

INTERNATIONAL TRADE IN BANKING SERVICES: AN ANALYSIS OF INDIA'S TRADE

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ABSTRACT

The share of services in the total foreign trade in India is about thirty percent. Trade in financial services accounts for about three percent of India's global trade in services. The share of the service sector in the gross domestic product in India is more than two-thirds. There is enormous scope for expansion of trade in services as well as in financial services. International trade in financial services, more significantly banking services, plays a crucial role and is vital in the expansion of foreign trade- in goods as well as in services- of a nation. This paper analyses the international trade of India in banking services carried out through Mode-3 of supply of services as classified under the General Agreement on Trade in Services (GATS) framework. Mode-3 of supply of services has been the principal focus of negotiations on banking services. The paper brings out interesting and significant differences in the workings of foreign banks in India and Indian banks abroad in respect of banking services provided.

KEYWORDS: *Mode of Supply of Services, Banking Services, GATS, Foreign Banks*

INTRODUCTION

At the end of Uruguay Round Negotiations in 1993, negotiations of financial services, along with those on basic telecommunications and maritime transport remained unfinished. Specific commitments to provide market access and national treatment were made in the sector, but they were not considered adequate to conclude the negotiations. Broad exemptions to the principle of MFN treatment based on reciprocity remained.

The negotiations were concluded on 28 July 1995 instead of June 30 as initially planned. The agreement was called the "interim agreement", since negotiators again determined that the results of the negotiations were not satisfactory and envisaged further negotiations in two years' time, i.e. in 1997.

The negotiations were reopened in April 1997. As a result of the negotiations, a new and improved set of commitments in financial services under the GATS was agreed on 12 December 1997, which was open for ratification and acceptance by members until 29 January 1999. The Agreement came into force in January 2000 as the fifth protocol to the GATS.

In order to expand cooperation in trade and further deepen the integration of the regional economies, the SAARC Agreement on Trade in Services was signed at the sixteenth SAARC Summit held in Thimphu in April 2010. The Agreement entered into force on November 29, 2012, after ratification by all SAARC Member States.

The GATS framework envisages that the delivery of any commercial services can be through four different modes viz., Mode 1–Cross Border Service, Mode 2– Consumption abroad, Mode 3– Commercial presence abroad and Mode 4–

the movement of natural persons. In Mode 3, the bank has a commercial presence in the territory of the service importing country and the service is delivered therein. The commercial presence can be through various investment vehicles like representative offices, branches, subsidiaries, associates and correspondents.

Banking services comprise acceptance of deposits and lending (the 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 improvements in the economic integration of financial markets and activities, international trade in banking services has significantly increased.

The obstacles to international trade in banking services arise for the most part because of the special nature of banking services and the importance that all nations place on the regulation of banking operations. In every country, banking operations are subject to special regulations and restrictions. These regulations and restrictions are always intended to ensure the stability of the national banking system, to provide national authorities with effective instruments for economic management, or generally to encourage thrift and other social virtues.

Table 1 contains data on exports and imports of India during 2006-2015.

Table 1: India's Exports and Imports(Amount in Billions of Rupees, Financial Year Ending March 31)

Year	Export of Goods	Export of Services								
		Travel	Transportation	Insurance	Business	Financial	Software	Communication	Others	Total
2006	4564	349	280	47	414	54	1046	70	297	2557
2007	5718	411	360	54	657	140	1414	102	193	3331
2008	6558	455	402	66	674	129	1620	97	187	3630
2009	8407	502	521	65	855	204	2122	105	506	4880
2010	8455	561	529	75	535	175	2351	59	261	4546
2011	11429	719	649	89	1095	297	2417	71	336	5673
2012	14660	892	876	127	1247	287	2992	77	346	6844
2013	16343	979	943	121	1548	269	3584	92	389	7925
2014	19050	1088	1053	129	1723	402	4206	146	425	9172
2015	18970	1245	1068	135	1738	346	4473	122	381	9508
Year	Import of Goods	Import of Services								
		Travel	Transportation	Insurance	Business	Financial	Software	Communication	Others	Total
2006	6604	294	369	50	344	43	38	13	379	1530
2007	8405	303	365	29	715	135	102	36	315	2000
2008	10123	372	463	42	665	126	135	35	358	2068
2009	13744	433	485	52	709	136	116	50	417	2396
2010	13637	442	564	61	853	219	70	64	561	2834
2011	16834	502	632	64	1261	341	100	52	715	3667
2012	23454	659	788	72	1290	384	60	75	437	3765
2013	26691	643	806	77	1650	252	129	40	796	4393
2014	27154	714	895	68	1643	346	152	63	868	4749
2015	27340	935	989	68	1692	218	166	62	747	4877

Source: Reserve Bank of India, *Handbook of Statistics on Indian Economy*, Various Issues.

The establishment of a statistical basis for trade in services is complicated by the GATS definition of international trade in services in terms of four modes of supply (rather than the single category of cross border transactions which applies to trade in goods). The heterogeneous nature of the different modes of supply makes it impossible to specify a single comparable measure of international trade in services applying to all of them.

Payments due to cross-border trade in financial services (Mode-1 of supply of services) are part of other services in IMF's balance of payments statistics. Statistics for such payments and transfers can be considered as analogous to those for trade in goods and provide an indication of total cross border income flows. But, they are at a high degree of aggregation and thus cannot be used for the analysis of transactions under Mode-1 of supply of the GATS.

The statistics on financial/banking services supplied under Mode-2 (consumption abroad) are not available as transactions are shown in aggregative format for a country.

Receipts accruing to a country from the income of persons of one country temporarily present in another country (Mode-4 of supply of services) are included in statistics for current transfers in the current account of the balance of payments under the heading of compensation of employees and workers' remittances. But, receipts under this heading due to the financial/banking services cannot be distinguished separately owing to the required level of disaggregation of the statistics.

