

# Analysis of Surveys on International Trade in Banking Services

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## Abstract

This paper analyses the Annual Surveys on International Trade in Banking Services of the Reserve Bank of India for the period 2013-19. It compares performance across three different categories of banks namely, Indian Banks' Branches Operating Abroad, Indian Banks' Subsidiaries Operating Abroad and Foreign Banks' Branches Operating in India. Using trend and percentage analysis, the paper portrays various parameters graphically. The analysis demonstrates that the Foreign Banks in India perform better than the Indian banks abroad. The paper suggests compliance with BASEL-III norms and prudential regulations along with better technological compliance for more competitive performance by the Indian counterparts in future.

**Keywords:** Central Bank, International Trade and Finance, Interest Rates, Mergers and Acquisitions

**JEL classification:** G33, E58, G34

## 1. Introduction

The Reserve Bank of India (RBI) decided to set up a Technical Group on Statistics for International Trade in Banking Services in 2007, to abide by Group on Negotiation on Services and to make meaningful negotiations under the General Agreement on Trade in Services (GATS). After reviewing the different data sources available with them, they approved a collection of activity-wise international trade in services through annual surveys from the financial year 2006-07. GATS, of the World Trade Organization (WTO) framework envisions that the production of any commercial service can be through four modes *viz.*, Cross Border Service, Consumption abroad, Commercial presence and the movement of natural persons.

The banking activity falls under the commercial presence in the region of the service importing country and the service is delivered therein. The commercial presence of a bank can be through representative offices, branches, subsidiaries, associates and correspondents.

Branches are fully owned by the parent organization while subsidiaries are partly owned by parent banks with majority shareholdings. For example, State Bank of India (SBI) branches are owned by SBI but Regional Rural Banks (RRBs) are subsidiaries of SBI. In RRBs, SBI holds 35% shares while the respective State Government owns 15% and the Government of India owns 50% of shares. The administrative responsibilities of RRBs lie with SBI.

Banking services comprise receiving deposits and lending (core banking services), and the other financial services (para-banking services) like payment services, securities trading, asset management, financial advice, settlement and clearing service, etc. With the developments in the economic integration of financial markets and activities, international trade in banking services has significantly improved. A brief history of banking services of Indian Branches and Subsidiaries abroad and of the Foreign Banks in India is presented in Table 1.

This paper begins with presenting some stylized facts pertaining to the survey in Section 1, which help in

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**Table 1.** Brief History of Indian Banks Abroad and Foreign Banks in India

	Indian Banks' Branches Operating Abroad	Indian Banks' Subsidiaries Operating Abroad	Foreign Banks' Branches in India
Year of Inception	1946	1989	1858
First Bank Branch	Bank of India was the first Indian Bank to open a branch outside the country in London.	SBI established an offshore bank, SBI International (Mauritius) Ltd.	Standard Chartered Bank was the first bank to start its operations in India.
Number of branches (As on 31 <sup>st</sup> March, 2019)	137	369	294
Dominant Branch	Bank of Baroda	Bank of Baroda	Standard Chartered Bank

drawing important inferences for analysis. The objectives and research methodology pertaining to the study are explained in section 2. The paper analyses the data and its graphical representation in Section 3 for all the three categories of banks. Finally, the conclusion and policy recommendations are given in Section 4.

### 1.1 Stylized Facts of the Banking and Trade Services Surveys

The existing surveys highlight the following facts in the three categories of banks:

- While carrying out the banking business, it was observed that banks cater to the financial services requirements of the citizens of the country of operation as well as foreigners residing in that country. It was seen that the number of employees in overseas branches of Indian banks and foreign banks operating in India declined by 9.5 percent and 4.6 percent respectively during 2018-19. Whereas the staff strength of overseas subsidiaries of Indian banks increased by 15.6 percent during the year.
- The study also highlighted that the fund-based business of overseas branches of Indian banks declined during 2018-19 as reflected in 7.2 percent contraction in their consolidated balance sheet. On the other hand, the combined asset-base of foreign banks operating in India expanded by 22.2 percent over the same period.
- As per the survey, the income of all three bank groups increased in the range of 9.3-14.8 percent and expenditure in the range of 6.4-12.7 percent during the year.
- A major share of fee income of overseas branches of Indian banks was generated by rendering (a) credit-related services; (b) derivative, stocks, securities, forex trading services; and (c) trade finance related

services. A large portion of the fee income of foreign banks branches operating in India accrued from (i) derivative, stocks, securities, and forex trading services; (ii) payment and money transmission services; and (iii) trade finance related services.

- The branches of Indian banks located in the United Kingdom generated the highest fee income, followed by their branches in the United Arab Emirates, Singapore and the United States of America.

## 2. Objectives and Research Methodology

The objectives pertaining to the study and the research methodology used in the paper has been explained in this section.

### 2.1 Objectives

- The study aims to draw meaningful insights from the Survey on International Trade in Banking Services, 2018-19 on the functioning of three different bank groups consisting of Indian Banks' Branches Operating Abroad, Indian Banks' Subsidiaries Operating Abroad and Foreign Banks' Branches Operating in India.
- The paper analyses the various performance parameters of these bank groups over 2017-18 and 2018-19.
- The paper also provides the reasons for a slack in the performance and functioning of Indian banks' branches and subsidiaries operating abroad in comparison to Foreign banks' branches operating in India, on which the literature is thin.
- The study helps us to understand the impact of all the factors affecting operations of Indian and Foreign banks by using data from 2013 to 2019; and to depict a trend, which is crucial for detailed understanding of

the performance of these banks during the period of study.

- The study performs simple regression analysis on all three bank groups' performance in terms of Total Assets/Liabilities, Deposits Mobilized and Credit Extended to understand the trend.

## 2.2 Research Methodology

The Survey is analyzed through graphical representation of the data from RB (2013-19), Surveys on International Trade in Banking Services, RBI, using the following two techniques:

1. **Trend Analysis:** The study derives a trend line of the data provided in the report, over six years from 2013 and till 2019 for all the three categories of bank. This helps in observing and studying their pattern of performance and behavior overtime in terms of the parameters mentioned in the survey.

