SWOT Analysis Indian Banking

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SWOT ANALYSIS ON INDIAN BANKING INDUSTRY

Importance of Banking Industry In the analytical and empirical literature on the subject of finance and growth, there is a consensus among economists that development of the financial system contributes to economic growth. Financial development creates enabling conditions for growth through either a supply-leading (financial development spurs growth) or a demand-following (growth generates demand for financial products) channel.

<table>
<thead>
<tr>
<th>Item</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
<th>2006-07</th>
<th>2007-08</th>
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<tbody>
<tr>
<td>Growth</td>
<td>10.6</td>
<td>9.8</td>
<td>9.9</td>
<td>20.3</td>
<td>15.4</td>
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<tr>
<td>Services</td>
<td>6.3</td>
<td>7.1</td>
<td>9.0</td>
<td>11.3</td>
<td>10.8</td>
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<tr>
<td>GDP</td>
<td>5.6</td>
<td>5.7</td>
<td>7.3</td>
<td>9.7</td>
<td>9.0</td>
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<tr>
<td>Share</td>
<td>3.1</td>
<td>4.9</td>
<td>6.1</td>
<td>6.7</td>
<td>7.1</td>
</tr>
<tr>
<td>Services</td>
<td>46.3</td>
<td>51.5</td>
<td>59.6</td>
<td>62.0</td>
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<tr>
<td>GDP</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Contribution to GDP</td>
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<td>0.5</td>
<td>0.6</td>
<td>1.2</td>
<td>1.0</td>
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<td>Banking and Insurance</td>
<td>2.9</td>
<td>3.6</td>
<td>5.3</td>
<td>6.9</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: National Accounts Statistics, Central Statistical Organisation

Banking industry depends on the overall growth of economy. Other sectors like cement, steel and consumer durables are dependent on banking sector and move in tandem. Although the Indian economy has done relatively better in 2008-09 compared to other countries in the emerging markets peer group, the slowdown in fiscal 2009 was deeper than anticipated. Accordingly, the estimates of GDP growth have been lowered to between 6.50% and 7.00% in fiscal 2009, lower than the average growth rate of 8.50% of the previous four years. Over the last few years, India has become increasingly integrated with the global economy, both through trade and through exposure to financial markets. The loss of export markets has consequently hit domestic demand quite hard, particularly as many export segments are also employment intensive. The performance of the Banks in 2008-09 should be viewed in the backdrop of the global financial crisis that had its beginnings in the US sub-prime sector and broader financial markets but spread throughout the world, turning into a full-blown global economic crisis. Unlike developed economies, the slowdown in India has not been led by the financial sector but affected by mainly the following:

(a) The sharp slowdown in global import demand resulted in an export slowdown,

(b) A contraction in the availability of global finance, particularly export finance, and an increase in the costs of foreign currency funds

(c) Slowdown in investment plans of many corporate in anticipation of a demand slowdown.
Some Major areas of Banking are:

- RETAIL BANKING
- CORPORATE BANKING
- CORPORATE CREDIT
- TREASURY
- CAPITAL MARKETS
- LENDING TO MICRO, SMALL AND MEDIUM ENTERPRISES, AGRICULTURE AND MICRO FINANCE
- INTERNATIONAL BANKING

**STRENGTH**

- Indian banks have compared favourably on growth, asset quality and profitability with other emerging economies banks over the last few years.
- Policy makers have made some notable changes in policy and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations between commercial and co-operative banks.
- Bank lending has been a significant driver of GDP growth and employment.
- Extensive reach: the vast networking & growing number of branches & ATMs. Indian banking system has reached even to the remote corners of the country.
- In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region.
- Foreign banks will have the opportunity to own up to 74 per cent of Indian private sector banks and 20 per cent of government owned banks.

**WEAKNESS**

- PSUs need to fundamentally strengthen institutional skill levels especially in sales and marketing, service operations, risk management and the overall organisational performance ethic & strengthen human capital.
- Old private sector banks also have the need to fundamentally strengthen skill levels.
- The cost of intermediation remains high and bank penetration is limited to only a few customer segments and geographies.
- Structural weaknesses such as a fragmented industry structure, restrictions on capital availability and deployment, lack of institutional support infrastructure, restrictive labour laws, weak corporate governance and ineffective regulations.
beyond Scheduled Commercial Banks (SCBs), unless industry utilities and service bureaus.

- Refusal to dilute stake in PSU banks: The government has refused to dilute its stake in PSU banks below 51% thus choking the headroom available to these banks for raising equity capital.