Statistics on financial/ banking services supplied through Mode-3 are available. The income statements of commercial banks and their notes provide data on net interest income, fee and commission, trading income and investment income.

The banking services provided through Mode-3 are a subject matter of this research paper. The Mode-3 of supply of services has been the principal focus of the WTO negotiations on banking services.

This paper has been divided into five parts. Part one- introduction describes the background of trade in services and statistical basis for different modes of supply of financial services including banking services. Part II describes the trade of foreign banks in India. Part III is concerned with the business carried out by overseas branches and subsidiaries of Indian banks. Comparison of performance of foreign banks in India with that of overseas branches and subsidiaries of Indian banks has been carried out in Part IV. Part V concludes the paper by providing the main findings.

Foreign Banks in India

The banking sector in India dates back to the 18th century with the establishment of Bank of Hindustan in 1770 followed by the General Bank of India in 1786. A number of public sector banks, like Bank of Bengal, Bank of Bombay and State Bank of India came into existence between 1800 1850.

British initiated the process of establishing foreign banks in India in the 1950s and banks from other countries followed this. Hong Kong and Shanghai Banking Corporation are one of the oldest foreign banks in India. It was set up in 1953, then called the Mercantile Bank of India. Standard Chartered Bank, then called the Chartered Bank of India, Australia, and China, was established in 1958.

In 1991, the Narasimhan Committee Report recommended a structural reorganization of the banking system in India to improve the efficiency of operations of banks here. There was a clear push for the foreign banks as they indicated an improvement in efficiency. The Narasimhan Committee (1998) also gave a push for foreign banks in India.

In 2005, RBI proposed the twin-track approach for stabilizing and making the banking sector more efficient. Under this scheme, there were two models of entry available for foreign banks which were branch presence model and the other wholly owned subsidiary, model. The road map was implemented in two phases. The first phase (March 2005-March 2009), there was more focus on consolidation on the domestic banking system. During this phase, foreign banks were allowed to enter India through the establishment of branches or WOS or converting their existing branches into WOS. The second phase began after reviewing the first phase (April 2009 onward). There was keen interest in WOS model. Another road map for implementation was released in 2011, which again did not make WOS mandatory because of the WTO commitments.

Further recommendations were given by the Nair Committee (2011) and included the re-examination of the classification that existed in priority lending sector. For foreign banks, the priority sector target was increased to 40% of ANBC (Adjusted Net Bank Credit) or CEOBE (Credit Equivalent of Off-Balance Sheet Exposure) whichever is greater. There was also a sub-target of 15% for exports and 15% for the MSE sector.

According to Reserve Bank of India's new norms, those foreign banks which have become systemically important (whose assets account for at least 0.25 percent of the total assets of all commercial banks) will have to convert into wholly owned subsidiaries of their parents. According to this scheme, WOS may also be permitted to enter into merger and acquisition transactions with any private sector banks in India subject to the overall foreign investment limit to 74%. When the Capital and Reserves of the WOS and foreign bank branches in India exceeds 20% of the capital and reserves of the banking system, restrictions would be placed on the further entry of new WOS of foreign banks.

Framework for setting up of WOS, by foreign banks in India, the policy is guided by two cardinal principles of (i) reciprocity and (ii) single mode of presence.

Foreign banks have been hesitant of conversion to WOS. For foreign bank branches, there is no condition to open in rural areas. But in WOS framework, foreign banks will be forced to open 25% branches in rural areas. However, they will also be entitled to open as many branches as they like in bigger cities. Total priority lending is 40%, 18% to agriculture and 10% to the weaker section. For foreign banks with less than 20 branches, the priority lending is 32% and no specific requirement for agriculture and the weaker section as such.

The guidelines for setting up of WOS by foreign banks and conversion of existing branches of foreign banks into WOS are given below:

- Foreign banks applying to RBI for setting up of a WOS in India must satisfy RBI that they are subject to adequate prudential supervision in their home country. In considering the standard of supervision exercised by the home country regulator, the RBI will have regard to the Basel Standards. The WTO prescribes Basel III Standard as standard norms for regulation of the banking sector.
- The setting up of the WOS in India should have the approval of the home country regulator.
- Other factors like international ranking, presence and economic and political relations between India and the country of incorporation of the bank.
- Maintain a capital adequacy ratio of 10% and as prescribed for time to time on a continuous basis.
- The parent foreign bank will continue to hold 100% equity in the Indian subsidiary for a minimum prescribed period of operation.

Foreign banks play an important role in financing foreign trade. The 2011 discussion paper (RBI) mentioned that most of the foreign banks had opened branches to cater to trade finance. With their know-how in handling foreign trade, the foreign banks have contributed significantly to the rapid rise of cross-border trade. Foreign banks led to technological development. First ATM in India was brought up HSBC and from then on foreign banks have contributed to the latest banking practices helping them become more efficient.

Foreign banks have a very small presence in rural and semi-rural areas. Less than 2% of the total branches of foreign banks are in rural or semi-urban areas.

As per schedule of specific commitments under GATS, Supplement 4 dated 26 February 1998, for banking activities like deposit accepting for public Mode-1 and Mode-2 are unbound in India. Mode 4 is also unbound, except horizontal commitments regarding the posting of senior professionals required in doing business by foreign banks by commercial presence under Mode-3.

In Mode-3, market access is allowed only through branch operations of a foreign bank licensed and supervised as a bank in its home country (In 2005, an entry in the form of WOS and the joint venture was also allowed). Grant of the license is permissible under existing laws with a limit of 12 licenses per year both for new entrants and existing banks. Banks are allowed to install ATMs at branches and at other places identified by them. Installation of ATM at a place other than in licensed branches is treated as a new place of business and requires a license. Licenses issued for ATMs installed by foreign banks will not be included in the ceiling of twelve licenses.

