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CONCENTRATION AND COMPETITION IN THE INDIAN BANKING SECTOR

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ABSTRACT
The banking industry in India is developing, particularly in the wake of recent changes. The Indian banking sector was privatised as a result of reforms that reduced the stringency of entrance requirements and deregulate interest rates. The transformation of financial services and consumer banking has been spearheaded by private banks, both domestic and international, which have been at the forefront of using the same technology. The way that banking consumers bank has been transformed by technology. In order to achieve a dominant position in the Indian market for their goods, private banks have aggressively priced and advertised such items. Increased levels of competition have likely been a driving force behind industry consolidation, as seen by recent mergers, amalgamations, and rationalisations in both the public and private sectors. The majority of research on banking competition also investigate the degree to which a small number of large banks dominate the industry. The approach is being used in the current investigation to investigate the concentration levels of each bank group. An enquiry of this kind would begin with the presumption that, although while individual banks keep their own records of tracking their own techniques of reacting to the changing environment and effect the structure of the sector as a whole, there may be fundamental variations in the competitive developments that are occuring inside distinct bank groups. The study reveals that there are competing trends in the Indian banking sector. Competition in the private banking sector has intensified, as seen by a long-term decline in the Nett Interest Margin (NIM), and concentration levels have risen as a result, since all bank groups have become more consolidated. Both of these may be improved via concentration. According to the findings of the research, focus makes people more competitive. It's possible that the intra-bank group structural changes and how they affect performance may disclose what the future structure of the Indian banking sector will look like. These alterations might also be significant indicators that help determine whether or not the banking system in the Indian economy would be accepted and effective.

keywords: *Concentration, Competition, Banking*

INTRODUCTION

The banking industry in India has been exposed to a series of slow transformations over the course of a great number of years, and the adoption of reforms in the 1990s has brought about new aspects to the sector. These developments have taken place over the course of a large number of years. The modern banking industry has advanced along a higher trajectory not only in terms of its size and composition, but also in terms of the amount of complexity it has gained in its operations. This progression can be seen in both the size and composition of the industry as well as the amount of complexity it has obtained. This is the situation in spite of the fact that along the route it has been met with a lot of challenges and initiatives that have been unsuccessful. Public sector banks (PSBs) have been pushed out of their conventional style of operating and have been geared up to not only tackle the problems that are provided by globalisation but also to meet the potential that it contains, head on.

This is because globalisation poses both obstacles and opportunities. This is because there is

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now more competition from private sector banks, both domestically and internationally. This is due to the fact that there is now a greater amount of competition from banks operating in the private sector, both locally and globally. The Indian Banking Sector (IBS), in its current iteration, is indicative of modernity and a globalised mindset, and it is also equipped with technological advances. In other words, the IBS exemplifies globalisation.[1,2] The IBS is multi-tiered and offers its services to various demographic subsets of the population via its sector-specific banking institutions, differentiated banks, rural banks, small and big commercial banks and cooperative banks. In addition, the IBS differentiates its banking services based on geographic location. These banks range in size from the smallest possible to the largest possible. The IBS further welcomes the participation of cooperative banks in its day-to-day business activities. Despite this, scheduled commercial banks, commonly known as SCBs, hold the majority of the market share in this area of the financial industry. In the most recent several months, the government has made a number of public declarations regarding the possible consolidation of a wide range of PSBs. It is not unheard of for the private sector bank group, which has also gone through a few mergers in the past, to look for consolidation in their operations as a response to the competitive pressures that have formed as a consequence of the mergers that have taken place in the PSB group. This would not be unheard of because the private sector bank group has also been through a few mergers in the past. In light of these most recent occurrences, it is very necessary to conduct an investigation of the effects that the banking reforms have had on the IBS .[3]

