CHAPTER - V

SUMMARY AND CONCLUSION

In the concluding chapter a summary of the main findings and the implications of the main study have been presented. In the light of the above impact analysis an attempt has been made to suggest a new area of the subject and further refinement in the methodology adopted in the present study to develop the model for impact analysis in banking sector.

Recession has spoilt the financial system all over the world. All over the world research on the impact of global recession has attracted many scholars both at theoretical level and practical level. Even this day there are wide spread collapse all over America and Europe. The world is astonishingly looking towards Asia particularly India because in spite of the world wide collapse of the financial system India is able to withstand the shocks. Western world is keen to know the secrets of sound financial policy of India. In fact branch banking policy of the banking system, RBI’s timely action and precautions and the method of securitization are the three secrets of sound financial system in India. The present study attempts to examine the impact of global recession on Indian Banking Sector taking State Bank of India for case study. State Bank of India is a largest public sector bank in India acting as right hand of the Reserve Bank of India. The State Bank of India is operating with 14 regional offices, 57 zonal offices and 21500 branches in India and abroad as on March 2013.

Indian Banking Sector remains a bright spot during the global recession while Citigroup totters on the brink and Bank of America is neck deep in trouble. Governments everywhere are at their wits end in dealing with the financial crisis. And yet little of this storm has touched the Indian banking system. It is not that the Indian economy has been spared in the present crisis. But the Indian situation is different from that in the western world. In the US and Europe, the housing market collapsed and dragged down banks. The two together have dragged down the real economy. In India, it is the real economy that got impacted first on account of exports and the drying up of overseas finance for many firms. Banks are affected
indirectly by the slowing down of the economy. The direct impact of the crisis on the Indian banking system has been small because Indian banks do not have big exposures to the subprime market. Indian banks are well placed to weather this impact. The underlying fundamentals of the Indian economy would continue to underpin the robust performance of the banking sector which remains profitable and well capitalized.

The analysis of balance sheets during precession and recession period shows that there is sharp rise in off-balance-sheet (OBS) assets in the banking system in recent years is an issue to be addressed in the Indian banking sector. For banks as a whole, OBS assets are 333% of balance sheets assets. The biggest exposures are among foreign banks (2,803%) and new private banks (302%). OBS items have proved the undoing of banks in the recent crisis. The RBI needs to keep its eyes and ears peeled.

We managed to save ourselves from the global financial meltdown is fairly simple and sociological as well. In India our grandmothers used to say, spend only as much as you earn. In America people were doing the opposite. But in India it appears, people paid heed to their grandma’s advice. Indian banks have not just survived the crisis but appear to have emerged even stronger from the recession and even gone ahead and posted reasonable profits as shown in our analysis. Due credit should be given to the Reserve Bank of India (RBI) being the apex bank of the country; it managed the monetary policies quite efficiently. When inflation was on the rise, RBI strengthened its hold over the markets and increased interest rates. But immediately after the fall of Lehman Brothers, RBI reduced the interest rates to increase liquidity in the markets. This is evident from the opinion analysis.

It is ensured that inter-bank transactions were not affected during this economic crunch, which in effect led to smooth payments and money transfers. The public sector banks but also the private banks of India remained unaffected by the recessionary spirals. The customer, private or corporate, can very well see for himself that the Government of India and even the RBI has never differentiated amongst the public sector or private banks. We realized this especially during recession times that the common man in India did not differentiate between governments or a private bank and his trust remained as before. The private banks
on their part have also followed the RBI banking guidelines which paid off very well balanced and conservative approach, plus the ever watchful eyes of the Governments Reserve bank of India. RBI guidelines limit Indian banking forays into foreign portfolio investment. Banks can not lend beyond an unsecured capital and their investments in the share markets are also controlled by the RBI. Another important factor is the limit over the Indian banks use of foreign capital. As a result of this constraint, in an economic meltdown situation, even foreign companies start withdrawing capital, the Indian banks remained unaffected.