Investment in other financial services companies by branches of foreign banks licensed to do banking business in India individually not to exceed 10% of owned funds or 30% of the invested company's capital whichever is minimum. Licenses for new foreign banks may be denied when the maximum share of assets in India both on and off balance sheet of foreign banks to total assets both on and off balance sheet of the banking system exceeds 15%. Foreign banks are subject to non-discriminatory resource allocation requirements.

Foreign banks are required to form local advisory boards consisting inter alia of professionals and persons having expertise in areas such as small-scale industry and exports. The Chairman and Members of the local advisory board must be resident Indian nationals except for the Chief Executive Officer who may be a foreign national. The appointment of the Chairman and Members of the Board requires Reserve Bank of India approval.

Public sector enterprises can invest surplus funds in term deposits only with the scheduled commercial banks incorporated in India. Activities allowed for foreign banks include acceptance of deposits and other repayable funds from the public, lending of all types including consumer credit, mortgage credit and financing of commercial transactions but excluding factoring, all payments and money transmission services including credit, charge and debit cards, travelers cheques and banker's drafts, and guarantees and commitments. Foreign bank branches are also allowed for trading for own account of money market instruments, foreign exchange, transferrable securities, portfolio management, custodial and trust services and clearing services for other banks for cheques, drafts, and other instruments.

Foreign bank branches licensed to do business in India are allowed to participate in the issue of all kind of securities, including underwriting and placement as agent and provision of services related to such issues. Foreign banks are also allowed for financial consultancy services i.e. financial advisory services provided by financial advisors, etc. to customers on financial matters, investment and portfolio research and advice on acquisitions and on corporate restructuring and strategy. Table 2 provides information on the presence of branches and representative of foreign banks in India.

Table 2: Branches and Representative Offices of Foreign Banks in India (As on September 30, 2015)

Country of Incorporation	Name of Bank(s)	No. of Branches	Name of Bank(s)	No. of Representative Offices	Total
Australia	Australia and New Zealand Banking Group Ltd., Commonwealth Bank of Australia, National Australia Bank, Westpac Banking Corporation	5		-	5
Austria		-	Raiffeisen Bank International AG	1	1
Bahrain	Bank of Bahrain and Kuwait BSC	4		-	4
Bangladesh	AB Bank Ltd., Sonali Bank Ltd.	3		-	3
Belgium	KBC Bank NV	1	K.B.C. Bank N.V.	1	2
Canada	Bank of Nova Scotia	3	Royal Bank of Canada, Toronto Dominion Bank	2	5
China	Industrial and Commercial Bank of China Ltd.	1		-	1
France	BNP Paribas, Credit Agricole Corporate and Investment Bank, Societe Generale	16	Credit Industriel et Commercial, Natixis	2	18
Germany	Deutsche Bank	18	DZ Bank AG, Landesbank Baden-Wuerttemberg, Commerzbank, KfW IPEX Bank GmbH	4	22
Hong Kong	HSBC Ltd	50		-	50
Indonesia	Bank Internasional Indonesia	1		-	1
Italy		-	Intesa Sanpaolo S.p.A, Uni Credit S.p.A, Banca Popolare Sco. Coop, UBI Banca-Unione di Banche Italiane, Monte Dei Paschi Di Siena, Banca Popolare di Vicenza	6	6
Japan	Mizuho Bank Ltd., Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ Ltd.	11		-	11
Malaysia		-	CIMB Bank Berhad	1	1
Mauritius	State Bank of Mauritius	4		-	4
Nepal		-	Everest Bank Ltd.	1	1
Netherlands	Rabobank International, The Royal International Scotland NV	11		-	11
Norway		-	Norway	1	1
Portugal		-	Caixa Geral de Depositos	1	1
Qatar	Doha Bank	3		-	3
Russia	JSC VTB Bank, Sberbank	2	Vnesheconombank, Promsvyaznbank, Gazprombank	3	5
Singapore	DBS Bank Ltd., United Overseas Bank Ltd	13		-	13
South Africa	FirstRand Bank Ltd	1			1
South Korea	Shinhan Bank, Woori Bank, Korea Exchange Bank, Industrial Bank of Korea	7	Kookmin Bank	1	8
Spain		-	Banco de Sabadell SA, Banco Bilbao Vizcaya Argentaria, Caixa Bank S.A., Banco Santander S.A.	4	4
Sri Lanka	Bank of Ceylon	1	Hatton National Bank	1	2
Sweden		-	Svenska Handelsbanken, Skandinaviska Enskilda Banken AB	2	2
Switzerland	Credit Suisse A.G., UBS AG	2	Zurcher Kantonalbank	1	3

Taiwan	CTBC Bank Co.,Ltd.	2	Bank of Taiwan, Mega International commercial Bank	2	4
Thailand	Krung Thai Bank Public Co. Ltd.	1		-	1
Turkey		-	AsyaKatilimBankasi AS	1	1
UAE	Abu Dhabi Commercial Bank Ltd., Mashreq Bank PSC, Natonak Bank of Abu Dhabi PJSC	4	Emirates NBD, First Gulf Bank	2	6
UK	Barclays Bank Plc., Standard Chartered Bank	109		-	109
USA	American Express Banking Corporation, Bank of America, Citibank N.A., J.P. Morgan Chase Bank N.A.	52	The Bank of New York Mellon, Wells Fargo Bank N.A.	2	54
Total		325		39	364

The number of branches of foreign banks in India increased marginally in 2014-15, after a decline in 2013-14. The trend of contraction in employee strength of foreign banks operating in India witnessed since 2011-12 has reversed in 2014-15. Out of 325 branches of foreign banks in India, Standard Chartered Bank have the maximum-102 branches, followed by HSBC Ltd and Citibank N.A. having 50 branches and 45 branches respectively.

The consolidated balance sheet of branches of foreign banks operating in India had increased by 2.8% in 2014-15. The share of credit in total assets of foreign banks in India was 44.8% in 2014-15. However, the share of deposits in total liabilities of foreign banks operating in India at 53.7% was substantially higher 2014-15.

