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## **Role of Foreign Banks in India in era of globalization**

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### **INTRODUCTION**

A large number of foreign banks are now keen on opening shop in India to gain a critical mass by April 2009, when private banking space is expected to open up for foreign players. Foreign Banks in India always brought an explanation about the prompt services to customers. After the set up foreign banks in India, the banking sector in India also become competitive and accurate. The share of foreign banks in the business done in the country (deposits and advances) has been hovering between 5 and 7 per cent during the past decade. A new rule announced by the Reserve Bank of India for the foreign banks in India in this budget has put up great hopes among foreign banks which allow them to grow unfettered. Now foreign banks in India are permitted to set up local subsidiaries. The policy conveys that foreign banks in India may not acquire Indian ones (except for weak banks identified by the RBI, on its terms) and their Indian subsidiaries will not be able to open branches freely.

There are twenty-nine foreign banks are present in India through 273 branches and 871 offsite ATMs. Besides, there are 34 foreign banks operating through representative offices. Four have set up shop in the past one year. They are Banco Bilbao Vizcaya Argentaria, Spain's second largest bank; Italy's Banca di Roma; the Dublin-based Depfa Bank Plc.; and National Australia Bank Ltd. Given a chance, all banks would like to convert their representative offices into branches.

Standard Chartered Bank, the oldest foreign bank that came to India 150 years ago, now operates the maximum number of branches, 83. It is followed by HSBC, which entered India in 1867, with 47 branches. Citibank has 39 branches and ABN Amro, 28 branches. The only other bank that has a double digit branch presence is Deutsche, 11.

### **List of major Foreign Banks in India**

- ABN-AMRO Bank
- Abu Dhabi Commercial Bank
- Bank of Ceylon
- BNP Paribas Bank
- Citi Bank
- China Trust Commercial Bank
- Deutsche Bank
- HSBC
- JPMorgan Chase Bank
- Standard Chartered Bank
- Scotia Bank
- Taib Bank

By the year 2009, the list of foreign banks in India is going to become more quantitative as numbers of foreign banks are still waiting with baggage to start business in India

### **Upcoming Foreign Banks in India**

By 2009 few more names is going to be added in the list of foreign banks in India. This is as an aftermath of the sudden interest shown by Reserve Bank of India paving roadmap for foreign banks in India greater freedom in India.

### **The following are the list of foreign banks going to set up business in India**

- Royal Bank of Scotland
- Switzerland's UBS
- US-based GE Capital
- Credit Suisse Group
- Industrial and Commercial Bank of China

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### **Reasons for foreign bank enter in India**

- \* India's GDP is seen growing at a robust pace of around 7% over the next few years, throwing up opportunities for the banking sector to profit from.
- \* The credit of banks has risen by over 25% in 2004-05 and the growth momentum is expected to continue over the next four to five years.
- \* Participation in the growth curve of the Indian economy in the next four years will provide foreign banks a launch pad for greater business expansion when they get more freedom after April 2009.
- \* RBI is following a liberal branch licensing policy for those foreign banks who want to go to the unbanked pockets. They have started sensing enormous business opportunities in financing trade and small and medium sectors in small towns in the world's second fastest growing economy.

### **WTO and India about foreign banks operations**

India had committed to the World Trade Organization (WTO) in 1997 to give 12 new branch licenses to foreign banks every year, including those given to new entrants and the existing players. However, the Indian regulator has all along been allowing foreign banks to open more branches, going beyond its commitment to WTO. In fact, in the last four years till October 2007, it has given its nod to 75 new foreign bank branches and many more ATMs (which do not come under WTO norms).

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Despite their growing presence, foreign banks still have a very small market share in the Indian banking industry—6.11% of total deposits and 6.83% of total loan advances. But their returns from Indian operations are far higher than those of their local counterparts. For instance, the average net profit per branch for foreign banks in India was Rs11.99 crore last year against Rs33 lakh for the public sector banks that account for close to 70% of the industry. The return on assets for foreign banks last year was 1.65% and return on equity, 14.02%. The comparable figures for public sector banks were 0.82% and 13.62%. Now you know why foreign banks are ready to walk the extra mile to do business anywhere in India

The Reserve Bank of India would like foreign banks to get a flavour of semi-urban India and the rural hinterland. Going by the statistics provided in the RBI's annual report, it appears that foreign banks are being gently nudged away from metros, when they apply for permission to open a new branch.

The branches of foreign banks that have been approved between July 2006 and June 2007 are mostly in smaller towns and tier-2 and tier-3 cities. Of the 13 branches for which permission was given, only one branch belonging to Shinhan Bank has been allowed in New Delhi.