2. **Percentage Change Analysis:** This analysis, helps in assessing the magnitude of variation of different parameters for all the categories by taking percentage changes for 2017-18 and 2018-19 into consideration.

## 3. Analysis and Graphical Representation

The analysis and comparison of the three categories of banks is done using graphical representation based on the parameters given in the Surveys. It includes total number of branches, total employees, consolidated income, consolidated expenditure, profit and loss of the banks and total income and fee income from different countries where Indian branches operate.

### 3.1 Total Number of Branches

A comparison based on Total number of branches in the three categories of banks is shown graphically in Figures 1 and 2.

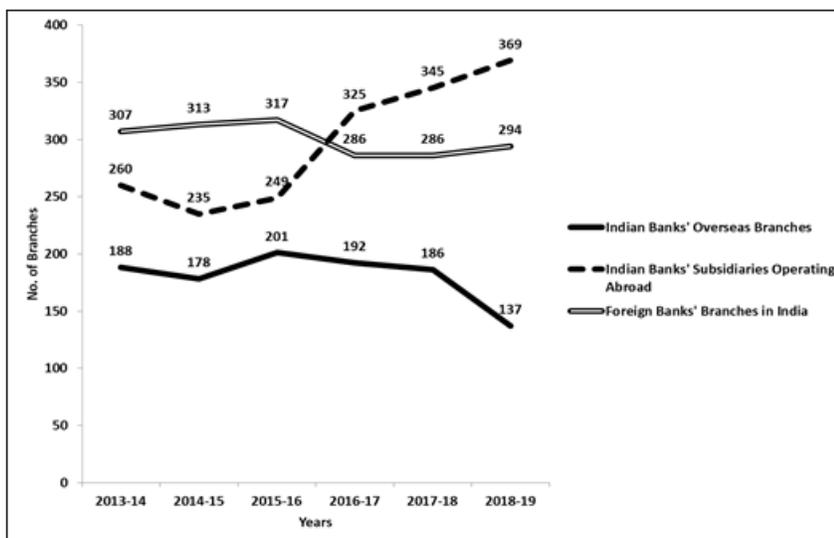


Figure 1. Total Number of Branches.

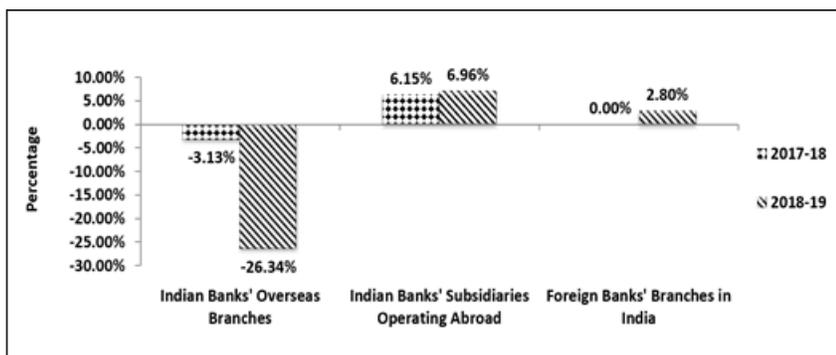


Figure 2. Total Number of Branches.

### 3.1.1 Trend Analysis

Figure 1 shows, before the year 2015-16 Indian Banks Branches and Subsidiaries reflect an inconsistent trend where as Foreign Banks’ Branches in India have risen at a diminishing pace. Post 2015-16, there has been a rise in number of Indian Subsidiaries and a fall in number of Indian branches. The number for Foreign Banks in India somewhat remained constant. During the period of study, there has been a shutdown of 51 Indian Banks’ Branches operating abroad and 13 Foreign Banks’ Branches operating in India. On the contrary, there has been a significant increment of 109 Indian Banks’ Subsidiaries operating abroad.

### 3.1.2 Percentage Change Analysis

Figure 2 represents percentage change in the number of branches of all three bank groups from 2017-18 to 2018-19. The figure shows there has been an eight fold decline in the number of Indian Banks’ Branches abroad. The rate of growth of Indian Subsidiaries operating abroad is approximately maintained at 6 per cent. There has been a trivial spike of 2.8 per cent for branches of Foreign Banks operating in India.

Madhavankutty (2018), provides the possible reason for poor performance by Indian banks operating abroad. It states that over the recent years, regulatory compliances in foreign countries have become more stringent which unnecessarily adds on to the cost of operations. Regulatory compliances mandate banks to appoint a local auditor and a compliance officer. Adherence to various compliances deviate banks from focusing on core activities.

As per the PSB Manthan, (November 2017), rationalisation of overseas operations of public sector banks was decided as a measure of capital conservation exercise. Following the Asset Quality Review (AQR), 35 overseas operations were closed, while 69 are under process or being considered for rationalisation.

The reason for the growth of Indian Banks’ Subsidiaries operating abroad at a constant pace of about 6% can be attributed to autonomy in their operations and minimal interference by the parent body.

The spike of Foreign Banks in India witnessed over recent years could be in response to major defaults by Indian Banking Systems, which eroded the trust of customers on local banks and made them to switch over foreign banks. Unlike Indian Banks, Foreign Banks offer a plethora of services like derivatives and exchange, fund management services and portfolio management etc. which serves as a competitive advantage to increase customer base.

## 3.2 Total Number of Employees

Total number of employees in the three categories of banks are compared graphically in Figures 1 and 2.