The total income and expenditure of foreign banks operating in India grew by 10.3% and 9.6 %, respectively, in 2014-15 (11.1 and 19.8 percent in 2013-14). Share of non-interest income in the total income was 22.9% in 2014-15 for foreign banks operating in India.

Table 3: Credit Extended, Deposits Mobilized and Assets of Banks (Amount in Billions of Rupees, Financial Year Ending March 31)

Year	Overseas Branches of Indian Banks			Overseas Subsidiaries of Indian Banks			Branches of Foreign Banks in India		
	Credit	Deposits	Total Assets	Credit	Deposits	Total Assets	Credit	Deposits	Total Assets
2007	983.4	627.2	1920.8	187.3	418.1	639.4	1245.1	1473.1	2728.2
2008	1389.3	770.3	2199.0	212.6	378.0	593.9	1606.5	1910.2	3640.2
2009	2188.3	1396.9	3470.5	430.6	497.8	746.9	1654.1	2139.7	4469.5
2010	2510.0	1629.9	4009.0	481.9	555.8	806.2	1628.5	2377.3	4329.4
2011	3501.2	2125.7	5720.5	459.0	512.1	736.5	1980.7	2402.3	4904.8
2012	4451.1	2700.9	7399.2	536.5	491.8	826.4	2413.2	2746.0	5764.5
2013	5855.7	3930.7	9939.7	563.8	468.2	848.3	3077.0	2835.1	6066.5
2014	7684.4	5143.3	12791.1	722.7	625.1	1050.9	2982.1	3501.0	7290.3
2015	8334.5	5662.8	14520.0	756.1	621.4	1069.5	3359.0	4026.2	7497.6

In 2014-15, the profitability ratio showed some increases in the case of foreign banks operating in India. Foreign banks operating in India received a major part of their fee income from 'Derivatives, stock, securities, foreign exchange', Payment and money transmission services' and 'Trade finance related services' (Table 4).

The fee income of 313 branches of foreign banks operating in India declined to Rs 72.7 billion in 2014-15 from Rs 79.6 billion in 2013-14. Majority of fee income was generated in India by branches of the U.S., the U.K. and Hong Kong banks operating in India, amounting Rs. 54.6 billion out of total Rs 72.7 billion in 2014-15.

Table 4: Fee Generated in Trading in Banking Services(Amount in Billions of Rupees, Financial Year Ending March 31)

Overseas Branches of Indian Banks									
Service	2007	2008	2009	2010	2011	2012	2013	2014	2015
Deposit Account Maintenance Services	0.5	0.7	0.8	0.6	0.9	1.8	7.8	1.2	1.1
Credit related services	8.3	19.0	11.8	15.6	23.9	25.6	40.5	24.9	26.6
Financial leasing services	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Trade finance related services	4.1	4.9	12.1	10.9	10.6	18.2	34.4	14.3	15.1
Payment and money transmission services	3.3	2.0	2.0	3.1	2.6	10.1	5.3	2.8	3.4
Fund management services	0.7	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Financial consultancy and advisory services	0.2	1.7	0.7	0.4	0.9	0.3	0.1	0.7	1.2
Underwriting services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clearing and settlement services	0.0	0.2	0.2	0.0	0.0	1.9	0.2	0.4	0.5
Derivative, Stock, Securities, Foreign exchange trading services	1.6	2.7	1.3	1.9	4.5	9.6	3.1	19.8	19.6
Other financial services	0.1	3.4	0.4	0.3	0.5	0.6	2.1	25.2	26.8
Total Fee Generated	18.9	34.7	30.1	33.0	44.0	68.0	93.5	89.6	94.3
Overseas Subsidiaries of Indian Banks									
Service	2007	2008	2009	2010	2011	2012	2013	2014	2015
Deposit Account Maintenance Services	---	0.1	0.1	0.1	0.3	0.2	0.2	4.1	0.2
Credit related services	---	3.8	2.1	2.5	1.3	1.4	1.4	3.7	2.5
Financial leasing services	---	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade finance related services	---	0.0	1.6	0.9	0.4	0.5	0.5	5.0	5.2
Payment and money transmission services	---	0.2	1.1	1.0	0.3	0.4	0.4	0.6	1.2
Fund management services	---	0.0	0.0	0.0	0.0	0.3	0.0	0.7	1.0
Financial consultancy and advisory services	---	0.5	1.3	0.6	0.5	0.2	0.5	0.9	0.8
Underwriting services	---	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clearing and settlement services	---	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative, Stock, Securities, Foreign exchange trading services	---	0.4	-7.4	0.5	0.3	0.4	0.3	0.5	0.7
Other financial services	---	0.1	13.7	0.1	0.1	0.7	1.5	1.1	1.5
Total Fee Generated	---	5.2	12.4	5.6	3.3	4.1	4.8	16.6	13.0
Foreign Banks in India									
Service	2007	2008	2009	2010	2011	2012	2013	2014	2015
Deposit Account Maintenance Services	1.8	4.5	3.0	4.0	4.1	5.1	3.8	3.6	2.1
Credit related services	4.6	6.0	8.9	7.2	9.6	10.2	9.1	9.4	8.7
Financial leasing services	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Trade finance related services	6.2	14.8	18.7	13.7	11.9	17.9	16.5	13.9	12.1
Payment and money transmission services	14.2	4.5	7.4	6.9	18.7	8.7	11.2	12.5	13.3
Fund management services	2.1	4.4	3.3	4.6	5.5	5.6	4.4	3.5	4.1
Financial consultancy and advisory services	7.6	7.9	10.1	19.1	15.0	13.6	11.2	13.1	12.5
Underwriting services	0.6	0.5	0.8	0.4	0.4	0.3	0.1	2.3	0.4