**OPPORTUNITY**

- The market is seeing discontinuous growth driven by new products and services that include opportunities in credit cards, consumer finance and wealth management on the retail side, and in fee-based income and investment banking on the wholesale banking side. These require new skills in sales & marketing, credit and operations.

- With increased interest in India, competition from foreign banks will only intensify.

- Given the demographic shifts resulting from changes in age profile and household income, consumers will increasingly demand enhanced institutional capabilities and service levels from banks.

- New private banks could reach the next level of their growth in the Indian banking sector by continuing to innovate and develop differentiated business models to profitably serve segments like the rural/low income and affluent/HNI segments; actively adopting acquisitions as a means to grow and reaching the next level of performance in their service platforms. Attracting, developing and retaining more leadership capacity.

- Foreign banks committed to making a play in India will need to adopt alternative approaches to win the “race for the customer” and build a value-creating customer franchise in advance of regulations potentially opening up post 2009. At the same time, they should stay in the game for potential acquisition opportunities as and when they appear in the near term. Maintaining a fundamentally long-term value-creation mindset.

- Reach in rural India for the private sector and foreign banks.

- With the growth in the Indian economy expected to be strong for quite some time-especially in its services sector-the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong.

- Reserve Bank of India (RBI) has approved a proposal from the government to amend the Banking Regulation Act to permit banks to trade in commodities and commodity derivatives.

- Hybrid capital: In an attempt to relieve banks of their capital crunch, the RBI has allowed them to raise perpetual bonds and other hybrid capital securities to shore
up their capital. If the new instruments find takers, it would help PSU banks, left with little headroom for raising equity.

**THREATS**

- Threat of stability of the system: failure of some weak banks has often threatened the stability of the system.
- Rise in inflation figures which would lead to increase in interest rates.
- Increase in the number of foreign players would pose a threat to the PSB as well as the private players.

**BUDGET 2008 2009 PROPOSAL**

- IIFCL (Indian Infrastructure Financial Corporation Limited) to refinance 60% of bank loans to critical sectors.
- Debt Waiver and Debt Relief scheme to allow farmers to repay 75% of their loans extended by six months thus higher NPA.
- Banks and Insurance companies to remain under government ownership.

**IMMEDIATE IMPACT AFTER BUDGET**

The UPA was likely to announce disinvestment plans for sick public sector companies but nothing was said about it other than the dampener, that Banks and Insurance sector will be left out of disinvestment. The banking stocks, especially the public sector banking stocks are expected to be negatively impacted by this but hopefully, the infrastructure companies will gain following key infrastructural announcements like, the 31% increase in allocation for National Highway, evolving financing mechanism through Indian Infrastructure Financial Corporation Limited (IIFCL), for giving increased support to infrastructure projects or the Gram Sadak Yojana whose allocation has been hiked up 59% to Rs 12000 crore.

**MAJOR PRIVATE PLAYERS**

- ICICI Bank
- HDFC Bank
- Kotak Mahindra
- Yes Bank
- Federal Bank
- IndusInd Bank
- JK Bank
- ING Vysya Bank
- Karur Vysya

**OUTLOOK FOR 2009-10**

While the economic condition of major developed economies is unlikely to improve in 2009, further deterioration is not expected and the general view is that the worst is over. The residual effects on job losses and credit delinquencies, however, will keep
Demand conditions weak, despite the significant stimulus packages offered by both governments and central banks. In the short term, export-driven activity is likely to remain depressed and capital expenditure is likely to remain muted. Increased sales in certain sectors like cement and steel, and price discounts resulting in higher sales in certain consumer durables segments are already visible.

The stimulus package of the government and the implementation of the Sixth Pay Commission, which will increase the purchasing power of public sector employees, should also boost demand. The fiscal situation is expected to remain weak, however, and increased government expenditure commitments may not be matched by buoyancy in tax revenues. Despite a difficult funding and credit environment, the extension of credit by banks in India has been reasonably satisfactory and accelerating its delivery will be a key factor in sustaining the positive effects of the fiscal and monetary stimulus measures. In particular, bank credit will play a large role as other avenues for raising funds are likely to remain tight. While concerns about credit quality have impeded a larger increase in credit flows, the financial sector remains sound and will, in our view, be able to absorb the anticipated increase in non-performing assets without deleterious capital erosion. Given the fact that cost of funds for banks is steadily diminishing and will translate into lower lending rates, the demand for bank credit should pick up in course of time. However, foreign currency funds are expected to still remain relatively scarce.

**CONCLUSIONS**

Long term outlook is still bullish despite jittery budget because India will be the prime BRIC (Brazil Russia India China) country in emerging markets to have potential of providing the fastest growth opportunities.