### 3.2.1 Trend Analysis

Figure 3 shows, before 2015-16, employment in Foreign Banks’ operating in India increased but the employment of Indian Banks’ Branches and Subsidiaries operating abroad remained constant. Post 2015-16, employment in Indian Branches declined due to shutting down of several branches after losses revealed by AQR, in order to release

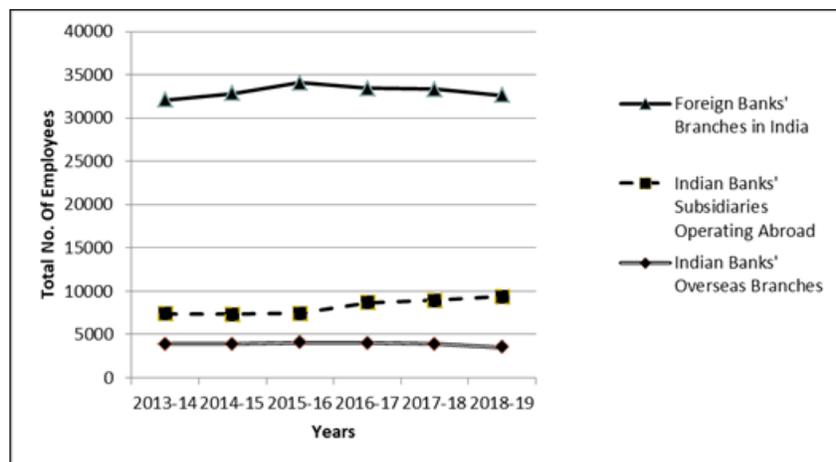


Figure 3. Total Number of Employees.

capital. Indian Subsidiaries hired employees to cater their expansion needs. Employment in Foreign Banks in India reduced due to adoption of technologies which led to automation. Figure 3 clearly indicates that employment in Foreign Banks' in India was much higher in comparison to other categories.

### 3.2.2 Percentage Analysis

Figure 4 depicts percentage change in the employment of all three bank groups from 2017-18 to 2018-19. It is

clear from the figure that there has been a fivefold decline in the employment of Indian Banks' Branches Abroad. This is because of revealed accumulated losses by AQR and fall in number of Indian Branches Operating Abroad. Rate of employment of Indian Subsidiaries Abroad has almost doubled because of expansion of their branches and operations. Despite of rise in number of branches, employment in Foreign Banks in India declined by 4.56 per cent because of adoption of Fintech<sup>1</sup> which leads to automation.

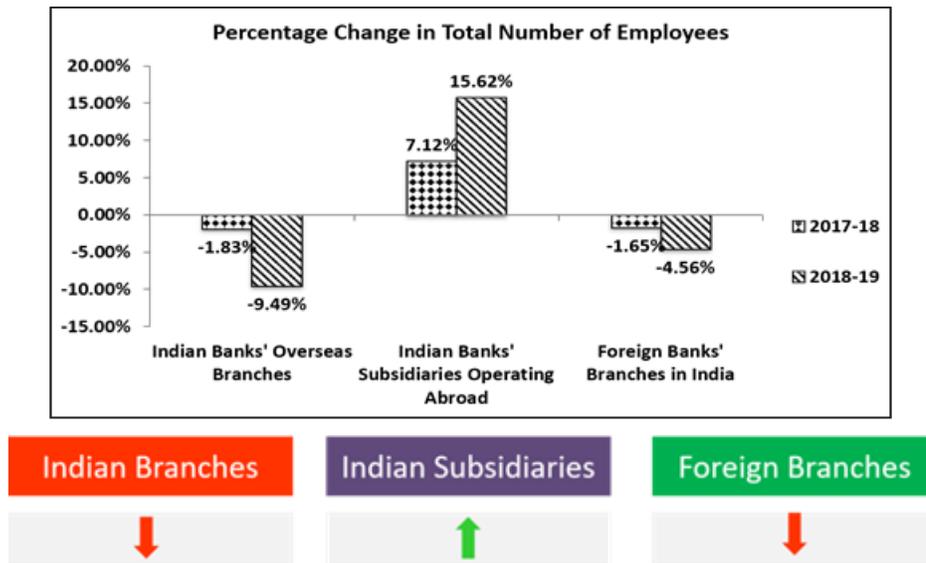


Figure 4. Total number of Employees.

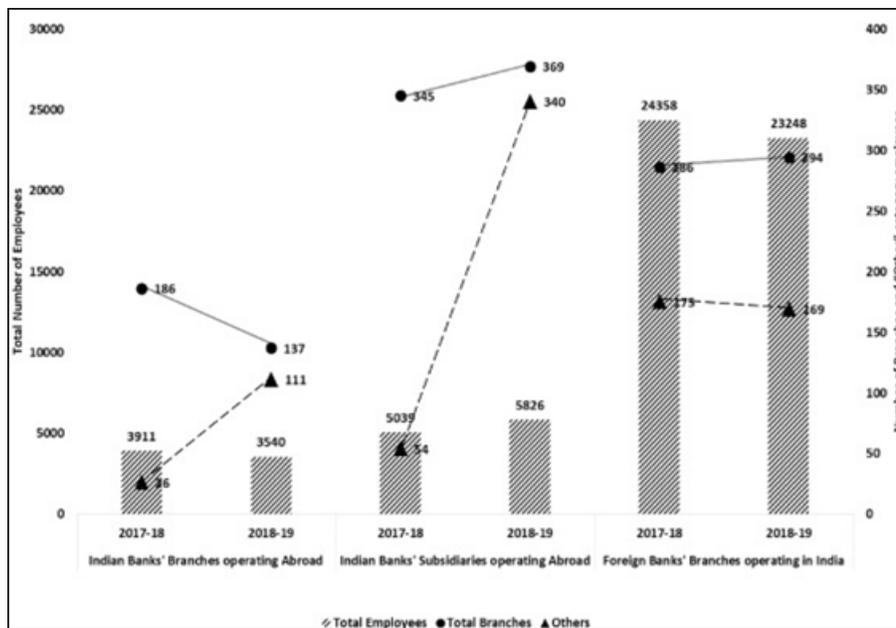


Figure 5. Relationship between Total Number of Branches and Employment Generation.

### 3.3 Relationship between Total Number of Branches and Employees

In the previous two sections it was observed that the total number of banks branches and employees in the three groups. We present a relationship between the two in Figure 5. This helps us see the possibility of employment generation in the banking industry. If the relationship is weak, it implies higher automation and structural shifts of the banks to Fintech.

