

*Survey on International Trade in Banking Services: 2012-13**

The Reserve Bank's annual survey on 'International Trade in Banking Services' (ITBS) provides information on financial auxiliaries' services rendered by branches/subsidiaries of Indian banks operating abroad and branches/subsidiaries of foreign banks operating in India, based on explicit/implicit fee/commission charged to customers. The results of the 2012-13 round of ITBS survey are presented here. It covers the broad changes in branch/employee/country profile of their banking business as well as service activities (including fund/non-fund based). The recent trend in their income, expenditure and profitability are also discussed.

Introduction

Banking services provided to residents through local presence of (a) foreign banks and (b) foreign affiliates is known as international trade in banking services (ITBS). It takes into account services such as lending to firms, mortgage lending, retail deposit-taking, consumer finance, and a host of so-called non-asset-based services such as securities underwriting, local currency bond trading, foreign exchange services for firms, brokering, custody services and funds collection and disbursal services.

Increasing globalisation of Indian economy has moved in synchrony with more open financial market. The number of banks branches/subsidiaries across borders has risen to provide banking services in cost-effective manner. Foreign direct investments in banking in the form of branches, agencies, and subsidiaries, or by the means of cross-border mergers and acquisitions, have increased the cross-border presence of both domestic and foreign banks over the years. From the

perspective of public policy in India, it is useful to assess the efficiency of banking services by Indian banks operating abroad and foreign banks operating in India. Also, the General Agreement on Trade in Services (GATS) under the World Trade Organisation (WTO) *inter alia*, necessitated the need of consistent and comparable statistics on ITBS for assessing the financial services sector liberalisation.

The Reserve Bank's annual ITBS survey, being conducted since 2006-07, is intended to provide information for India through mode 3 of supply (*i.e.*, financial services provided locally through commercial presence) as per the Manual of Statistics of International Trade in Services (MSITS), for the banking sector. These cover overseas branches/subsidiaries of Indian banks operating abroad and foreign banks operating in India. As per IMF's Balance of Payments and International Investment Position Manual: Sixth edition (BPM6), subsidiary is a direct investment enterprise (DIE) over which direct investor is able to exercise control, which is assumed to exist if the investor has more than 50 per cent equity in the enterprise investment. An associate is a DIE over which the direct investor does not have control but is able to exercise a significant degree of influence, which is assumed to exist if the direct investor owns from 10 to 50 per cent of the equity shares in the investment enterprise.

The 2012-13 survey round covered 170 overseas branches and 184 overseas subsidiaries of Indian Banks and 316 branches of foreign banks operating in India¹. The salient features along with the trends in the international trade in banking services in the last few years are analysed here.

I. Branch Distribution

The cross-border branch network of both Indian and foreign banks have expanded in the recent years.

* Prepared in the External Liabilities and Assets Statistics Division, Department of Statistics and Information Management. The previous article in the series with reference period 2011-12 was published in July 2013 issue of the Reserve Bank of India Bulletin.

¹ The details of the banking services covered under the survey are described in the RBI press release dated February 17, 2014, related to this survey on the website www.rbi.org.in.

However, while the number of employees in overseas branches and subsidiaries of Indian banks increased consistently, contraction was witnessed in employee strength of foreign banks operating in India, following global financial crisis in 2008 (Table 1 and Chart 1).

Of the 170 overseas branches of Indian scheduled commercial banks, highest number of branches were located in the United Kingdom (30), followed by Hong Kong (19), Singapore (17), United Arab Emirates (13), Fiji (9), Sri Lanka (9) and Mauritius (9). State Bank of India (with 51 branches in 21 countries) and Bank of Baroda (51 branches in 13 countries) had the largest overseas presence, followed by Bank of India (25 branches in 13 countries).

During 2012-13, Indian banks operating abroad employed 64.5 per cent of employees from local sources, 32.5 per cent from India and remaining 3 per cent from other countries. In case of foreign banks working in India, the share of local employees in total employees was much higher (99.6 per cent) in 2012-13. The number of employees of Indian banks operating abroad increased by 7.8 per cent and the number of employees of the foreign banks operating in India decreased by 8.1 per cent during 2012-13 (Chart 1 and Table 2).

