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AN OVERVIEW OF FEE BASED INCOME IN INDIAN BANKS

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ABSTRACT:

Post liberalisation, Indian banks are facing increased competition due to entry of new private sector banks resulting into declining net interest margins, therefore Banks & depository institutions are diversifying into new product areas over the past two decades, moving from traditional lending to areas that generate Non-fund-based income, this is also important from Financial stability point of view. The more unstable is a bank's earnings stream, the riskier the institution is.

Fee incomes started gaining importance with the introduction of capital adequacy norms for banks. Fee incomes today are a relatively easier way to grow revenues as the business does not involve any fund-based exposure like a loan or a cash advance. This helps banks to conserve capital which can be deployed for better use where returns are higher which in turn increase the profitability of the bank.

The conventional wisdom in the banking industry is that earnings from fee-based products are more stable than loan-based earnings and those fee-based activities reduce bank's risk through diversifications. Fee based income is generally earned by providing a variety of services such as assisting companies to issue new equity financing trading of securities, securities commissions and wealth management, sale of land, building, profit and loss on revaluation of assets etc. Non-interest income also includes deposit and transaction fees, monthly account service charges, insufficient funds fees, annual fees; inactivity fees, cheque and deposit slip fees etc. Institutions charge fees that is a way of generating revenue to ensure liquidity in the event of increased default rates.

This move to innovation adoption and new income streams has been more pronounced for new private and foreign banks, while there appears to have certain hesitation on the part of public sector banks. study shows that new private banks in India have been more successful than public sector banks in generating a greater proportion of their income through fee-based income activities.

KEYWORDS: *Non-interest income in Indian Banks, Income diversification in Indian Banks, profitability in Indian Banks, innovations in Indian Banking, Fee Income in Indian Banks.*

INTRODUCTION

Globally & in India, Banks are trying to beat the heat out of increasing interest rates with higher fee income. Fee incomes started gaining importance with the introduction of capital adequacy norms for banks. Capital adequacy norms mandate banks to provide capital on advances made by a bank depending on the risk assessment. Fee incomes today are a relatively easier way to grow revenues as the business does not involve any fund-based exposure such as loan or a cash advance. By doing this, banks are effectively utilizing the capital and improving their profitability.

Indian banks are focusing on fee income stream in a big way. Although pioneered by the private sector banks as a means to overcome capital constraints during their formative years. Fee incomes today have evolved as a strong and efficient revenue stream for banks as banks today are faced with the task of growing profits in an environment where capital is most scarce and expensive due to tighter capital provisioning norms.

Lately PSU banks have also been actively building the fee income stream. Fee income represents the income earned on services provided by the bank such as demand drafts, telegraphic transfers, issuance of guarantees, brokerage or commission earned on forex transactions, distribution of third-party products like mutual funds, insurance and financial advisory services. Banks are pushing the boundaries in adding newer fee-based products like providing trust services, acting as arrangers of debt for companies, cash management services and collection of taxes and utility payments for both the center and state entities. Fee-based products such as cash management and collection of tax help banks mobilize funds at no cost. For instance, Kotak Mahindra Bank through its investment banking subsidiary acted as lead manager to a number of public offerings seen during FY05. While the investment banking arm earned the fees for the services provided, the bank got the benefit of Rs 42 crore of IPO funds. This is generally referred to as free cost funds for banks. Such float funds help banks to lower the cost of deposits which in turn increase the net interest income of the banks.

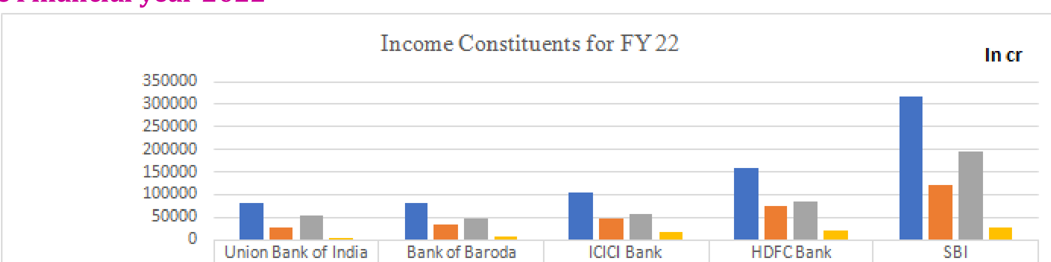
While fee-based products seem attractive as banks don't have to worry about these going bad or turning up as Non-Performing Assets (NPAs) on the balance sheet, banks may have to take a hit if guarantees given are invoked by the third party. But the lure of fee income is big as banks do not need to make additional investments and extend the services through existing branch offices which will help to increase sustained profitability.

