

Significance of Non Interest Income In Banking Sector (Special Referance To Nationalise Banks)



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ABSTRACT

Historically, commercial banks have been considered as institutions which accept deposits and give loans, and therefore making profits from the difference between costs of the former and earnings of the latter. However, deregulation, emergence of advanced technologies and the consolidation epidemic allowed traditional retail banks to shift into fee-earning activities such as insurance, investment banking, mortgage financing, securitization and other non-banking activities. Today banks generate an increased portion of their income from non-intermediation and non interest activities.

Methodology

For the above study, secondary data from the year March 2007 to March 2011 has been used. It Also helps to understand the share and significance of non interest income in the total income of the banks.

Limitations

- * Only Indian banks are considered for the data calculation.
- * For the above study only nationalize banks will be consider.

Introduction

In post reform period RBI has deregulated interest rate on Loans and Advances and hence every bank is independent to decide the interest rate on Loans and Advances. Now RBI has deregulated interest rate on saving account also, therefore almost all banks will increase interest rate on saving account to increase deposits in their banks.

For this purpose banks offers low interest rate on Loans and Advances to increase advances and on other hand increase rate of interest rate on savings or deposits in bank account. As a result of this "Net interest margin" shrinking day by day in banking sector. To increase revenue, banks offer other services to their customers or clients and from these other services banks earn "NON-INTEREST INCOME". (Fees, commission, charges, exchange fees etc.)

Banks offer various services to their customers at cheaper cost and as early as possible. The financial report shows almost all banks "Non-interest Income" increase by 20% to 25% over previous year.

In banking business nationalize and private banks earn huge income from these source but not all schedule banks offer so many services and schedule banks earn less "Non-interest income " as compare to nationalize and private banks in India.

Following are the services offer by various banks in

India.

- * ATM facilities
- * NEFT money transfer
- * Demand draft/ pay orders
- * Signature verification
- * Demat account
- * Online bill/ Tax payments
- * Online ticket booking
- ¢ Third party product
- * Sale of insurance
- * Sale of mutual funds
- * Sale of gold coins etc.

Significance

Non interest income now accounts for over 40% of operating income in the U.S. commercial banking industry. The well-managed banks expand more slowly into non interest activities, and that marginal increases in Non Interest income are associated with poorer risk-return tradeoffs on average. These findings suggest that noninterest income is coexisting, rather than replacing, interest income from the intermediation activities that remain banks' core financial services function.

From the different source of services and product, banks are making huge amount of profit. The above table shows all banks are increasing their share of non interest income as to total income of banks in India. It shows the increase in non interest income in

Following is the non-interest income from (March 2007 to March 2011) "Rs. In crore"

Year	State bank of India	Bank of India	Canara bank	Union bank	Indian bank
March 2011	14,935.09	14,968.15	12,691.35	9,398.43	7,446.76
March 2010	2,641.77	2,616.64	3,051.86	2,116.93	1,562.95
March 2009	2,826.98	3,000.82	2,427.10	2,308.31	1,511.80
March 2008	2,038.78	1,974.74	1,482.55	1,232.67	841.80
March 2007	1,181.89	1,173.72	1,035.44	1,067.89	823.06

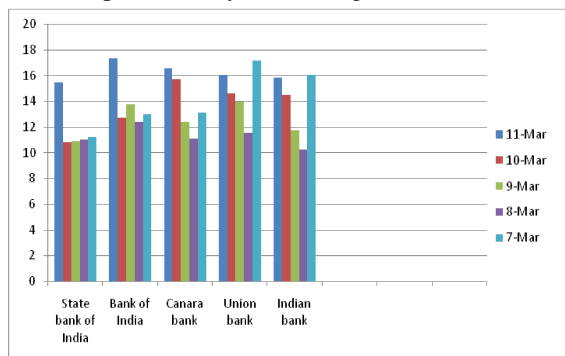
Following is the total income from (March 2007 to March 2011) "Rs. In crore"

Year	State bank of India	Bank of India	Canara bank	Union bank	Indian bank
March 2011	96,329.45	85,962.07	76,479.78	58,348.74	46,937.79
March 2010	24,393.49	20,494.63	19,399.22	14,472.15	10,743.28
March 2009	25,890.99	21,752.78	19,546.15	16,509.05	12,876.36
March 2008	18,491.40	15,277.42	13,371.93	10,679.97	8,223.98
March 2007	10,542.92	9,030.78	7,865.77	6,218.67	5,107.71

Share of non-interest income in total income of banks

Year	State bank of India	Bank of India	Canara bank	Union bank	Indian bank
March 2011	15.50%	17.41%	16.59%	16.10%	15.86%
March 2010	10.83%	12.76%	15.73%	14.62%	14.54%
March 2009	10.91%	13.79%	12.41%	13.98%	11.74%
March 2008	11.02%	12.92%	11.08%	11.54%	10.23%
March 2007	11.21%	12.99%	13.16%	17.17%	16.11%

crores of rupees. The growth of Non Interest income can be represented by below diagram.



The above table and diagram shows the non interest income increase over the years. The Non Interest income is increasing over the years. It also showed that non interest income is increase in more than double in 2011 as compare to 2010.

Following are some of the benefits of non interest income:

- Generate employment: Non interest income is increasing in almost all banks in multiple times as compared to the previous years. This increase in income

creates employment in the nation and Non Interest income becomes a major source of income for the banks.

- Better and quick service to the customers: Because of increase in competition among the banks, every bank is trying to improve service quality and is giving more importance to the customers. Banks are constantly searching for new and innovating ideas to attract customers and also at the same time try to retain the existing ones.
- Covered expenditures: Non Interest income also covers bank operating expenditure. It covers the employees cost almost upto 70% to 90%. It means Non Interest income helps to increase the profitability of the banks.
- To the government: Because of increase in Non Interest income, the profit also increases. This increase in profit benefits the government, in the form of taxes and contribution to the nation GDP in service sector.

Conclusion:

The study shows that, the non interest incomes of nationalized banks are increasing over a period of time. Moreover it also states the significance of the same to the banks, government, customers and society at large.

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