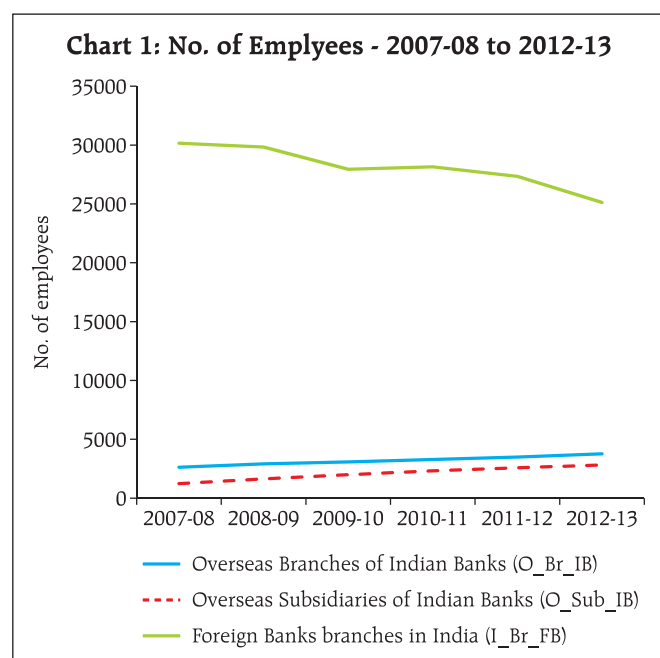


Table 1: No. of Branches and Employees – 2007-08 to 2012-13

Category	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
No. of Branches						
Overseas Branches of Indian Banks	121	134	144	153	163	170
Overseas Subsidiaries of Indian Banks	65	99	123	150	158	184
Foreign Banks branches in India	273	289	302	309	309	316
No. of Employees						
Overseas Branches of Indian Banks	2,629	2,919	3,084	3,289	3,489	3,761
Overseas Subsidiaries of Indian Banks	1,239	1,638	1,986	2,325	2,580	2,818
Foreign Banks branches in India	30,159	29,824	27,945	28,158	27,342	25,118

II. Banking Business

The subdued level of activity in the business of foreign banks operating in India was observed in 2012-13 following economic slowdown in India. Growth of the consolidated balance sheet of foreign banks operating in India moderated to 5.2 per cent in 2012-13 from 17.5 per cent in the previous year. However, the business of the Indian banks' overseas branches continued to robust at 34.3 per cent in 2012-13 on top of 29.3 per cent growth in 2011-12.

The share of credit in total assets of overseas branches of Indian banks stood at 58.9 per cent at end-March 2013, which was comparable with the corresponding share of 66.5 per cent in case of subsidiaries of Indian banks operating abroad but

Table 2: Type of Employees – 2011-12 and 2012-13

	Overseas Branches of Indian Banks		Overseas Subsidiaries of Indian Banks		Foreign Banks' Branches in India	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
Total number of branches	163	170	158	184	309	316
Number of Employees	3,489	3,761	2,580	2,818	27,342	25,118
<i>of which:</i>						
Local	2,313	2,424	2,117	2,342	27,235	25,019
Indians	1,074	1,223	436	434	-	-
Others	102	114	27	42	107	99

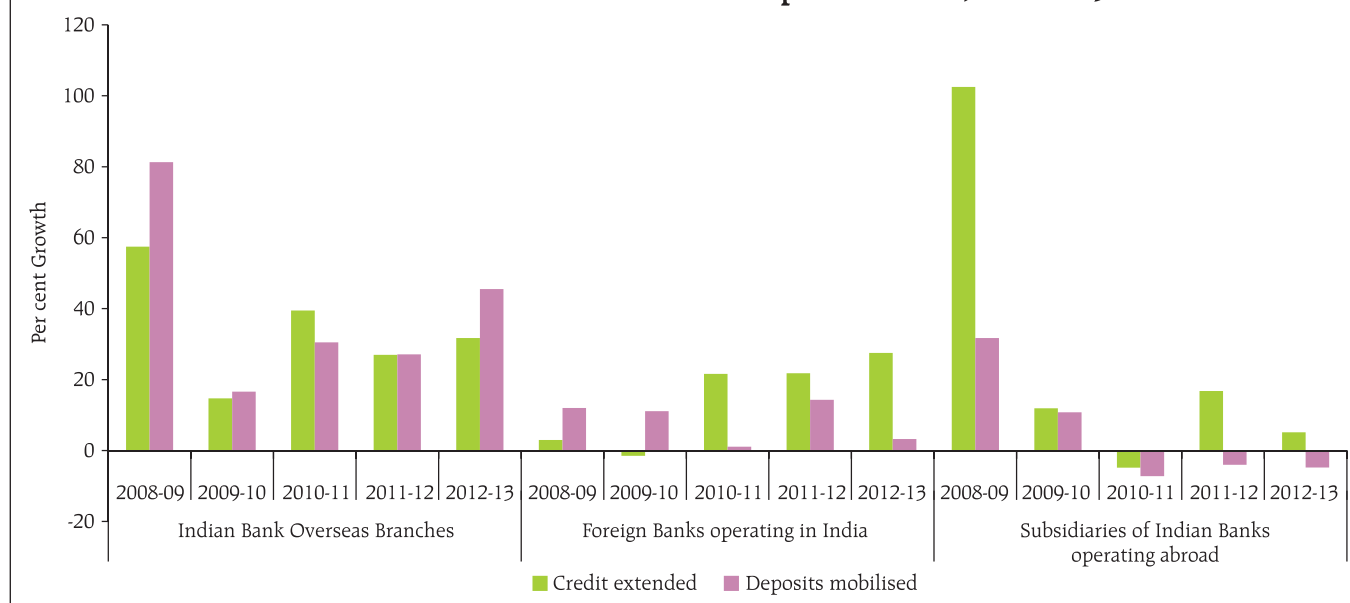
Table 3: Bank Balance Sheet – 2008 to 2013 (End-March)