MATERIALS & METHODS

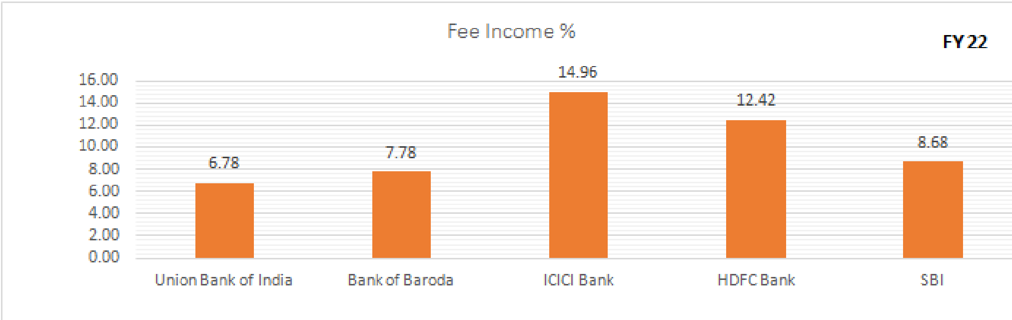
We have done a comparative study on fee income performance of 5 industry leading banks viz. ICICI Bank, HDFC Bank, State Bank of India, Bank of Baroda & Union Bank of India for the Financial year 2021 & 2022 through secondary research. State Bank of India, Bank of Baroda & Union Bank of India are industry leading public sector banks while ICICI & HDFC Bank are leading private sector banks. Data was collected from statutory and non-statutory disclosures made by these banks available in the public domain, research articles, papers published by consulting firms in the industry.

RESULTS & FINDINGS

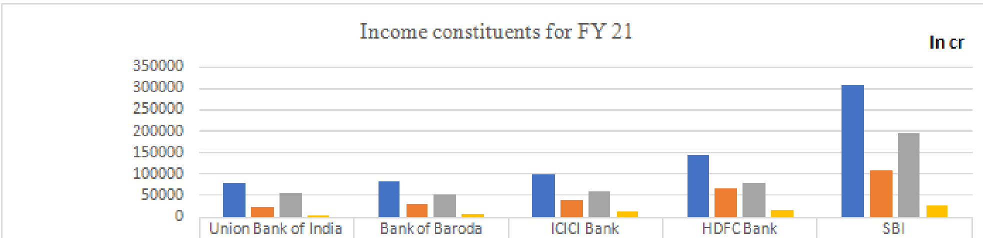
For the Financial year 2022



	Union Bank of India	Bank of Baroda	ICICI Bank	HDFC Bank	SBI
Total Income	80468.77	82364.73	104892.08	157263.01	316021.2
Interest Income	27786	32622	47466	72810	120708
Non Interest Income	52682.77	48742.73	57426.08	84453.01	195313
Fee Income	5459	6409	15687	19536.57	27435

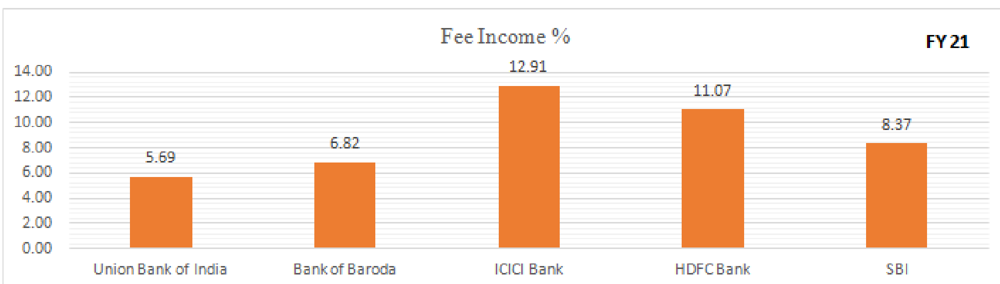


For the Financial Year 2021



	Union Bank of India	Bank of Baroda	ICICI Bank	HDFC Bank	SBI
Total Income	80511	83429.03	98086.8	146063	307107.27
Interest Income	24688	28809	38989	64879.57	110710
Non Interest Income	55823	54620.03	59097.8	81183.43	196397.27
Fee Income	4579	5693	12659	16169.32	25694.17

Total Income Interest Income Non Interest Income Fee Income



DISCUSSIONS

Leading Indian public sector banks consistently earn lower fee income out of their total income for the Financial year 2021 & 22 and is in low to high single digits percentages to total income compared to big private sector Banks

Leading Indian private sector banks are consistently earning fee-based income in the range 11 to 15 % for the Financial year 2021 & 22

Union Bank of India earns the lowest percentage (5.69 % to 6.78 %) of fee-based income to its total income for the FY 21 & 22 among the 5 banks compared in the study

ICICI Bank earns highest percentage (12.91 % & 14.96 %) of fee-based income to its total income for the FY 21 & FY 22 among the 5 banks compared in the study

Public sector banks are hesitant in focusing on fee income activities whereas industry leading private sector banks are consistently improving their fee income by innovating their products & services.

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