Clearing and settlement services	3.3	0.9	3.6	2.2	2.2	3.5	0.9	0.7	0.5
Derivative, Stock, Securities, Foreign exchange trading services	17.2	30.5	37.1	18.3	28.9	20.2	13.1	16.5	14.8
Other financial services	3.2	15.6	11.8	21.7	10.4	9.0	4.2	4.0	4.3
Total Fee Generated	60.8	89.7	105.5	98.0	106.7	94.3	74.5	79.6	72.7

Indian Banks Abroad

The Banking Regulation Act, 1949 governed most of the banking operations in India, while the overseas operations were guided by the host country's regulations. RBI gets reports of overseas operations during the final audit of banks. RBI decided on December 1, 2008, to extend its jurisdiction over products and activities of foreign branches and subsidiaries of Indian banks following the provisioning made by the banks for their exposure to structured products in sub-prime hit markets of the US and the UK and loss suffered in the Global Financial Crisis (2008).

Table 5 shows overseas offices of Indian banks abroad.

Table 5: Overseas Offices of Indian Banks as on October 31, 2015

Bank	Branch	Subsidiary	Joint Venture Bank	Representative Office	Other Offices	Total
Allahabad Bank	1	-	-	-	-	1
Andhra Bank	-	-	-	2	-	2
Bank of Baroda	51	9	2	1	10	73
Bank of India	28	5	-	5	-	38
Canara Bank	7	-	-	1	-	8
Central Bank of India	-	-	-	2	-	2
Corporation Bank	-	-	-	2	-	2
Dena Bank	-	-	-	1	-	1
Indian Bank	4	-	-	-	-	4
Indian Overseas Bank	8	-	-	3	3	14
IDBI Bank	1	-	-	-	-	1
Oriental Bank of Commerce	-	-	-	1	-	1
Punjab National Bank	3	3	1	3	-	10
State Bank of India	52	5	4	8	20	89
State Bank of Hyderabad	-	-	-	1	-	1
State Bank of Travancore	-	-	-	1	-	1
Syndicate Bank	1	-	-	-	-	1
UCO Bank	4	-	-	-	-	4
Union Bank of India	3	1	-	4	-	8
United Bank of India	-	-	-	2	-	2
Axis Bank	5	1	-	2	-	8
Federal Bank	-	-	-	1	-	1
HDFC Bank	3	-	-	3	-	6
ICICI Bank	11	2	-	7	-	20
IndusInd Bank	-	-	-	3	-	3
Kotak Mahindra Bank	-	-	-	1	-	1
Yes Bank Limited	-	-	-	1	-	1
Total	182	26	7	55	33	303

Note: Other offices include EBSU: Electronic Banking Service Unit; EC: Extension Counter; IVC: Indian Visa Centers;

MO: Marketing office; SO: Sub office; RC: Remittance centre; RHO – Regional Head Office.

International trade in banking services through Mode-3 covers banking services provided to residents of an economy through the local presence of foreign banks and foreign affiliates. It takes into account the services such as deposit-taking, lending to firms, mortgage lending, consumer finance and a host of so-called non-asset based services such as securities underwriting, local currency bond trading, foreign exchange trading, brokering, custody services, funds transfers, management services, and financial consultancy services.

The globalization of the Indian economy has witnessed cross border direct investments in banking in the form of branches, agencies, and subsidiaries or by the means of cross border mergers and acquisitions. Over the years, the number of overseas branches and subsidiaries of Indian banks has increased to provide cross border banking services.

The cross-border branch network of Indian banks has expanded steadily in recent years, with an associated increase in the employee strength of their overseas branches and subsidiaries alongside. Of the 182 overseas branches of Indian scheduled commercial banks, the highest number of branches was in the UK (31), followed by Hong Kong (19), Mauritius (18), Singapore (17), UAE (13) and Sri Lanka (13). Table 5 depicts that public sector banks dominated the overseas presence of Indian banking. State Bank of India (52 branches in 21 countries) had the largest overseas presence followed by Bank of Baroda (51 branches in 14 countries) in 2014-15.

Table 6 contains a list of subsidiaries of Indian banks abroad. Bank of Baroda has maximum subsidiaries abroad.

Table 6: Overseas Subsidiaries of Indian Banks abroad as on October 31, 2015

Bank	Comment
SBI(Canada) Limited	100% by SBI
SBI(California) Limited	100% by SBI
Bank SBI Indonesia	76% by SBI
SBI International (Mauritius) Ltd.	93.4% by SBI
State Bank of India (Botswana) Ltd.	100% by SBI
Bank of Baroda (Uganda) Ltd.	50% by BOB
Bank of Baroda (Kenya) Ltd.	86.7% by BOB
Bank of Baroda (UK) Nominee Ltd.	100% by BOB
Bank of Baroda (Botswana) Ltd.	100% by BOB
Bank of Baroda (Tanzania)	100% by BOB
Bank of Baroda (Ghana) Ltd.	100% by BOB
Bank of Baroda (New Zealand) Ltd.	100% by BOB
Bank of Baroda (Guyana) Inc.	100% by BOB
Bank of Baroda (Trinidad and Tobago) Ltd.	100% by BOB
ICICI Bank UK Ltd	100% by ICICI Bank
ICICI Bank Canada Ltd	100% by ICICI Bank
Punjab National Bank International Ltd., London	100% by PNB
Druk PNB Bank Ltd, Bhutan	100% by PNB
JSC SB PNB Kazakhstan	63.6% by PNB
PT Bank of India Indonesia	76% by BOI
Bank of India (Tanzania) Ltd.	100% by BOI
Bank of India (New Zealand) Ltd.	100% by BOI
Bank of India (Botswana) Ltd.	100% by BOI
Bank of India (Uganda) Ltd.	100% by BOI
Union Bank of India (UK) Ltd.	100% by UBI
Axis Bank UK Ltd.	100% by Axis Bank

Table 7 shows the presence of joint ventures of Indian banks abroad. State Bank of India has a maximum number of joint ventures abroad.