### **Smaller cities**

Hong Kong and Shanghai Banking Corporation (HSBC) received approvals for three branches in Raipur, Jodhpur and Lucknow. ABN Amro got approvals for branches in Kolhapur, Salem, Udaipur and Ahmedabad. Barclays Bank received approval for branches in Kanchipuram and Bangalore.

Most foreign banks follow a strategy of first setting up base in metros – Mumbai, New Delhi, Kolkata and Chennai. Then, in the next stage, they move to the mini-metros such as Bangalore, Hyderabad, Pune and Ahmedabad. Over the last few years, some banks have talked about expanding their reach beyond the conventional circuits of these eight places.

Foreign banks in India have got approval from the Reserve Bank of India to open 10 branches and seven representative offices during the July 2006- June 2007 period. In the calendar year 2006, the RBI issued approvals for opening 13 branches of foreign banks in India. Under the WTO agreements, India is required to allow the opening of 12 foreign branches every year.

### More foreign banks rush to India

A large number of foreign banks are now keen on opening shop in India to gain a critical mass by April 2009, when private banking space is expected to open up for foreign players.

The latest addition to the list of foreign banks wishing to set foot in India is the Royal Bank of Scotland, which has total assets of over \$806 billion.

The sudden interest in India follows the Reserve Bank of India's roadmap for according foreign banks greater freedom in India.

Switzerland's UBS, ranked the world's best private bank by EuroMoney magazine, has been preparing itself for India launch. Merrill Lynch and Goldman Sachs too are believed to be showing interest.

It is not known whether they will go alone or partner with an Indian entity in the new venture. Some of the new players are targeting the derivatives market to grow in India. The huge retail space is also an enticing factor.

Merrill Lynch has a joint venture in Indian investment banking space -- DSP Merrill Lynch. Goldman Sachs holds stakes in Kotak Mahindra arms.

US-based GE Capital last week announced its intention to set up a bank last week soon after the banking sector roadmap was unveiled. It already has wide presence in consumer finance through GE Capital India.

The RBI roadmap said the removal of limitations on the operations of wholly-owned subsidiaries of foreign banks and treating them on a par with domestic banks to the extent appropriate will be designed and implemented after reviewing the experience till April 2009.

A total of 33 foreign banks are present in India and had total assets of Rs 1,36,315 crore (Rs 1363.15 billion) as at end-March 2004. Roughly they account for about 7 per cent of the total banking space.

The list of foreign players includes banks like Citibank, Bank of America, Bank of Nova Scotia, ABN-AMRO Bank, Deutsche Bank and JPMorgan Chase Bank, which figure in the top 25 global banks ranked by The Banker magazine.

The other top banks like Credit Suisse Group, Industrial and Commercial Bank of China, are still to start banking business in India.

India is expected to find a place in the strategy of these banks given the country's growth prospects. There have been cases of foreign banks closing shops in India too. Dresdner Bank and Commerzbank fall in this category.

India's GDP is seen growing at a robust pace of around 7 per cent over the next few years, throwing up opportunities for the banking sector to profit from.

The credit of banks in India has risen by over 25 per cent in 2004-05 and the growth momentum is expected to continue over the next few years.

Participation in the growth curve of the Indian economy in the next four years will provide foreign banks a launch pad for greater business expansion when they get more freedom after April 2009

**TABLE 1**  
**FINANCIAL PERFORMANCE OF FOREIGN BANKS IN INDIA**

Item	2005-06	2006-07	variation	
			Absolute	percentage
<b>A.INCOME (i + ii)</b>	<b>17,662.07</b>	<b>24,959.06</b>	<b>7293.99</b>	<b>41.03</b>
i)Interest Income	12,290.82	18,018.92	5728.09	46.60
of which : Interest on Advance	7379.75	10,941.49	3,561.74	48.26
Income on Investment	3,950.57	5,432.04	1,481.46	37.50
ii) Other Income	5,371.25	6,937.14	1,565.90	29.15
of which : Commission & Brokerage	2,872.39	3,789.29	916.89	31.92
<b>B.EXPENDITURE (i+ii+iii)</b>	<b>14,593.47</b>	<b>20,370.90</b>	<b>5,777.43</b>	<b>39.59</b>
i)Interest Expended	5,149.50	7,615.02	2,465.53	47.88
of which :Interest on Deposits	3,161.17	4,758.24	1,597.07	50.52
ii) Provisions and Contingencies	3,589.84	5,014.65	1,424.81	39.69
of which : Provision for NPAs	96.43	332.48	236.06	244.81
iii) Operating Expenses	5,854.13	7,741.22	1,887.09	32.24

of which : Wage Bill	2,005.17	3,081.11	1,075.94	53.66
<b>C.PROFIT</b>				
i) Operating Profit	<b>6,658.44</b>	<b>9,599.81</b>	<b>2,941.37</b>	<b>44.18</b>
ii) Net Profit	<b>3,068.60</b>	<b>4,585.16</b>	<b>1,516.56</b>	<b>49.42</b>
<b>D.NET INTEREST INCOME/MARGIN</b>	<b>7,141.33</b>	<b>10,403.89</b>	<b>3,262.57</b>	<b>45.69</b>
<b>E.TOTAL ASSETS</b>	<b>1,99,358.03</b>	<b>2,78,016.49</b>	<b>78,658.46</b>	<b>39.46</b>