	2008	2009	2010	2011	2012	2013
Overseas branches of Indian Banks						
Credit to Total Assets (%)	63.2	63.1	62.6	61.2	60.2	58.9
Deposits to Total Liabilities (%)	35.0	40.3	40.6	37.2	36.5	39.5
Total Assets/Liabilities (₹ billion)	2,199.0	3,470.5	4,009.0	5,720.5	7,399.2	9,939.8
Total Assets/Liabilities (US\$ billion)*	55.0	68.1	88.8	128.1	144.6	182.8
Overseas Subsidiaries of Indian Banks						
Credit to Total Assets (%)	35.8	57.7	59.8	62.3	64.9	66.5
Deposits to Total Liabilities (%)	63.6	66.7	68.4	69.5	59.5	55.2
Total Assets/Liabilities (₹ billion)	593.9	746.9	806.2	736.5	826.4	848.3
Total Assets/Liabilities (US\$ billion)*	14.9	14.7	17.9	16.5	16.2	15.6
Foreign Banks branches Operating in India						
Credit to Total Assets (%)	44.1	37.0	37.6	40.4	41.9	50.7
Deposits to Total Liabilities (%)	52.5	47.9	54.9	49.0	46.9	46.7
Total Assets/Liabilities (₹ billion)	3,640.0	4,469.5	4,329.4	4,904.8	5,764.5	6,066.5
Total Assets/Liabilities (US\$ billion)*	91.1	87.7	95.9	109.8	112.7	111.5

* Using end-march Rupee/Dollar RBI reference rate.

substantially higher than the share (50.7 per cent) of the foreign banks operating in India. However, the share of deposits in total liabilities of Indian banks' overseas branches at 39.5 per cent was substantially lower than the corresponding share of 55.2 per cent for their subsidiaries (Table 3).

After showing moderation in 2009-10, credit extended and deposit mobilised by Indian bank branches operating abroad witnessed recovery in the subsequent years. During 2012-13, their credit and deposits increased by 31.7 per cent and 45.5 per cent, respectively, on top of 27.1 per cent growth in both

Chart 2: Growth of Credit extended and Deposits – 2008-09 to 2012-13

credits and deposits in the previous year. In case of foreign banks operating in India, credit growth picked up after recording negative growth in 2009-10 but average deposit growth remained moderate. The asset base of overseas subsidiaries of Indian banks is relatively much lower and their deposit base has been contracting since 2010-11 and credit growth has been low after recording a 4.8 per cent contraction in 2010-11 (Chart 2).

III. Income and Expenditure

The total income of Indian branches and subsidiaries operating abroad and foreign banks operating in India contracted in 2009-10 following global financial crisis which recovered in the subsequent years. As a result, the Indian banks operating abroad and foreign banks operating in India abridged their expenses in 2009-10 by 26.3 per cent and 38.7 per cent, respectively, which was improved in subsequent years. Due to larger non-fund-based activities, foreign banks in India had higher share of non-interest income when compared to overseas branches of Indian banks. During 2012-13, the share of interest income in total income was 84.1 per cent for overseas branches of Indian banks and 79.0 per cent for foreign banks operating in India (Chart 3).