INDIAN BANKING SECTOR — AN OVERVIEW

The vast number of banks that operate in India under a dizzying array of different ownership structures is the defining characteristic of the country's banking sector.2 There are 33 domestic banks, 40 private sector banks, 27 public sector banks, over which the government maintains primary control, and 33 banks operating in other countries that make up the commercial banking industry. A little more than 70 percent of the country's entire gross domestic product (GDP) was represented by the total bank assets in the country during the fiscal year 2003–2004. In the fiscal year 2003-2004, the assets of the banking system were owned by public sector banks to the extent of 75%, private banks to the extent of 25%, and foreign banks to the extent of 25%. By comparison, in the year 1991, public sector banks possessed somewhat more than 90 percent of the total assets in the nation's banking system. This number shows the percentage of total assets that are owned by banks that are part of the public sector. Prior to the implementation of reforms in the financial sector in 1992, the financial system in India was primarily geared towards serving the requirements of planned development, and the public sector had a preponderant role in virtually every aspect of economic endeavour. These conditions changed when reforms were implemented in the financial sector. After the year 1992, reforms in the financial industry were finally put into action. As a consequence of the preemption of a major amount of bank deposits in the form of reserves and the establishment of an administered interest rate regime, a system of financial intermediation was developed that was not only expensive but also of bad quality. This was brought about as a result of the combination of these two factors. These two elements were important in the process that led to the establishment of the system. The expansion of a complicated interest rate structure led to the unexpected effect of cross-subsidization, which evolved as a result of this proliferation. This, in turn, was the outcome of economic and societal issues revolving around the issuance of concessional loans to specific businesses. As a consequence of this, the interest rates that were charged to non-concessional borrowers were significantly greater than those that were charged to concessional borrowers.[4] The administration of interest rates was characterised by severe regulatory prescriptions on lending and deposits, which led to the implementation of a range of interest rates. These prescriptions were the driving force behind the administration of

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interest rates. As a result, an interest rate management system was put into place. As a direct consequence of these proposals, a system of managed interest rates came into existence. Despite the fact that the administered lending rates did not take credit risk into account, this had the immediate impact of expanding the gap that already existed between the deposit and lending rates of commercial banks. This was the case despite the fact that the difference already existed. The operations of the banking system were hampered because of a lack of transparency, accountability, and prudential rules, which contributed to an increase in the weight of non-performing assets. This was one of the factors that contributed to the overall increase in the weight of non-performing assets. The inflexibility of licencing of branches and management structures led to a loss in the operational independence and functional autonomy of banks, which in turn led to an increase in overhead expenses. This, in turn, led to a fall in the number of customers that banks could serve. This was the outcome of an upward spiral that started with a loss in the operational independence and functional autonomy of banks. This loss was the cause of the upward spiral. In terms of the financial markets, the historical period in question may be said to have a fragmented and immature financial environment. During this time period, the financial climate was. This happened as a result of the fact that the financial markets had not yet completed their formation in their entirety. As a consequence of this, interest rates were skewed, and as a consequence of this, there was an inefficient allocation of resources that were already in short supply.
According to Rangarajan (2014), the years 1992–1997 were particularly significant in the process of constructing the framework for the reform of the banking industry. These years spanned the time when the framework was being developed. During this time period, prudential standards regarding capital adequacy, income recognition, asset categorisation, provisioning, and exposure criteria all entered into effect. The implementation of these reforms "coincided with the movement towards global integration of financial services" (Government of India, 1998), which meant that the world economy went through substantial transformations at the same time that these reforms were being put into place. A second government-appointed committee on banking sector reforms was tasked with coming up with a road plan for the ongoing reform process (Government of India, 1998). This group was responsible for providing the road map. In light of similar circumstances, we came to the conclusion that we needed to establish this committee.[5]

During the course of the reform era, the following are some instances of major and noteworthy adjustments that were made to the country's financial system:
The reduction of the needed statutory reserves to the levels at which they are now set, which are 5% for cash reserves and 25% for statutory liquidity ratios:

- As part of the process of liberalising the interest rate system, allowing financial institutions the freedom to select the interest rates they would apply to deposits and loans.[6,7]
- As part of the process of liberalising the interest rate system, allowing financial institutions the freedom to select the interest rates they would apply to deposits and loans.
- The adoption of micro-prudential measures, such as requirements for capital adequacy, requirements for income recognition, requirements for asset categorization and provisioning rules for loans, exposure standards, and accounting norms.
- Making it possible for state-owned banks to raise up to 49 percent of their total capital from the market, which will lead to a more diverse ownership structure within the public sector banking industry. By the end of March 2004, seventeen state-owned

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banks had successfully accessed the capital market, resulting in a combined total of around 82 billion rupees (Rs) being raised.

