LOSS OF CONFIDENCE : SUSTAINABILITY OF INDIAN PRIVATE SECTOR BANKING

VARUN JASHNANI

Department of Economics & Business Economics, Smt. Chandibai Himathmal Mansukhani College, Mumbai University.

Jashnanivarun@gmail.com +919822288400

ABSTRACT

Indian Banking sector is one of the largest in the world, it provides services to one of the largest populations in the world, thus sustainability of the system is of prime importance. The sector comprises both publicly owned and privately owned banks. Sustainability of both public sector banking and private sector banking is important. Recently one of the largest private banks was put under moratorium by the Reserve Bank of India due to fraudulent activities and increased non performing assets which ultimately led the bank to fall down. Such events lead to fall in confidence of the depositors, the paper's aim is to analyse whether fraudulent activities of a particular private bank which has led itself into crises lead to loss in confidence of depositors in the whole private sector banking system, and shift to public sector banking system as there is a general conception that public sector banks never fail as they are being backed by the Government of India, thereby affecting the sustainability of private sector banking system.

Keywords: Private banking crises, Sustainability of banking system.

INTRODUCTION:

Banking sector is the backbone of Indian economy. It consists of various organizations which can be publicly owned banks (Like Bank of Baroda, SBI, etc) or privately owned banks (Like Axis bank, HDFC bank, ICICI bank, etc), it also consist of Non banking financial institutions (Like Bajaj Finance Limited, Shriram Transport Finance Company Limited), these NBFI institutions do not have a banking license so they are not allowed to accept deposits, but they can lend money for various purposes. Indian banking sector also consists of Co-operative banks (Kalyan Janata Sahakari Bank Ltd, Thane Bharat Sahakari Bank Ltd, etc), such banks are with aim to provide support to rural sector where large banks are not paying much attention. Banking sector is the necessary intermediary in between the supply of loanable funds which is done by households through their savings and demand for loanable funds which is made by investors who wish to take loans to make investments.

OBJECTIVES OF THE RESEARCH :

The objective of the research is to understand whether the loss in confidence of depositors who have an account in the private sector banks lead to shift of their accounts in public sector banks due to fraudulent activities of a particular private bank which has led itself into crises. Public sector banks are backed by government so there is usually a conception that public sector banks will never go bankrupt, thus any crises in the private sector banks may urge the depositors to shift their accounts to public sector banks and thus this will lead to decline in the already small share of private sector bank in the Indian economy.

METHODOLOGY:

Data collection process	Survey, In person & Web based approach.
Population	Individuals (Depositors) having an account in a crisis hit private bank.
Sample size	30

Primary data collection is done using a simple random sampling method. Depositors of private bank (that is presently in crises) were randomly selected and were asked to fill a survey. Main question of interest in the survey was whether the customer would shift to another private sector bank or a public sector bank.

IMPORTANCE OF BANKING SECTOR IN INDIAN ECONOMY:

Banking sector provides the necessary fuel to the economy. It enhances the investment capacities of individuals, it increases consumption capacities of consumers. Growth of an economy depends upon the GDP of that economy. GDP is the total production of goods and services in a particular economy in a particular period. To increase this production of goods and services, capital is required for making investments which is provided by the banking sector. Increased production of goods and services lead to increased employment, as higher people get employed, disposable incomes in the hands of people increase which ultimately gets spent on various goods and services leading to increased standards of living of the people. So the Banking sector has a great deal of indirect effect on the economy. Banking sector itself is an employer of millions of people and is indirectly contributing to employment of more millions of people.

BANKING SECTOR IN PAIN:

In the past 3 years we have seen crises in Indian banking sector, crisis has hit each type of bank, a public sector bank, a private sector bank, a cooperative bank or a non banking financial corporation. IDBI Bank, a publicly owned bank would have failed and shut, if the support was not provided by the government of India through LIC (Life insurance corporation). IDBI bank was facing NPA (Non performing assets) problem due to substandard lending by the bank, gross bad loans of the bank stood at 55,588.26 crores in March 2018 which had increased from 44,752.59 crore in March 2017. Bank had reportedly shown loss for seven consecutive times in a row. The Gross NPA ratio of IDBI bank was 2.71% in 2005, which increased to 32.42% in 2018(1). Government of India & LIC infused nearly 9000 Crores in IDBI bank in September 2019 and did not let the bank fail.

