Median return on assets is highest for Citibank .Absolute variation is lowest for Standard Chartered Bank. Coefficient of variation is lowest for Standard Chartered Bank.

Mean and median intermediation cost to total assets are highest for Deutsche Bank. Absolute variation is lowest for The Bank of Nova Scotia .Coefficient of variation is lowest for Standard Chartered Bank. Mean and median return on advances is highest for Standard Chartered Bank. Absolute variation is lowest for Standard Chartered Bank.Coefficient of variation is again lowest for Standard Chartered Bank.

Top performance in return on advances has been shown by Standard Chartered Bank, Citi Bank, Abu Dhabi Commercial Bank Limited, BNP Paribas, Bank of America, Bank of Bahrain and Kuwait, Deutsche Bank, Oman International Bank and SocieteGenerale have been good on this indicator whereas The Bank of Nova Scotia showed poor performance with lowest return on advances ratio.

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