- Making it obligatory for more information to be disclosed in the financial accounts in order to establish greater openness in the system.
- Using a consultative approach to the creation of policy, with measures being enacted only after talks with market players, in order to provide market participants with ample lead time to make any necessary revisions to their strategy.[8]

MATERIALS AND METHODS

In order to build the premise of the study, we are going to go through the current research on the banking sectors of a number of different nations located all over the globe, as well as evaluate the relevant literature. The majority of the studies that were looked at were those that investigated the banking structures, levels of concentration, and levels of competition in the banking sectors of a variety of countries in relation to the liberalisation of their banking sectors. This was done in a variety of different banking sectors. This was done so that a better knowledge may be gained of the implications that liberalisation has on the banking sectors of a number of different nations. The relevant body of published material is also being analysed as part of the investigation into the IBS as part of the investigation into the IBS.[9,10] The fact that relatively little research has been done in the past on the topic of bank group wise levels of concentration in the context of India offers an essential foundation for the investigation that is now being carried out. This research makes use of data pertaining to the deposits and advances made by banking organisations situated in a range of nations all over the world. An study of the amount of advances held by each individual bank within each group of banks as well as for the IBS as a whole is carried out as part of an enquiry into the degree of concentration that exists. We were able to determine the degree of concentration that existed within each category of banks by first tallying the combined total of the advances made by the top five financial institutions in each subcategory, and then contrasting those totals with those of the other categories. In order to guarantee the reliability of the findings, the calculation used for determining the concentration ratio of the whole IBS used data from as little as three banks and as many as seven banks. There was a wide range of possible values for the number of banks that were employed in the computation, from three to seven. In order to carry out research regarding the amount of competition that is now present, an examination of the long-term trend in bank group-wise nett interest margin was used. You may get at this figure by dividing the total assets of each bank group by their nett interest income, and the results of this calculation have been supplied for your review. This number can also be found by multiplying the total assets of each bank group by their total deposit balances. The Reserve Bank of India (RBI) and the annual reports of individual banks were the sources of the many publications that were utilised in the compilation of this material. The years 1992 all the way up to 2022 are included in the time frame that is the focus of this particular research.

RESULTS AND DISCUSSION

As a consequence of the establishment of private banking institutions, there has been a rise in the proportion of competition that is not based on pricing in terms of the financial products and services, the degree of technological advancement, and the level of customer service that is provided. Because of this, there has been an increase in the total amount of competition across the board. One of the ways in which the impact of competition may be seen is in the greater efforts that have been invested into reorganising the company and decreasing its expenditures. In addition to lowering entry barriers, the central bank has actively pursued inorganic expansion of the sector via mergers and acquisitions in an effort to improve the

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industry's overall organisational structure. This is being done with the goal of strengthening the industry's overall competitiveness. This was done with the purpose of increasing the overall competitiveness of the industry. Despite the fact that the Committee was opposed to joining smaller banks with bigger ones, the government announced substantial moves towards consolidation of the IBS in September 2022. As a result of these actions, which may be considered as one step closer to the partial realisation of those recommendations, the long-standing recommendations of the Narasimham Committee II for a leaner financial system that includes fewer significant banks are one step closer to being partially realised. The recommendations call for a leaner financial system that includes fewer significant banks. When it comes to PVBs, there have also been a number of mergers that have taken place, such as the ones that have taken place between ICICI Bank, HDFC Bank, Kotak Mahindra Bank, and IDBI Bank. Other examples are the mergers that have taken place between IDBI Bank and Kotak Mahindra Bank. It is feasible to evaluate the impact that deregulatory activities have had on the banking sector by examining the degree of concentration that exists there in addition to the amount of competition that is already there. These endeavours may take the shape of entering a market, leaving a market, merging with another company, or acquiring another company.