It also found that Indian Banking sector challenged by domestic but not global factors. The reasons for tight liquidity conditions in the Indian market in recent weeks are quite different from the factors driving the global liquidity crisis. Some reasons include large selling by Foreign Institutional Investors (FIIs) and subsequent Reserve Bank of India (RBI) interventions in the foreign currency market, continuing growth in advances, and earlier increases in cash reserve ratio (CRR) to contain inflation. The strong capitalization of Indian banks, with an average Tier I capital adequacy ratio is a positive feature in their credit risk profile. The profitability of Indian banks is expected to remain unaffected and the majority of Indian banks’ ratings to remain unaffected, as they continue to maintain healthy capitalization, enjoy strong system support and benefits of government ownership in the case of public sector banks.

Indian public sector banks have not only been able to weather the storm of global recession but have been able to moderate its impact on the Indian economy as well, compared to its peers among the foreign and private banks. Public sector banks seem to have more than made up for the shortfall from foreign and private sector banks and the growth inflow of bank resources to the diverse sectors of the Indian economy has continued unabated which is evident from the ratio analysis of the empirical study.

Another fact is that Public Sector Banks recruitments were not affected during Recession: which is evident from the opinion analysis of the present case study. While thousands of people worldwide have been handed over pink slips as a part and parcel of the global slowdown, Indian public sector banks still have many
jobs. State Bank of India has bigger plans to recruit staff. Although recession has hit many other sectors, manpower is still a necessity in the public banking sector.

Liquidity condition was good in SBI during pre recession and recession period. In order to mitigate the liquidity tightness, the Reserve Bank took steps to inject primary liquidity of a more durable nature. It conducted open market operations (OMOs) aggregating around 1.3 trillion between November 2011 and March 2012. Further, the cash reserve ratio (CRR) was reduced by 125 basis points (50 basis points effective January 28, 2012 and 75 basis points effective March 10, 2012), injecting primary liquidity of about 0.8 trillion. Reflecting these measures, combined with decline in government cash balances, the net injection of liquidity under the LAF, which peaked at 2.0 trillion on March 30, 2012, declined sharply to 0.7 trillion on April 13, 2012.

With regard to opinion analysis administrators, managers, employees’ opinion is summarized as follows.

When asked about the strengths of SBI all the respondents say that it is able to strike a balance between liquidity and profitability, keep the costs at lowest levels, strict banking business, customer friendly transactions and a big nationwide branch expansion is the major strength.

In order to overcome the weaknesses of the bank and to sustain any further global financial shocks bank has high quality portfolio management as shock absorber, the bank is planning to expand its branches overseas and also keeping the vision on hawala transactions and foreign exchange transaction.

The managers are of the opinion that the global recession has not affected the functioning of SBI. This response is very close to the response given by the administrator. Managers are of the opinion with regard to the performance of SBI prior to 2007 that is earlier to recession and afterwards. Had given mixed response but majority of them said that in its normal functioning in the span of 6 to 7 years definitely the performance is better in terms of deposits, lending, expansion of branches etc. This also indicates that the opinion analysis of managers also endorsed the view that banking sector particularly SBI group is able to withstand the effects of global recession.
All India Bank Employees Association which is a strong association of bank employees its role in global financial crisis had active role. Because the association has restricted many of the bank mergers and they command favorable policies towards bank employees.

In the performance analysis different variables like capital of all types, reserves and surplus, expansion of branches inside and outside capacity to borrow, cash balances, investment in government securities and approved securities, management of shares and debentures, investments inside and outside India, bills payable and receivable, assets position, income earned, control on expenditure for the study period 2003-2012 is undertaken. All these variables indicate that prior to 2007 performance of all these factors was good and the trend shows that after 2007 during recession period actually there is drastic improvement in all these factors compel to conclude that the financial position of SBI is very strong inter alia has improved drastically telling the message that global recession has not affected the Indian financial system particularly State Bank of India.