Table 7: Overseas Joint Ventures of Indian Banks as on October 31, 2015

Name of Bank	Name of Centre	Comment
Bank of Bhutan	Bhutan	SBI 20%
Indo Zambia Bank Ltd.	Zambia	BOI 20%, BOB 20%, CBI 10%
Nepal SBI Bank Ltd.	Kathmandu	SBI 55.3%
Everest Bank Ltd Nepal	Nepal	PNB 20%
Commercial Indo Bank LLC	Moscow	SBI 60%, Canara Bank 40%
Sterling Bank PLC	Lagos	SBI 11.8%
India International Bank (Malaysia)	Kuala Lumpur	BOB 40%, IOB 35%, Andhra Bank 25%

The business of overseas branches of Indian banks continued to grow in 2014-15, albeit at a slower pace than witnessed in the previous year. In 2014-15, their consolidated balance sheet increased by 13.5 percent as compared with 28.7% witnessed in 2013-14. The consolidated balance sheet of overseas subsidiaries of Indian banks also grew at a slower pace of 1.8 percent in 2014-15 as compared with 23.9% in 2013-14.

The share of credit in total assets of overseas branches of Indian banks stood at 57.4% in 2014-15 as compared with 58.5% in 2013-14, while the share of credit in total assets of overseas subsidiaries of Indian banks increased to 70.7% in 2014-15 from 67.9% in 2013-14. The share of deposits in total liabilities of overseas branches of Indian banks was 39% in 2014-15. The share of deposits in total liabilities of overseas subsidiaries of Indian banks was 58.1% in 2014-15.

Total income of Indian banks' overseas branches increased by 8.1% in 2014-15 as compared with 9.4% in 2013-14, whereas the total income of overseas subsidiaries of Indian banks increased by 5.2% in 2014-15 as compared to 16.9% in 2013-14.

The share of non-interest income in total income was 14.4% in 2014-15 for overseas branches of Indian banks. In 2014-15, the profitability ratio (profit to assets), as well as income to assets ratio, remained around the previous year's level in case of both overseas branches and subsidiaries of Indian banks.

Overseas branches of Indian banks generated more fees by rendering banking services, mainly due to higher focus on 'credit related services', 'Derivatives, stock, securities, foreign exchange trading services' and 'Trade finance related services'.

On the other hand, the fee income generated by overseas subsidiaries of Indian banks were mainly due to 'Trade finance related services', 'Credit-related services' and 'Payment and money transmission services'.

Total fee income generated by the 178 overseas branches of Indian banks increased to Rs. 94.3 billion in 2014-15 from Rs. 89.6 billion in 2013-14. A dominant portion of fee income of overseas branches of Indian banks came from residents, whereas the major portion of fee income for Indian banks' subsidiaries abroad that came from residents till 2013-14 has changed in 2014-15.

In terms of fee income, branches of Indian banks in the UK had the largest contribution in providing banking services (Rs. 52.3 billion in 2014-15) followed by UAE, Hong Kong, and Singapore respectively.

Comparative Performance Analysis

Table 8 shows the profitability performance of overseas branches and subsidiaries of Indian banks and that of branches of foreign banks in India. In the last decade, overseas subsidiaries of Indian banks opened more branches in comparison of overseas branches of Indian banks and foreign banks in India. The similar trend was noticed regarding the number of employees in overseas subsidiaries of Indian banks, as the number of employees increased from 1239 in 2008 to 3424 in 2015. More employees were engaged on per branch basis by branches of foreign banks in India as compared to overseas branches of Indian banks and overseas subsidiaries of Indian banks.

Table 8: Profitability Performance(Amount in billions of Rupees, Financial Year ending March 31)

Overseas Branches of Indian Banks									
	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of Branches	112	121	134	144	153	163	170	170	178
No. of employees	4030	2629	2919	3084	3289	3489	3761	3969	3897
Credit to total assets (%)	51.2	63.2	63.1	61.0	61.2	60.2	58.9	58.5	57.4
Deposits to total liabilities (%)	32.7	35.0	40.3	40.6	37.2	36.5	39.5	39.0	39.0
Income (Rupees billions)	139.9	160.5	167.4	161.8	196.6	285.3	365.6	399.8	432.3
Expenditure(Rupees billions)	112.7	132.6	165.1	121.6	134.0	200.6	273.7	300.6	318.8
Interest Income (%)	97.7	78.6	101.2	87.0	95.8	80.8	83.4	83.8	85.6
Income from residents (%)	30.6	34.3	37.5	33.6	36.2	42.3	56.8	66.7	72.2
Income from non-residents (%)	69.4	65.7	62.5	66.4	63.8	57.7	43.2	33.3	27.8
Income per employee, (RsMn)	34.7	61.0	57.3	52.5	59.8	81.2	97.2	100.7	110.9
Income to total assets (%)	5.5	5.7	4.8	4.0	3.4	3.9	3.6	3.1	3.0
Profit to total assets (%)	1.1	1.0	0.1	1.0	1.1	0.7	0.9	0.8	0.8
Overseas Subsidiaries of Indian Banks									
	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of Branches	---	65	99	123	150	158	184	235	235
No. of employees	---	1239	1638	1986	2325	2580	2828	3778	3424
Credit to total assets (%)	29.3	35.8	57.7	59.8	62.3	64.9	66.5	67.6	70.7
Deposits to total liabilities (%)	65.4	63.6	66.7	68.4	69.5	59.5	55.2	58.5	58.1
Income (Bn. Rs.)	---	29.4	47.3	40.6	38.1	42.1	48.1	56.1	59.0
Expenditure (Bn. Rs.)	---	27.8	42.8	34.5	29.7	33.9	34.4	45.8	48.4
Interest Income (%)	---	94.9	82.9	82.5	86.4	88.1	95.0	80.2	79.0
Income from residents (%)	---	41.3	65.0	46.1	58.6	78.0	75.0	70.0	30.0
Income from non-residents (%)	---	58.7	35.0	53.9	41.4	22.0	25.0	30.0	70.0
Income per employee(RsMn)	---	23.7	28.9	20.4	16.4	22.3	17.0	15.6	17.2
Income to total assets (%)	---	4.9	6.3	5.0	5.2	7.0	5.6	5.5	5.5
Profit to total assets (%)	---	0.3	0.6	0.8	1.1	1.4	1.6	1.0	1.0
Branches of Foreign Banks in India									
	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of Branches	257	273	289	302	309	309	316	307	313
No. of employees	25294	30151	29824	27945	28158	27342	25118	24725	25519
Credit to total assets (%)	45.6	44.1	37.0	37.6	40.4	41.9	50.7	40.8	44.8
Deposits to total liabilities (%)	54.4	52.5	47.9	54.9	49.0	46.9	46.7	47.9	53.7
Income (Bn. Rs.)	241.7	349.4	452.0	363.2	394.3	467.3	528.4	590.6	647.7
Expenditure (Bn. Rs.)	174.0	246.9	326.2	200.1	281.3	327.9	372.6	449.5	489.5
Interest Income (%)	72.8	70.3	67.0	72.4	72.6	77.3	76.7	73.3	77.21
Income from residents (%)	91.1	95.1	93.3	82.5	78.1	---	---	---	---
Income from non-residents (%)	8.9	4.9	6.7	17.5	21.9	---	---	---	---
Income per employee (RsMn)	9.6	11.2	16.9	13.0	14.0	17.1	21.0	23.9	25.4
Income to total assets (%)	8.9	9.5	10.1	8.4	8.0	8.1	8.7	8.1	8.6
Profit to total assets (%)	2.5	2.8	2.8	3.8	2.3	2.4	2.6	1.9	2.1