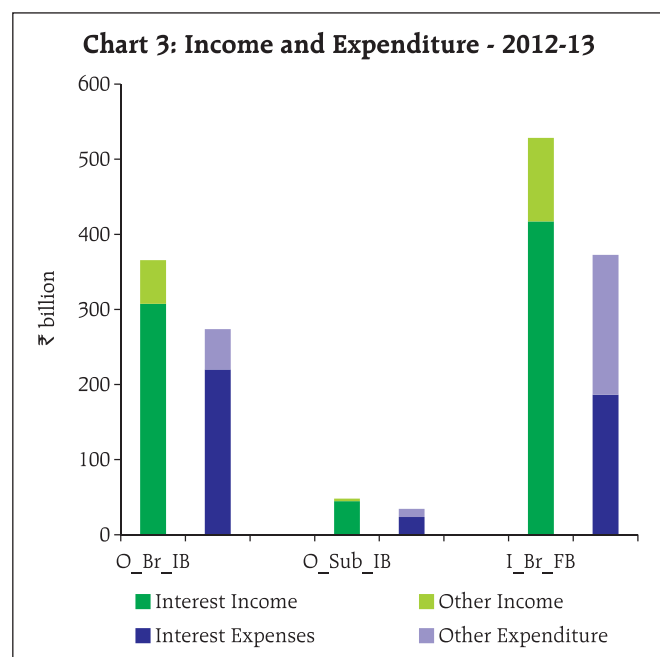


Table 4: Income and Expenditure – 2008-09 to 2012-13

(Amount in ₹ billion)

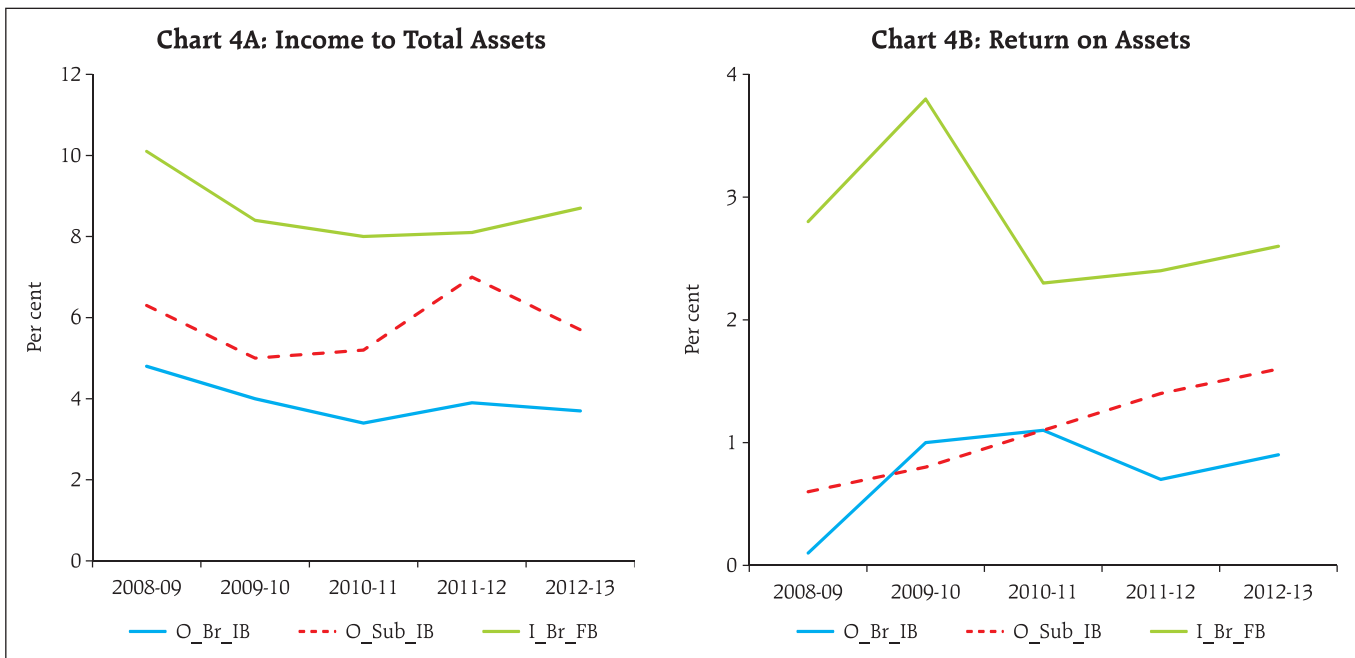
	2008-09	2009-10	2010-11	2011-12	2012-13
Overseas Branches of Indian Banks					
Income	167.4	161.8	196.6	285.3	365.6
Expenditure	165.1	121.6	134	206.2	273.7
Overseas Subsidiaries of Indian Banks					
Income	47.3	40.6	38.1	42.1	48.0
Expenditure	42.8	34.5	29.7	33.9	34.3
Foreign Banks operating in India					
Income	452.0	363.2	394.3	467.3	528.4
Expenditure	326.2	200.1	281.3	327.9	372.6

Growth in income of foreign banks operating in India moderated from 18.5 per cent in 2011-12 to 13.1 per cent in 2012-13 in synchrony with the contraction in their balance sheets and lower interest income. Income and expenditure of the overseas subsidiaries of Indian banks, which contracted in two consecutive years 2009-10 and 2010-11 has been rising since 2011-12 (Table 4).