Ratio analysis such as Liquidity ratios, Profitability ratios, and capital structure ratios, integrated ratios and Investment / share holders ratios is undertaken.

Earlier to 2007 i.e., pre recession average of current ratio is 4.79 and after 2007 the recession average of current ratio is 9.83 indicating that the financial position of liquidity has improved during the study period.

Quick ratio also indicates the improvement in the liquidity ratio of the bank showing that the global recession has not affected the bank liquidity position.

Operating profit ratio in the study period prior to 2007 with an average for 5 years is 60.26, but after 2007 the recession average for 5 years operating profit ratio is 64.32. This clearly indicates the increase in operating profit ratio between pre recession period and recession period.

Net profit ratio for the study period indicating prior to 2007 i.e., for pre recession average net profit ratio 9.90 and after 2007 the average for 5 years is 10.49 pointing to the fact that net profit ratio has also increased in the study period.
enveloping the fact that the global recession has not affected the net profit ratio of the bank.

The dividend/share ratio for the study period 2003-2012, earlier to 2007 the dividend/share ratio for 5 years average was 12 whereas after 2007 for the next 5 years for the dividend/share ratio has jumped to 29.10 indicating that the dividend ratio issued to the share holders has increased many folds and not affected by any global financial shocks.

Earnings per share ratio are for the study period 2003-2012. Here also earlier to 2007 the 5 years average earnings per share ratio is 76.15 and later after 2007 for the next 5 years earnings per share has jumped to 139.84 the all time high earning per share ratio indicating that the global recession has not at all affected the financial sector in India particularly SBI.

The impact analysis of performance analysis, ratio analysis and opinion analysis clearly indicate that Indian banking system is able to withstand global financial shocks, putting Indian financial management and macro performance always at the top raising the eye brows of western countries. Therefore, the study concludes that the impact of global recession on Indian banking sector is not significant. The case study indicated that the performance of state bank of India has never seen a set back either prior to recession or during recession period which is evident from the analysis of the balance sheets.

In opinion analysis, it was concluded that the state bank of India is successful to strike a balance between liquidity and profitability, keep the costs at lowest levels, strict banking business, customer friendly transactions and a big nationwide branch expansion is the major strength.

In order to overcome the weaknesses of the bank and to sustain any further global financial shocks bank has high quality portfolio management as shock absorber, the bank is planning to expand its branches oversees and also keeping the vision on hawala transactions and foreign exchange transaction.

The study was to analyze the problems of Indian banking system during recession such as coexistence of NPA and securitization, Investment in foreign
derivatives and housing advances were not transparent during the period of our study for which our study suggest further research.

The study further probed to identify the areas of efficiency of the Indian banking system in absorbing the shocks of recession. The answer is evident in branch banking policy of the banking system, RBI’s timely action and precautions and the method of securitization are the three secrets of sound financial system in India.

Regarding the testing of hypothesis, the first hypothesis about the empirical evidence that global recession has impact on Indian banking is not proved by the fact that the parameters of balance sheet in performance analysis and the four tests of ratio analysis, and the opinion analysis indicate that the impact of recession on Indian banking sector is not significant.

The second hypothesis is that there is shift in banking operations during global recession and it can be empirically established is proved by the fact that the banks have geared up to the situation through the strict guidelines of RBI and created a safety net all over the transactions. This is evident from the parameters of performance, ratio and opinion analyses.

The third hypothesis that the branch banking system could withstand the shocks of global recession is also proved by the fact that State Bank of India has 14 regional offices, 57 zonal offices and 21500 branches in India and abroad and thus was able to rearrange its operations and withstand the shocks of global recession which was not possible under unit banking system of western economies.

The last hypothesis that the regulatory measures of RBI has enabled the public sector banks to withstand the impact of global financial crisis is also proved by the fact that the timely intervention of RBI in monetary policy with strict regulatory measures with bail out schemes have saved the Indian banking system from the clutches of global recession.