Figure 5 shows a positive relationship between total number of branches and employees both in case of Indian Branches and Subsidiaries. However, in case of Foreign Banks, there is an inverse relationship between both number of branches and employees possibly because of incorporation of technologies in their operations, leading to automation. Figure 5 also reveals an important fact, the employment of other category employees (employees of some other nationality) has risen significantly by 327% and 530% in Indian Banks' Branches and Subsidiaries respectively. This could be due to outsourcing to other countries for cheaper employment and so minimizing cost.

### 3.4 Composition of Balance Sheet of Bank Groups

A comparison based on the composition of balance sheets of the all the bank groups is shown in Figures 6 and 7.

#### 3.4.1 Trend Analysis

Figure 6 displays a regression analysis of composition of balance sheet of bank groups to check which of the trends are significant. We find for Indian Banks' Branches only, Deposits mobilised show a significant negative trend. However, the positive trends for Total Assets/Liabilities, Credit Extended and Deposits mobilised for both Indian Banks' Subsidiaries and Foreign Banks' Branches are significant.

#### 3.4.2 Percentage Change Analysis

Figure 7 illustrates percentage change in balance sheet items (Total Assets/Liabilities, Deposits mobilised, Credit extended) from 2017-18 to 2018-19. The figure clearly shows, all three categories of banks' balance sheet items witnessed a negative growth in 2018-19 for Indian Banks' Branches Abroad. On the contrary, balance sheet items of Indian Subsidiaries and Foreign Banks reflected a positive growth. The figure depicts an important finding that in the year 2018-19 asset base for Foreign Banks increased by 2220 basis points<sup>2</sup> (bps); deposits mobilised by Indian Subsidiaries hiked by 3400 bps and credit extended by Indian Branches curtailed by 1620 bps.

An observant fact here is that variables such as number of branches, asset base, deposits mobilised exhibit a direct relation for each category of bank. For instance, there has been a decline in Indian Banks' Branches due to which Asset Base, Deposits Mobilised and Credit Extended

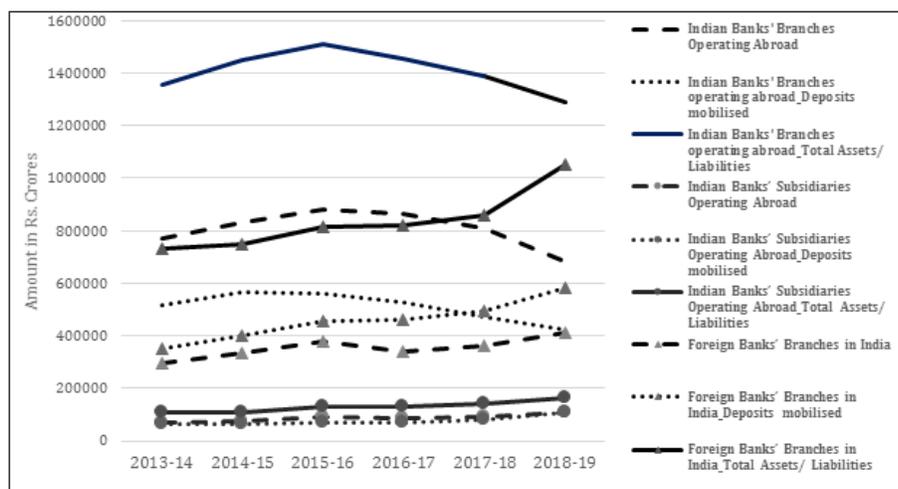


Figure 6. Composition of Balance Sheet of Different Bank Groups.

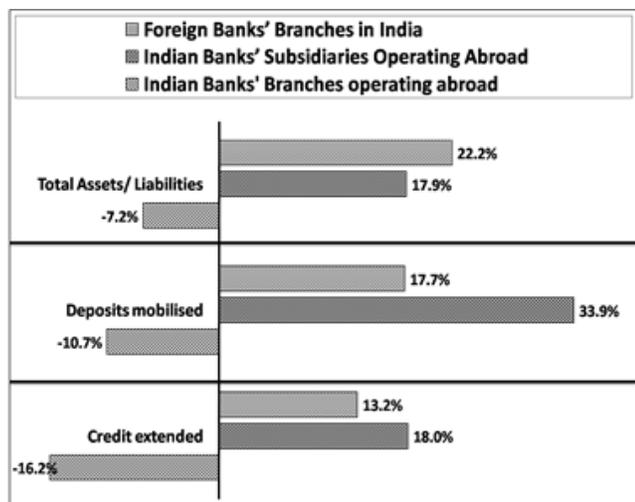


Figure 7. Composition of Balance Sheet of Bank Groups.

declined as well. A similar but positive trend can be observed for Indian Banks' Subsidiaries and Foreign Banks' Branches.

### 3.5 Consolidated Income

A comparison overtime of the three bank groups based on consolidated income is covered below.

#### 3.5.1 Trend Analysis (Interest Income and Other Income)

Figures 8, 9 and 10 demonstrate absolute income from year 2013-14 to 2018-19 for all the groups of banks.

Figure 8 suggests that, except for the year 2016-17, the income of Indian Banks' Branches has been increasing. On the other hand, according to Figure 9 Indian Banks' Subsidiaries are showcasing a consistent rising pattern. While the income of Foreign Banks' Branches, as per Figure 10 shows an inconsistent pattern. In absolute terms, the income of Foreign Banks in India remains the highest, followed by the income of Indian Subsidiaries. A major proportion of income comes from interest income for all three categories.

#### 3.5.2 Percentage Change Analysis (Interest Income and Total Income)

Figures 11, 12 and 13, where we characterize the percentage change in total income and interest income for all the groups, show that both income and interest income has risen in the time period of study.