IV. Profitability

Profitability of foreign banks in India was more volatile but substantially higher than the overseas branches/subsidiaries of Indian banks, during the last five years. Profitability ratio as measured by return on assets (ROA: profit to total assets) increased for all the three categories during 2012-13 and their income to asset ratio in 2012-13 was lower than respective 2008-09 levels (Charts 4A & 4B).

Country-wise ROA of overseas branches of Indian banks indicate that Indian bank branches operating in Bangladesh recorded highest return on assets (6.8 per cent) followed by banks in Maldives (5.1 per cent) during 2012-13 (Chart 5). In countries with larger number of branches, the ratio was lower at 1.5 per cent for UAE, 1 per cent for Singapore and Hong Kong and 0.6 for UK and USA.



V. Activity-wise Trade in Banking Services

Information on trade in banking services was collected based on explicit and implicit fees or commission charged to the customers for various services rendered by the overseas branches and subsidiaries of Indian banks. For this purpose, the financial services provided by them were classified into

eleven major groups as per the MSITS, and detailed data were collected.

Overseas branches of Indian banks generated more fee income since 2009-10 by rendering banking services, mainly due to higher focus on 'Credit Related services' and 'Trade Finance Related Services'. Their fee income rose by nearly 2.8 times during the last three years. On

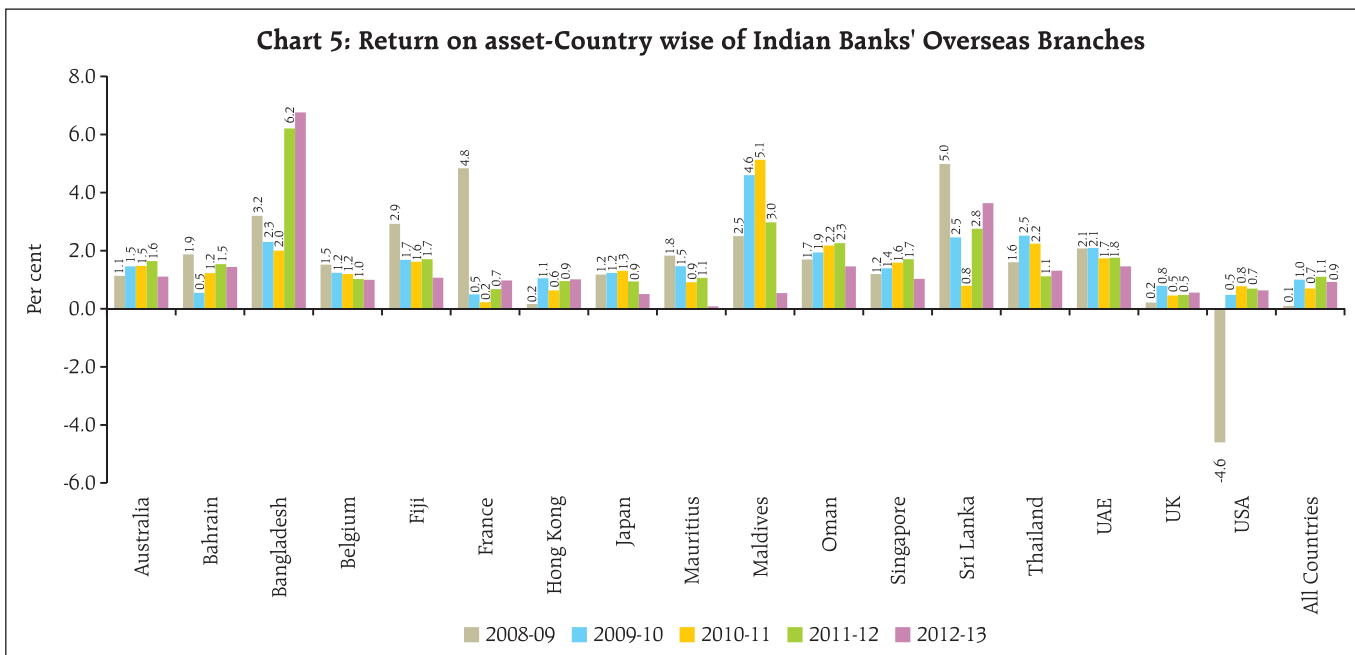


Table 5: Activity-wise Composition of Banking Services delivered by Overseas Branches of Indian Banks and Subsidiaries of Indian Bank