**SOURCE: RBI & BALANCE SHEETS OF RESPECTIVE BANKS**

The table 1 which implies that income of foreign bank increased of 41.03 per cent , while the expenditure of the foreign banks has increased nearly by 11 per cent. The operating profit amounting Rs. 2941.37 i.e. 44.18 per cent and there is an increase in net profit amounting to Rs 1516.56 i.e. 49.42 per cent. There also increase in total asset. It may be concluded that there is a sufficient progress in the foreign banks and the overall profitability of foreign banks is good

**LIST OF FOREIGN BANKS HAVING REPRESENTATIVE OFFICES IN INDIA AS ON NOVEMBER 3D, 2007**

S. No	Name and address of the representative office	Country of incorporation	Centre	Date of opening
1.	Commonwealth Bank	Australia	Bangalore	7.11.2005
2.	National Bank Australia Ltd	Australia	Mumbai	3.11.2006
3	Raiffeisen Zentral Bank Osterreich AG	Austria	Mumbai	1.11.1992
4	Fortis Bank	Belgium	Mumbai	6.10.1987
5	KB.C. Bank N.V.	Belgium	Mumbai	1.02.2003
6	Emirates Bank International	Dubai	Mumbai	16.06.2000
7	Credit Industriel et Commercial	France	New Delhi	1.04.1997
8	Natixis	France	Mumbai	4.01.1999
9	Bayerische Hypo - und Vereinsbank	Germany	Mumbai	12.07.1995
10	DZ Bank AG Deutsche Zentral	Germany	Mumbai	22.02.1996
11	Landesbank Baden - Wurttemberg	Germany	Mumbai	1.11.1999
12	Presdner Bank AG	Germany	Mumbai	6.09.2002
13	Commerzbank	Germany	Mumbai	23.12.2002
14	DEPFABank	Ireland	Mumbai	9.2.2007
15	Intesa San paolo Spa	Intesa Sanpaolo Spa	Intesa San paolo Spa	20.01.1991
16	Uni Credito Italiano	Italy	Mumbai	1.08.1998
17	Banca Popolare Di Verona E Novara	Italy	Mumbai	18.06.2001
18	BPU Banca -Banche Popolari Unite	Italy	Mumbai	16.01.2006
19	Banca Popolare di Vicenza	ItaIv	Mumbai	29.04.2006
20	Monte Dei Paschi Di Sienna	Italy	Mumbai	07.04.2006
21	Banca di Roma	Italv	Mumbai	17.01.2007
22	Everest Bank Ltd	Nepal	New Delhi	24.03.2004
23	Caixa Geral de Depositos	Portugal	Mumbai Goa (EC)	8.11.1999
24	Vnesheconombank (Bank for Foreign Economic Affairs)	Russia	New Delhi	1.3.1983
25	VTB India(Bank for Foreign Trade)	Russia	New Delhi	May 2005
26	Promsvvazbank	Russia	New Delhi	25.04.2006
27	Banco de Sabadell SA	Spain	New Delhi	2.08.2004
28	Banca Bilbao Vizcaya Aroontaria, BBVA	Spain	Mumbai	2.4.2007

29	Hatton National Bank	Sri Lanka	Chennai	1.01.1999
30	UBSAG	Switzerland	Mumbai	24.11.1994
31	Zurcher Kantonalbank	Switzerland	Mumbai	27.06.2006
32	The Bank of New York	USA	Mumbai	27.10.1983
33	Wachovia Bank NA	USA	Mumbai	1.11.1996
34	Svenska Handelsbanken	Sweden	Mumbai	1.8.2006
35	Westpac	Australia	Mumbai	1.10.2007

**SOURCE:** [rbidocs.rbi.org.in/rdocs/Content/pdfs/71207.pdf](http://rbidocs.rbi.org.in/rdocs/Content/pdfs/71207.pdf)

#### **CONCLUSION:**

Foreign Banks in India always brought an explanation about the prompt services to customers. After the set up foreign banks in India, the banking sector in India also become competitive and accurate. India is expected to find a place in the strategy of these banks given the country's growth prospects. There have been cases of foreign banks closing shops in India too. India's GDP is seen growing at a robust pace of around 7 per cent over the next few years, throwing up opportunities for the banking sector. Participation in the growth curve of the Indian economy in the next four years will provide foreign banks a launch pad for greater business expansion when they get more freedom after few years

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