The increase in total income and interest income of Indian Banks' Branches abroad shown in Figure 11, can

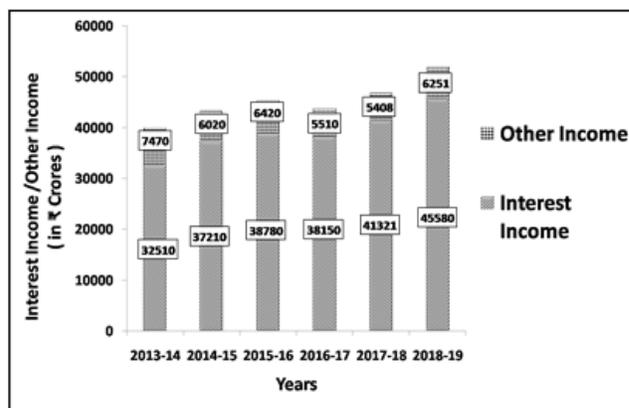


Figure 8. Indian Banks' Branches.

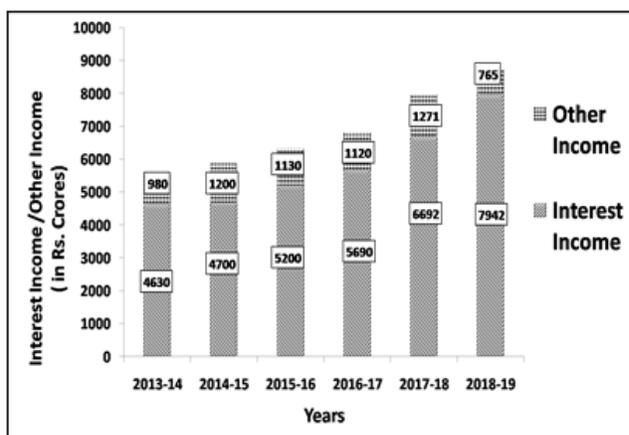


Figure 9. Indian Banks' Subsidiaries.

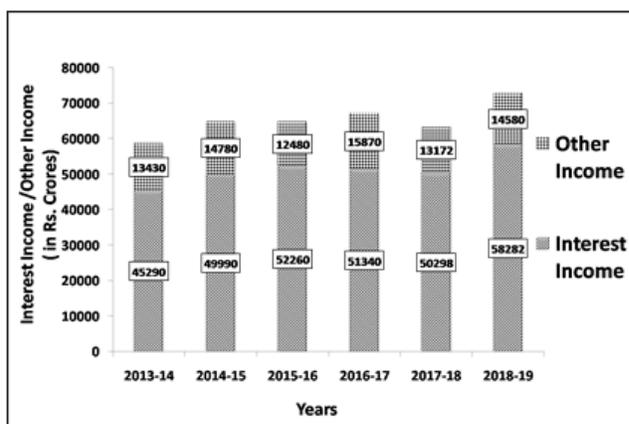


Figure 10. Foreign Banks' Branches.

be attributed to an increment in credit related services by 20% and a rise in interest rates respectively. Whereas for Indian Subsidiaries in Figure 12, there has been a decline in rate of percentage change in income (from 2017-18 to 2018-19) which is due to a slump in income from other

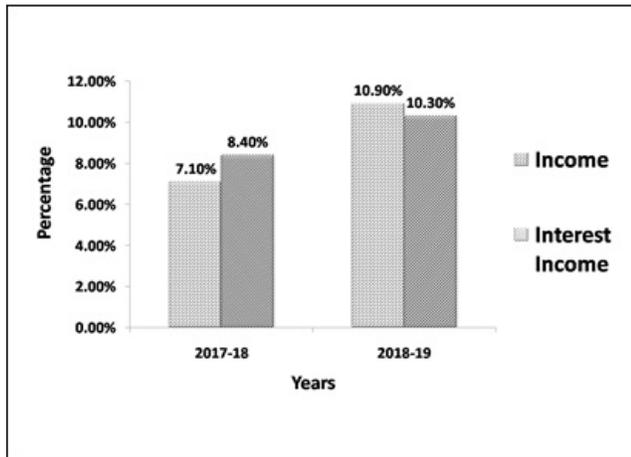


Figure 11. Indian Banks' Branches.

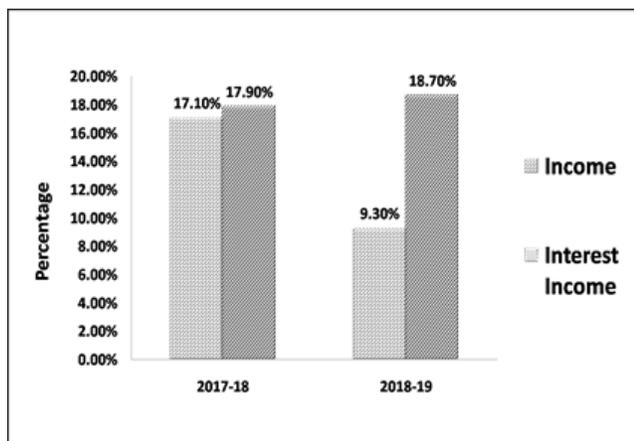


Figure 12. Indian Banks' Subsidiaries.

services. However, the income and interest increased due to an increase in credit extended by the bank group. In case of Foreign Banks' Branches depicted by Figure 13, the income has escalated due to the rise in credit extended and an increase in fee income.

### 3.6 Consolidated Expenditure

In this section, the bank groups are compared on the basis of Consolidated Expenditure. The Trend analysis compares the Interest Expense and Other Expenses and in Percentage analysis the Interest expense and total expenses are taken.

#### 3.6.1 Trend Analysis (Interest Expense and Other Expenses)

Figure 14 shows that there has been a rising trend of consolidated expenditure for Indian Banks' Branches

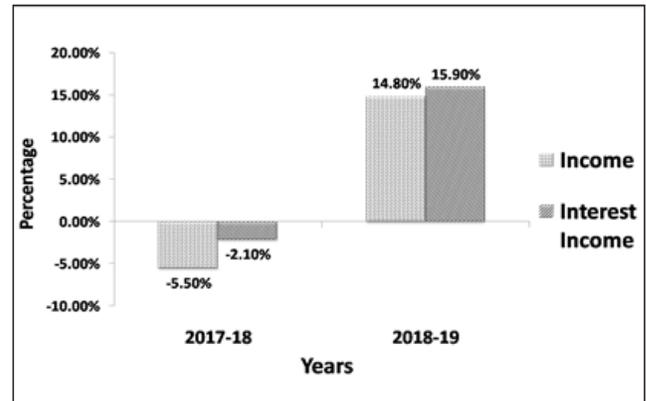


Figure 13. Foreign Banks' Branches.