(Amount in ₹ billion)

Banking Service	Overseas Branches of Indian Banks					Subsidiaries of Indian banks Operating Abroad				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
Deposit Account Management Services	0.8	0.6	0.9	1.8	7.8	0.1	0.1	0.3	0.2	0.2
Credit Related Services	11.8	15.6	23.9	25.6	40.5	2.1	2.5	1.3	1.4	1.4
Financial Leasing Services	0	0.1	0.0	0.0	0.0	0	0	0	0	0.0
Trade Finance Related Services	12.1	10.9	10.6	18.2	34.4	1.6	0.9	0.4	0.5	0.5
Payment and Money Transmission Services	2.7	3.1	2.6	10.1	5.3	1.1	1	0.3	0.4	0.4
Fund Management Services	0	0.2	0.0	0.0	0.0	0	0.0	0.0	0.3	0.0
Financial Consultancy and Advisory Services	0.7	0.4	0.9	0.3	0.1	1.3	0.6	0.5	0.2	0.5
Underwriting Services	0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0
Clearing and Settlement Services	0.2	0.0	0.0	1.9	0.2	0	0.0	0.0	0.0	0.0
Derivative, Stock, Securities, Foreign Exchange trading Services	1.3	1.9	4.5	9.6	3.1	-7.4	0.5	0.3	0.4	0.3
Other Financial Services	0.4	0.3	0.5	0.6	2.1	13.7	0.1	0.1	0.7	1.5
Total	30.1	33.0	44.0	68.0	93.5	12.4	5.6	3.3	4.1	4.8

the other hand, overseas subsidiaries of Indian banks recorded contraction in such fee income during 2009-10 and 2010-11 and its level in 2012-13 remains less than half of the fee income in 2008-09 (Table 5).

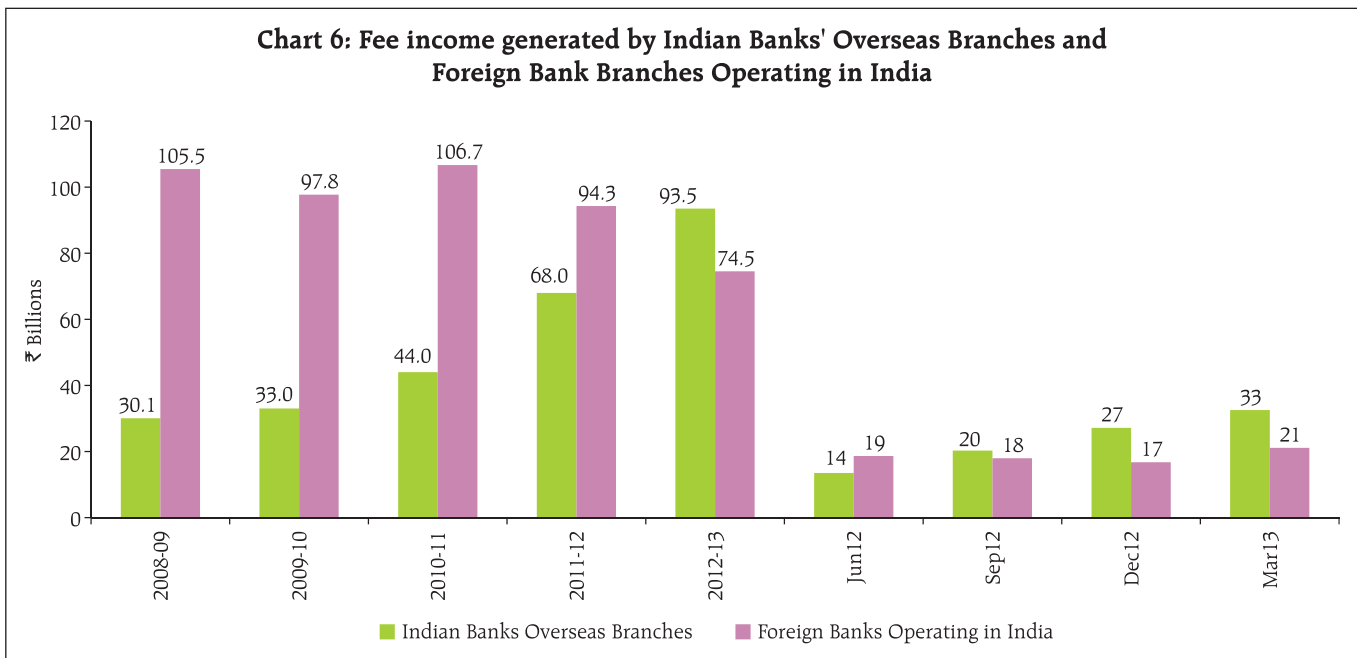
Indian banks' branches operating abroad generated major share of fee income by rendering 'credit related