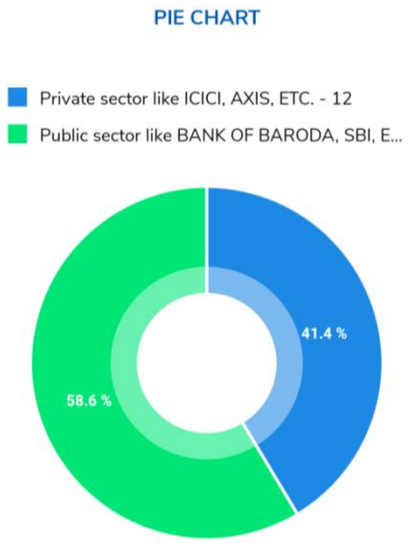
IL&FS Infrastructure Leasing & Finance Services, a NBFI Behemoth went into crisis in September 2018 after defaulting on payment obligations to banks and failing to meet commercial paper redemption obligations on September 14th of 2018. The IL&FS group was known to be sitting on a debt pile of around 91,000 crore(2). IL&FS crises sent shockwaves around the Indian economy due to its sheer size and its support to various infrastructure projects.

PMC Punjab & Maharashtra co operative bank ran into crises in September 2019. Bank had given loads of 6,500 crore, or over 73 per cent of all of the bank's advances to a single group called HDIL group (Housing Development and Infrastructure Limited) via various fraudulent accounts thereby violating the RBI lending norms. HDIL defaulted on loan obligations to PMC bank which led to bank failure(3).

Yes bank crises became public when RBI put Yes bank under moratorium on 5th March 2020 and announced that it was superseding Yes bank board of directors for 30 days. The reason behind the crises was substandard loans that were given to various companies. The bank has been on a loan lending spree since 2014. It would also lend to firms those who have been rejected by other banks. This led to an increase in NPA for the bank leading to decline in profitability and ultimately failure of the bank when the debt obligations were not being met by many of its borrowers(4).

ANALYSIS AND DISCUSSION:

Out of a sample of 30, 17 said that they would shift to public sector banks as they feel that public sector banks are safer, as they are backed by the government. 56.67% i.e 17 are in favor of shifting to a public sector bank, 40% i.e 12 are in favor of private sector banking and will stick to private sector banks, 3.33% i.e 1 did not answer the question.



RESULTS

Choices	%	Count
Private sector like ICICI, AXIS, ETC.	40.00	12
Public sector like BANK OF B...	56.67	17
Not Answered	3.33	1

Failure of one particular private bank leads to decline in confidence of the depositors in the private sector banking, thus the whole private sector banking system could suffer due to the fraudulent activities of one private bank. The customers would shift their deposits to public sector banks, this leads to decline in the credit flow for private sector banks making them weaker. This shift of depositors from private sector banking to public sector banking is not good for banking system in the long run as private sector banking plays a very vital role in Indian economy, it encourages healthy competition, it encourages use of new technology, it leads to overall increased efficiency in the banking sector, it encourages research and development in banking technology, it also helps to access foreign capital markets.

The market share of public sector banks is 63.1% and private sector banks hold share of 28.7% only(5), with already small market share in the banking industry further fall in this share would lead to decline in the private banking market and thus public sector banks would only emerge as a option for any individual who desires banking services. In absence of the private sector, public sector banks would render inefficient, improvements in technology would become very slow. Customer satisfaction was the main point of differentiation of private sector banks, as public sector banks never aimed for customer satisfaction before privatization of banks, if the share of private sector banking declines then customer satisfaction would become a thing of the past. In 2018-19, private banks gave a total of ₹7.3 trillion in loans, while public sector banks gave ₹2.3 trillion in loans[5], decline in private sector banking would also lead to decline in advancement of loans, which means slowdown in the economic growth.

CONCLUSION:

After the crises in the particular private bank we can understand that 56.67% of the sample would like to shift to any of the public sector banks, whereas before the crises 100% of the sample was banking in the private sector banking, this number reduced to 43.33%. We can find that there is definitely loss of confidence in private sector banking among the depositors.

REFERENCES :

1) https://www.academia.edu/38018848/NPA_CRISIS_IN_IDBI_BANK_-AN_ANALYSIS
2) https://economictimes.indiatimes.com/industry/banking/finance/banking/everything-about-the-ilfs-crisis-that-has-india-in-panic-mode/articleshow/66026024.cms
3) https://www.business-standard.com/about/what-is-pmc-bank-crisis
4) https://www.thehindu.com/business/yes-bank-crisis-explained/article31030273.ece
5) https://www.livemint.com/industry/banking/how-private-banks-are-taking-over-indian-banking-1560706195840.html