Operating abroad over the years. According to Figures 15 and 16, the consolidated expenditure of Indian Banks' Subsidiaries and Foreign Banks' branches operating in India followed a rising pattern, except in the year 2017-18.

#### 3.6.2 Percentage Change Analysis (Interest Expense and Total Expense)

Figures 17, 18 and 19 depict the percentage change in total expenditure and interest expenditure for the three groups.

As seen from Figure 17, there has been an increase in the expenditure of Indian Banks' Branches Operating Abroad by 6.4% despite a fall in the number of branches, which can be explained by the increase in interest expenditure by 12.4%. There has been a rise in interest expenditure despite a fall in deposits mobilized, possibly due to increasing interest rates.

Figure 18, shows, there has been a 10.7% rise expenditure of Indian Subsidiaries operating abroad due to increase in number of branches and total number of employees. There has also been a hike in deposits mobilized which has led to a 27.2% rise in interest expenses. As seen in Figure 19, there has been a 12.7% rise total expenditure and 24.4% rise in interest expenses of Foreign Banks' Branches operating in India. The rise in expenditure can be attributed to an increase in number of branches and huge investment in Fintech and rise in interest expenditure is due to a hike in deposits mobilized.

### 3.7 Comparison of Different Bank-Groups: Profit/Loss (Total Income – Total Expenditure)

The estimate of the overall health of all the bank groups in terms of profit/loss is depicted in Figure 20.

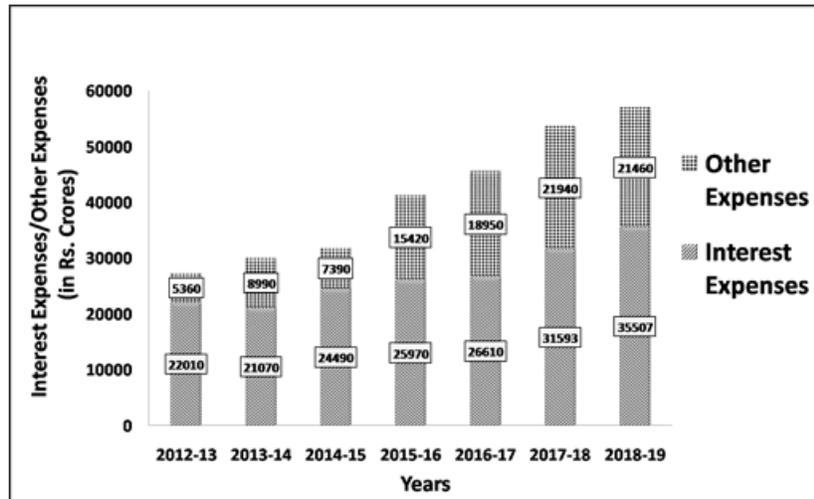


Figure 14. Indian Banks' Branches.

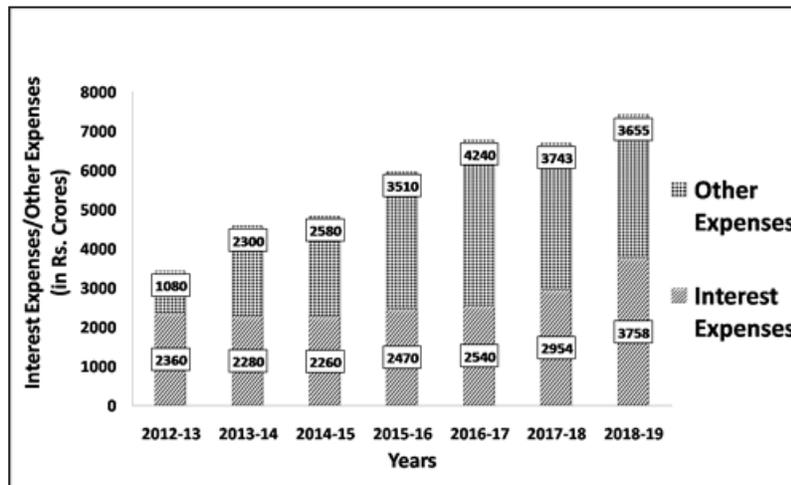


Figure 15. Indian Banks' Subsidiaries.

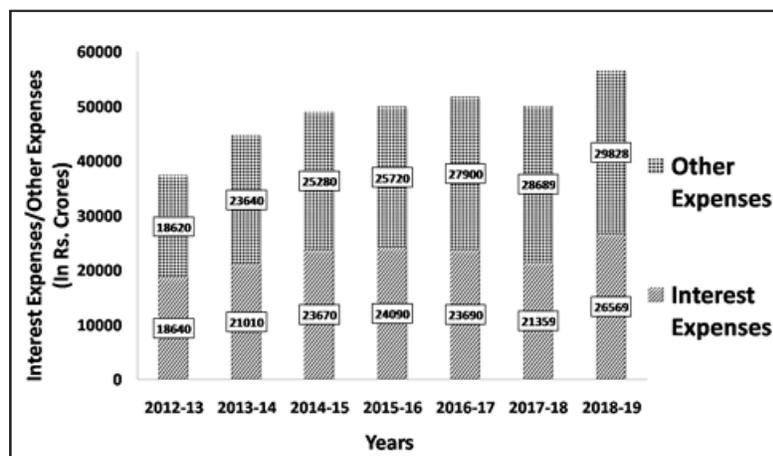


Figure 16. Foreign Banks' Branches.