services' and 'trade finance related services', whereas foreign banks operating in India received major part of their fee income from 'Derivative, stock, securities, foreign exchange trading services', 'Financial Consultancy and Advisory Services' and 'Trade Finance Related services' (Table 6).

Table 6: Activity Share in Trade in Banking Services

(per cent)

Activity	Indian Banks operating Abroad					Foreign Banks operating in India				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
Deposit Account Management Services	2.7	1.7	2.1	2.7	8.3	2.8	4.1	3.8	5.4	5.1
Credit Related Services	39.2	47.2	54.4	37.6	43.2	8.4	7.2	9.0	10.9	12.2
Financial Leasing Services	0.0	0.2	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0
Trade Finance Related Services	40.3	33.1	24.2	26.8	36.7	17.7	14	11.1	19.0	22.1
Payment and Money Transmission Services	9.1	9.2	6.0	14.8	5.7	7.0	7.0	17.5	9.2	15.0
Fund Management Services	0.1	0.5	0.0	0.0	0.0	3.1	4.7	5.2	5.9	6.1
Financial Consultancy and Advisory Services	2.4	1.3	2.1	0.4	0.1	9.6	19.5	14.1	14.4	15.0
Underwriting Services	0.0	0.0	0.0	0.0	0.0	0.8	0.4	0.4	0.4	0.2
Clearing and Settlement Services	0.6	0.0	0.0	2.8	0.3	3.4	2.2	2.0	3.7	1.2
Derivative, Stock, Securities, Foreign Exchange trading Services	4.4	5.9	10.2	14.1	3.5	35.2	18.7	27.1	21.5	17.6
Other Financial Services	1.2	0.9	1	0.9	2.3	11.1	22.1	9.8	9.6	5.6
All activities	100	100	100	100	100	100	100	100	100	100



VI. Fee Income

Total fee income generated by 170 branches of Indian banks operating outside India increased from ₹ 68.0 billion (US\$ 1.4 billion) in 2011-12 to ₹ 93.5 billion (US\$ 1.7 billion) in 2012-13 whereas, in case of foreign banks operating in India, total fee income generated by 316 branches declined to of ₹74.5 billion

(US\$ 1.4 billion) in 2012-13 from ₹ 94.3 billion (US\$ 2.0 billion) in 2011-12 (Chart 6).

A dominant portion of fee income of Indian Bank's overseas branches came from non-residents. In contrast, major portion of fee income for Indian bank's subsidiaries abroad came from residents (Chart 7).