The share of credit in total assets was lower in the case of branches of foreign banks in India in comparison with overseas branches of Indian banks and overseas subsidiaries of Indian banks. Since income to total assets ratio is much higher for branches of foreign banks in India, it seems that foreign banks in India earned more income from non-credit activities. Deposits to total liabilities ratio are higher in case of overseas subsidiaries of Indian Banks as compared with that of branches of foreign banks in India and overseas branches of Indian Banks, which had lower deposits to liability ratio. It shows that overseas branches of Indian banks mobilized less deposits as compared to their counterparts.

The income growth of overseas branches of Indian banks was more as compared with that of branches of foreign banks in India. The lowest income growth was in the case of overseas subsidiaries of Indian banks. The share of interest income in total income was lower in the case of overseas subsidiaries of Indian banks. The overseas branches of Indian banks and overseas subsidiaries of Indian banks had a higher level of interest income in total income. This supports the evidence that branches of foreign banks in India engaged in non-credit activities on a higher scale as compared with overseas branches of Indian banks and overseas subsidiaries of Indian banks.

Figure 1 shows income to total assets ratio for overseas branches and subsidiaries of Indian banks and foreign banks in India.

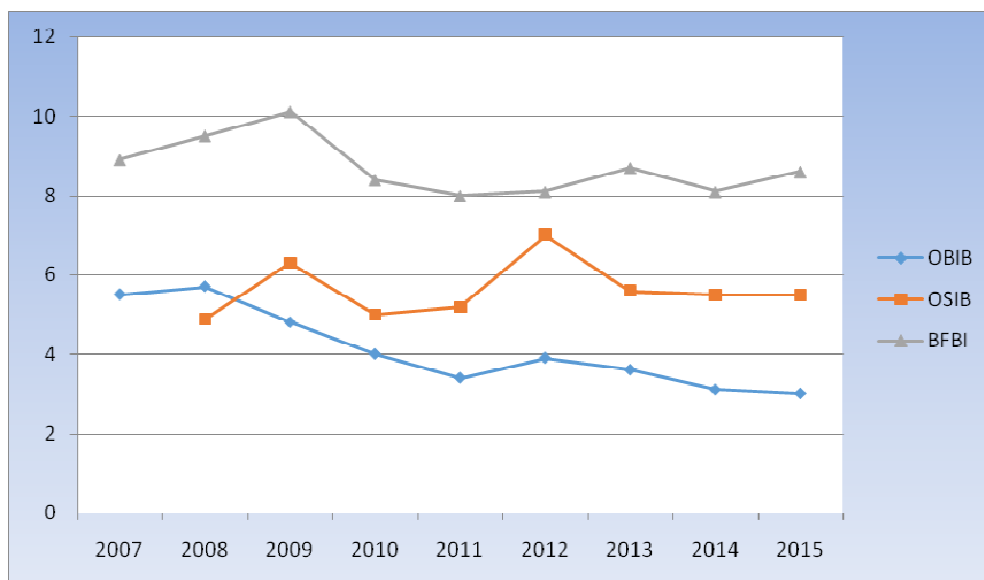


Figure 1: Income- Total Assets Ratio

Note: OBIB: Overseas Branches of Indian Banks, OSIB: Overseas Subsidiaries of Indian Banks, and BFBI: Branches of Foreign Bank in India

Indian branches of foreign banks earned a larger proportion of their income from residents in comparison with overseas branches of Indian banks and overseas subsidiaries of Indian banks. (Table 8)

As far as the efficiency of operations is considered, foreign banks in India had a much higher income to assets ratio, while a lower level of income per employee. This shows that foreign banks in India employed more human resources and the work was not as automotive as it seems in case of overseas branches of Indian banks and overseas subsidiaries of Indian banks. (Figure 1)

The lower profit to total assets ratio in case of overseas branches of Indian banks and Indian subsidiaries, let by more growth of assets in case of overseas branches of Indian banks, shows the poor operating performance of overseas branches of Indian banks and overseas subsidiaries of Indian banks. (Figure 2)

The share of fee income generated by payments and money transmission services; Derivatives, stock, securities and exchange trading services, and fund management and consultancy services were more in case of foreign banks in India as compared to overseas branches of Indian banks and overseas subsidiaries of Indian banks.