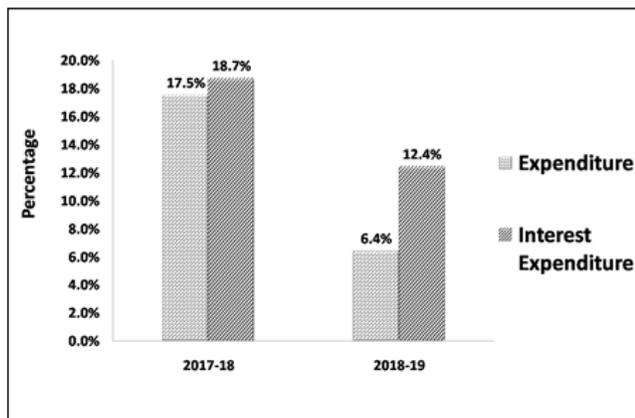


Figure 17. Indian Banks' Branches.

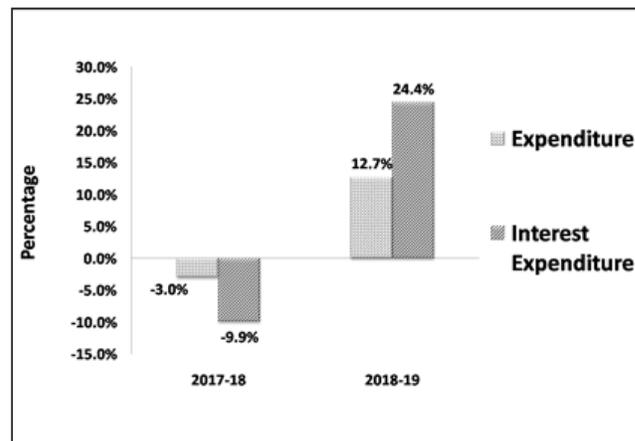


Figure 19. Foreign Banks' Branches.

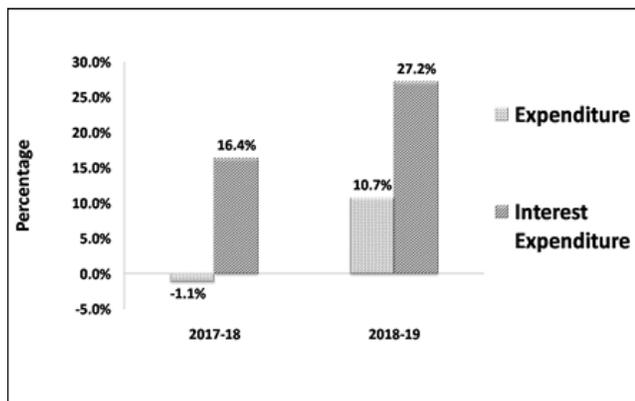


Figure 18. Indian Banks' Subsidiaries.

Indian Banks' Branches show considerable profits generation till 2015-16, but after that they have been incurring losses. While the Indian Subsidiaries operating abroad, operate at a marginal profit, the Foreign Banks' Branches operating in India generate significantly large profits as compared to others.

### 3.8 Income of Indian Banks Abroad

The Total Income from banking services by the Indian Bank Branches abroad and the Fee Income by the subsidiaries are shown and discussed below. These help us understand the scope and possibility of future expansion/contraction of Indian banks' business in these nations.

#### 3.8.1 Total Income

The total income from banking services (INR) for Indian Banks' Branches operating abroad is shown in Table 2.

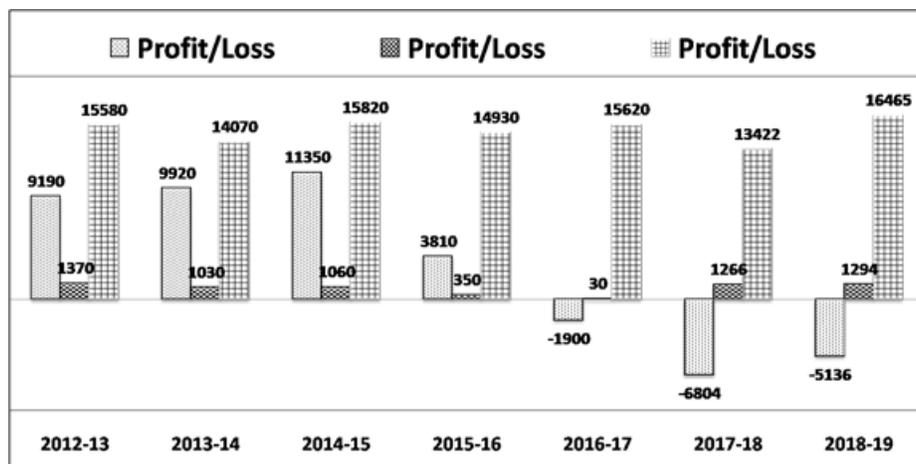


Figure 20. Comparison of Profit/Loss.

As per the data, the overall Indian Banking services from the United Kingdom generated the maximum revenue and the highest percentage increase is from United Arab Emirates.

In UK, although the percentage change in banking services declined, it was still the most prominent location for Indian banks to expand their footprint. In UAE, the major share of fee income is generated by Credit Related Services. This may be due to high trade flows, tourism and concentrated Indian diaspora in the country.