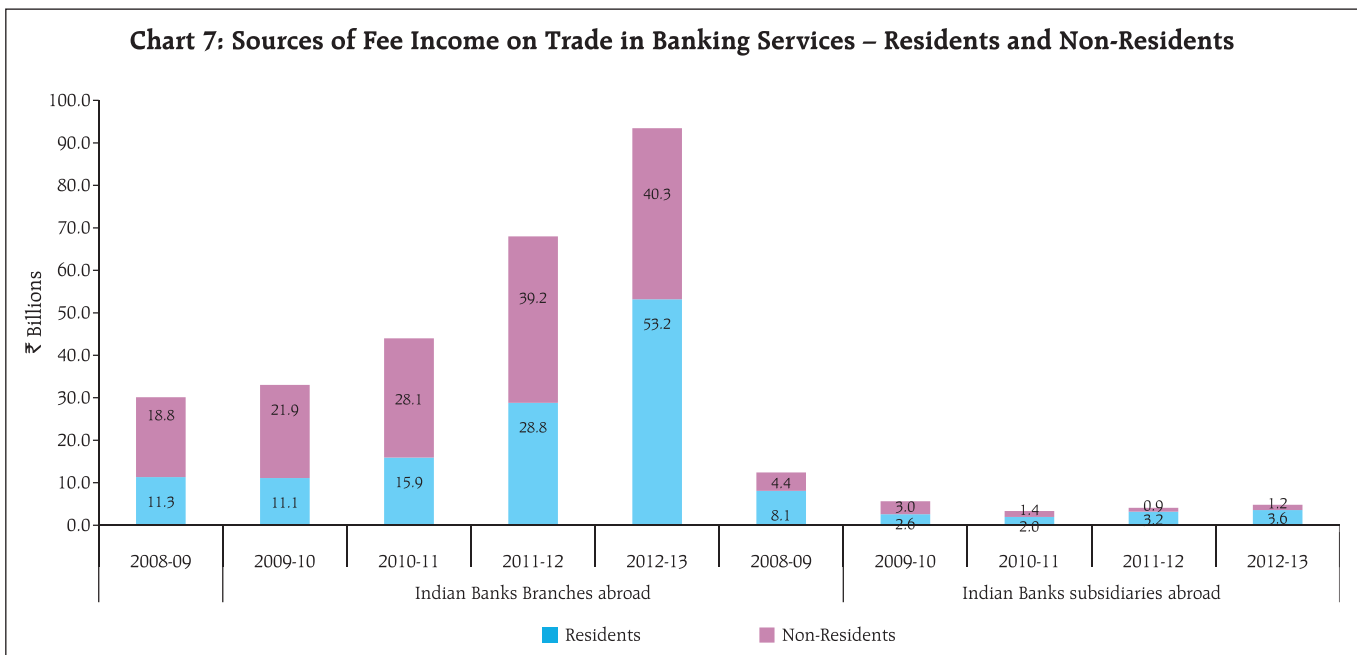


Table 7: Country-wise classification of Fee Income by Overseas branches of Indian Banks and Foreign Banks Operating in India

(Amount in ₹ billion)

	Indian Bank's Overseas Branches					Foreign Banks Operating in India				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
Bahrain	5.9	3.1	3.7	2.5	2.9	0.0	0.0	0.1	0.1	0.1
Belgium	1.3	1.1	0.8	0.9	2.1	0.1	0.2	0.1	0.2	0.3
Hong Kong	3.5	4.2	5.7	9.5	9.4	25.0	25.1	12.4	16.5	15.7
Japan	1.2	3.6	1.0	0.9	1.0	0.3	0.6	0.8	1.2	1.4
Singapore	4.4	6.0	7.6	8.9	8.2	3.1	1.8	2.0	4.6	3.6
Sri Lanka	0.1	0.1	0.2	0.1	15.4	0.0	0.2	0.0	0.0	0.0
UAE	1.8	2.2	5.2	5.9	4.1	0.1	0.1	0.1	0.2	0.2
UK	4.9	5.7	10.5	27.8	38.8	21.2	30.6	25.5	26.8	18.5
USA	3.8	3.5	4.4	5.2	4.3	39.6	20.2	34.2	24.0	20.4
Other Countries	3.2	3.5	4.9	6.3	7.3	15.9	19.0	31.4	20.7	14.4
Total	30.1	33.0	44.0	68.0	93.5	105.5	97.8	106.7	94.3	74.5

Bahrain, Belgium, Hong Kong, Japan, Singapore, Sri Lanka, UAE, UK and USA were the major source countries which accounted together for nearly 92.2 per cent in total banking services provided by overseas branches of Indian banks. Overseas subsidiaries of Indian banks were mainly present in Botswana, Canada, Russia and United Kingdom (Table 7).

The amount accrued from ITBS operations of banks from UK, Hong Kong, USA was higher than the amount accrued to India from such overseas operations by Indian banks in these countries. However, the amount accrued to India from ITBS was more than the amount accrued to countries like Bahrain, Belgium, Singapore and UAE from their operations in India.

VII. Conclusion

Cross-border presence of both Indian and foreign banks have increased in the recent years. The consolidated balance sheet of overseas branches of Indian banks, which moderated after the global financial crisis, recovered in subsequent years whereas

that of foreign banks operating in India is continuing to grow at a relatively moderate pace. The share of non-interest income in total income of foreign banks in India was more than that for overseas branches of Indian banks, as the former had more non-fund-based activities whereas the latter generated major share of their fee income by rendering 'credit related services' and 'trade finance related services'.

Total fee income generated by 170 branches of Indian banks operating outside India increased from ₹ 68.0 billion in 2011-12 to ₹ 93.5 billion in 2012-13 whereas, in case of foreign banks operating in India, total fee income generated by 316 branches declined from ₹ 94.3 billion in 2011-12 to ₹ 74.5 billion in 2012-13. A dominant portion of fee income of the Indian banks branches operating abroad came from rendering services to non-residents, whereas in case of Indian Banks overseas subsidiaries, it came from the residents. Profitability ratio of foreign banks in India was more volatile but higher than the overseas branches/subsidiaries of Indian banks, during the last five years.