Figure 2 shows a profit to total assets ratio for overseas branches and subsidiaries of Indian banks and that of foreign banks in India.

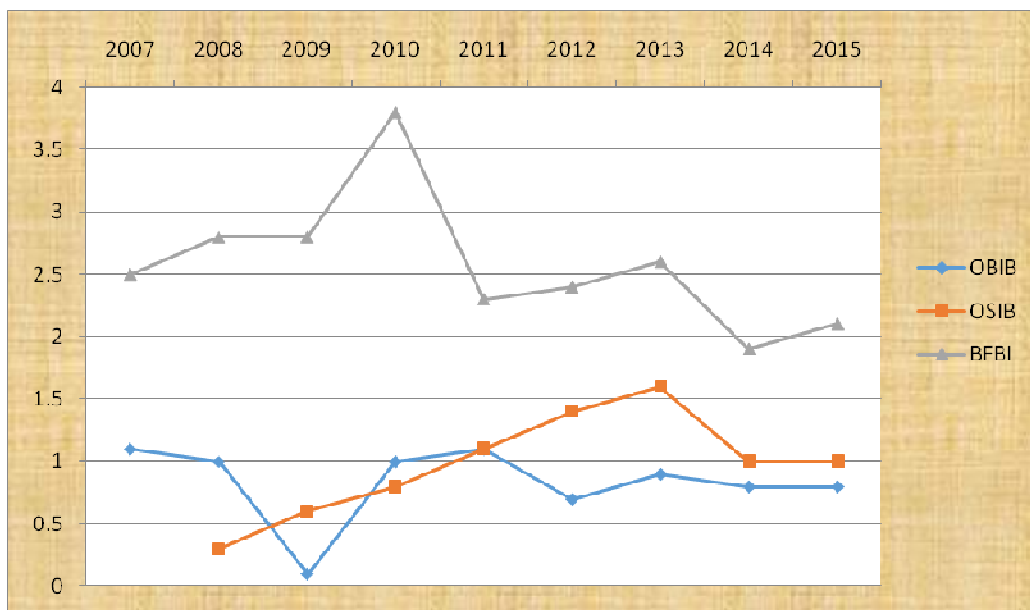


Figure 2: Profit- Total Assets Ratio

Note: OBIB: Overseas Branches of Indian Banks, OSIB: Overseas Subsidiaries of Indian Banks, and BFBI: Branches of Foreign Bank in India

CONCLUSIONS

On the basis of the above analysis of performances of foreign banks in India and overseas branches and subsidiaries of Indian banks, the following conclusions can be drawn:

- The increase in the international presence of Indian banks and that of foreign banks in India over the years point towards the rising global demand for international trade in banking services.
- The consolidated balance sheet of overseas branches of Indian banks which moderated after the financial crisis recovered in subsequent years.
- Since March 2010, the combined balance sheet of overseas branches of Indian banks has recorded a much higher increase than the combined balance sheet of foreign banks in India.

- Despite a lower asset base, the total income of foreign banks' branches in India consistently exceeded the income of overseas branches of Indian banks during the last five years.
- Foreign banks in India had a higher share of non-interest income when compared to overseas branches of Indian banks.
- Overseas branches of Indian banks had lower deposits- liabilities ratio in comparison with overseas subsidiaries of Indian banks and branches of foreign banks in Indian. In contrast, branches of foreign banks in India had comparatively lower credit to assets ratio in relation to overseas branches of Indian banks and overseas subsidiaries of Indian banks. This might be one of the factors responsible for the difference in the profitability of these groups.
- Profitability- the profit to assets ratio- of foreign banks operating in India remained substantially higher than that of the overseas branches/ subsidiaries of Indian banks.
- Fee income has gained significant focus as a source of revenue in recent years and a dominant portion of the fee income of overseas branches of Indian banks came through rendering services to residents.
- Branches of foreign banks generated more fee income from residents as compared to that of overseas branches and subsidiaries of Indian banks.
- Raghavendra R. H & Velmurugan P. S, A Study on Causal Relationship between Spot Return and Future Return of GBP/INR Currency Pair Traded in India, *IMPACT : International Journal of Research in Business Management(IMPACT : IJRBM)*, Volume 1, Issue 6, November 2013, Pp 43-48.
- The share of non-interest income in the total income of foreign banks operating in India was higher than that for overseas branches of Indian banks.
- The income per employee was much lower in the case of foreign banks operating in India in comparison of overseas branches and subsidiaries of Indian banks. While the trend was just opposite in case of income-assets ratio and profitability-assets ratio. This indicates lower productivity of manpower of foreign banks operating as compare with that of overseas branches of Indian banks.
- Foreign banks operating in India employed more local personnel (more than 99 percent) as compared to overseas branches and subsidiaries of India banks (about 70 percent).
- A major portion of fee income generated by international trade in banking services operation in India has been accrued to banks from USA, UK, and Hong Kong.
- A major portion of fee income generated by overseas branches of Indian banks accrued from UK, Hong Kong, Singapore, UAE, and Bahrain, accounting for more than 80 percent.
- The amount accrued from international trade in banking services operations of foreign banks from USA, Hong Kong, and Japan in India had been higher than the amount accrued from such overseas operations by Indian banks in these countries

- Overseas subsidiaries of Indian banks, albeit operating on a smaller scale, have performed better in comparison of overseas branches of Indian banks.

The important finding concerned with profitability performance indicates overseas branches of Indian banks had a heavy asset base. This diminishes their performance, while the branches had a much higher level of income per employee. This is a matter of concern for overseas branches of Indian banks and an area for further investigation.

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