### 3.8.2 Fee Income of Indian Banks' Subsidiaries Operating Abroad (Percentage Change Analysis)

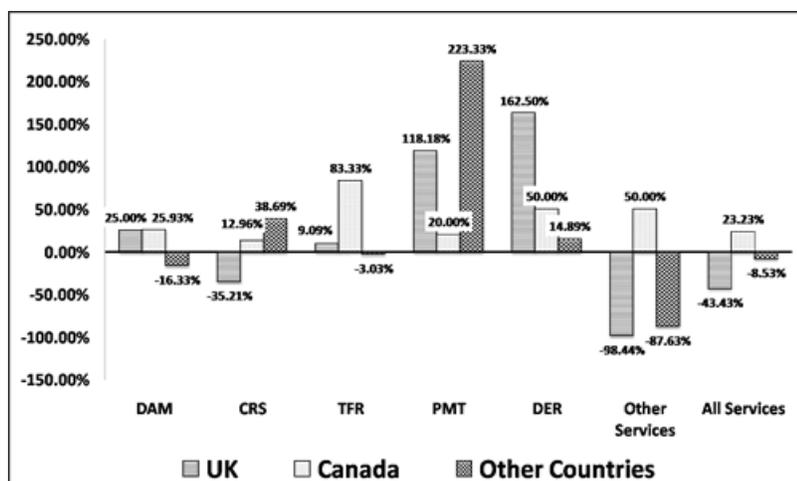
Fee income is an important component of the total income of Indian Banks Subsidiaries. The percentage change in Fee Income from 2017-18 to 2018-19 is illustrated in Figure 21.

Figure 21 shows, that in Canada, all services have shown a positive change. There has been a 23.23 per cent increase in fee income from all services. This could be attributed

**Table 2.** Country-wise and Activity-wise Income for Indian Banks' Branches Operating Abroad

Indian Banks' Branches Operating Abroad								
Banking Service	Financial Year	UK	UAE	Singapore	Hongkong	USA	Bahrain	Other Countries
DAM	2017-18	6	54	1	22	7	1	25
	2018-19	3	61	1	11	7	0	27
CRS	2017-18	1,872	313	410	332	96	122	192
	2018-19	2,044	1,064	272	135	266	86	134
TFR	2017-18	304	228	175	228	112	43	157
	2018-19	243	163	183	184	125	33	127
PMT	2017-18	7	8	21	18	153	3	284
	2018-19	3	17	13	26	156	3	106
DER	2017-18	1,642	76	26	28	1	34	34
	2018-19	1,695	111	66	0	1	26	38
Other Services	2017-18	1,602	84	79	68	4	67	14
	2018-19	1,375	62	74	68	11	115	23
All Services	2017-18	5,433	764	713	696	373	269	705
	2018-19	5,362	1,478	609	423	566	262	454

Source: RBI (2017-19), Survey on International Trade in Banking Services



**Figure 21.** Percentage Change in Fee Income of Indian Subsidiaries Abroad.

to growing Indian population, leading to increased transactions with Indian banks. In UK, Indian banks can exist only as subsidiaries according to regulations of Prudential Regulatory Authority. This brings them under purview of British regulations, which requires employing local auditors and compliance officers which are mandatory to be replaced at regular intervals. This has been adding to burden of subsidiaries in the UK and is a major cause for the decline in fee income from all services. There is a 43.43 per cent decline in fee income from all services.

## 4. Conclusions and Policy Recommendations

### 4.1 Conclusions

After analyzing various factors under consideration, we can conclude that there is a break in trend both for Indian Banks and Foreign Banks in 2015-16, due to change in the government and their policies like Demonetization and GST. The subsidiaries however, are not found to have any trend. The study finds a direct relation in number of employees and bank branches for Indian Banks but not for Foreign Banks. It implies switching to Fintech or online banking services and less need for manpower.

The findings of the survey indicate that Indian Banks' Branches Operating Abroad are facing hardships in operating in foreign lands which can be attributed to strenuous compliance, stringent regulatory legislations and stiff competition with local banks. On the other hand, Foreign Banks' Branches are having a good time in India due to ease in setting up business and richness in technical expertise and further, due to low credibility of the Indian Banking System because of growing Non-performing assets and other major defaults. Also, Indian Subsidiaries are performing better than Indian Branches possibly because of autonomy in their operations.

### 4.2 Policy Recommendations

Indian banks need to comply to BASEL III norms which stands on three pillars of enhanced minimum capital and liquidity requirements; enhanced supervisory requirements and; enhanced risk disclosure and market discipline. This would help the banking system to tide over economic and financial stress and improve transparency in the system, which would further contribute to reducing of defaults. However, given the outrage of Covid-19 and the resultant leverages in the banking practices to capture

the investment rate, compliance to regulatory measures seems a far achieving challenge.

However, the measures announced in the Union Budget, 2020 had built hope for a strong and boosting banking system. The increase in insurance cover on deposits to 5 lakhs was a step in the right direction to gain the confidence of deposit holders and activating credit creation.

Indian Banks' Branches Abroad generally realize the break-even point after 5 years as compared to the domestic market, where they start making profits in 2 or 3 years. Thus, Indian Banks that have adequate financial resources and a roadmap of actions that would be taken up in initial years of set up, should be presented to RBI before the issuance of business license.

India needs to negotiate onerous regulations imposed by overseas regulators at their own discretion as the biggest challenge is dealing with regulations and compliances. It also needs to explore the possibility of resolving such issues within the ambit of the World Trade Organization's General Agreement on Trade and Services.

According to regulations in various overseas operations, an Indian branch has to operate as a representative office for at least three years before it can become a full-fledged bank. The minimum time needed to turn profitable is five years. Even established players operate on very thin margins. This unfavorable risk-return trade-off needs to be reduced to promote the overseas banking operations of Indian Banks.

On a whole, Indian Banks need to increase their competitiveness in terms of quality of services and cost efficiency to expand their business both domestically and internationally.

## 5. References

1. Madhavankutty, G. (2018, September 5), 'Overseas branches of Indian Banks are shutting down. More than finances, regulation is killing them', *ET Prime*.
2. RBI (2013-19). Survey on International Trade in Banking Services.

## Notes

<sup>1</sup>Fintech is the new applications, processes, products, or business models in the financial services industry, composed of one or more complementary financial services and provided as an end-to-end process via the Internet.

<sup>2</sup>One basis point is equal to 1/100<sup>th</sup> of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

<sup>3</sup>Aditi Khanna. (2015, Oct 5) Banking and Industry News from Live Mint. Retrieved 1 Feb 2019, from <https://www.livemint.com/Industry/B72u4xm16D6xNkDKRIHKIJ/Indian-banks-forced-to-inject-funds-into-UK-subsidiaries-re.html>

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