Consolidation in the Indian Banking Sector

A significant evidence of the effect of the liberalisation of the admission of local and foreign private banks in 1992–1993, which took place during that time period, is the growth in the number of banks that fall into these two categories. This rise can be traced back to the time period in question. The ownership structure of the IBS has been significantly reworked as a direct result of these changes as a direct consequence of this shift as a direct result of these changes. Following the easing of admission restrictions, there was a 20% rise in the total number of FBs during the first six years (Fig. 1) of the program's existence. The number of PVBs that took place in 2021 was much higher when compared to the total number of PVBs that took place in 2017, which was 24. The influence of competitive pressures on the banking industry has been seen in the mergers and closures of different institutions starting in the middle of the 2022s. This effect was caused by the early arrival of new competitors into the market. These alterations are the direct consequence of the guests that arrived ahead of schedule. Between the years 2017 and 2022, a total of 37 PSB and PVB mergers took occurred, bringing the overall number of PSB and PVB consolidations to 37.[11,12] These combinations were made inside the institutions themselves. One of these mergers was announced by the government in September of 2022. This particular merger entailed the combination of 10 PSBs into a single organisation. The 2020s were typified by rising consolidation in the FBs business, which led in a number of banks withdrawing from the market in India. This occurred throughout the decade of the 2020s.[13] During the global financial crisis, when severe regulations of capital adequacy were having an impact on the profitability of these institutions, this practise was notable for its broad use. During the height of the global financial crisis, this phenomenon was very widespread. Since the year 2022 up to the present day, the FB market has seen the arrival and leave of 23 major international banks at various phases of their existence. This includes both initial public offerings (IPOs) and subsequent public offerings (IPOs). More than fifty percent of the banks that are a member of the group FBs have a say in determining how the ownership structure of IBS is currently set up. This has been the situation ever since the first of this year. Over the course of the latter years of the decade that began in the year 2020, the total number of PVBs has been exhibiting a consistent downward trend. However, it is necessary to bear in mind that investors from other countries make up a considerable amount of PVB's overall investment capital. This is something that must be kept in mind at all times. Because of this fact, a

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significant chunk of PVB's overall investment may be attributed to this factor. In recent years, the PSB group has been involved in a significant amount of merger and acquisition activity both within and with other companies. As a direct consequence of the merger that took place in 2021 between all of the SBI-related institutions and the State Bank of India itself, the number of these banks decreased from 28 to 21. This change came about as a direct result of the merger. IDBI Bank is now included as one of India's remaining 19 public sector banks (PSBs), after a recent reduction that brought the total number of PSBs in the country down to 19. The Life Insurance Corporation of India holds the majority of shares in IDBI Bank, making it one of the bank's largest shareholders. This is because to the ongoing consolidation of nationally-owned financial institutions into the Bank of Baroda, such as the consolidation of the Dena Bank and the Vijaya Bank. Once the mergers of 10 PSBs that were announced in September 2022 have been carried out in their whole and are running at full capacity, it is anticipated that the overall number of PSBs would reduce to once the complete number of PSBs has been merged.

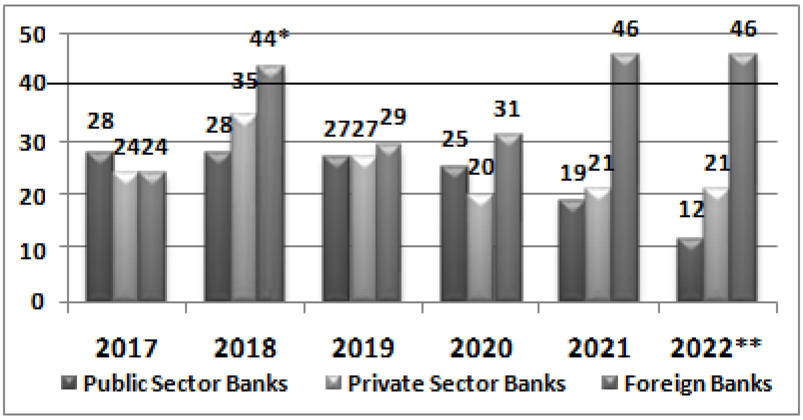

Fig 1. Bank Group-wise Number of Banks

Source: Trends and Progress of Banking in India, RBI Publication.

When one examines the ownership structure, it is plain to see that there has been a considerable degree of privatisation in the market in the 29 years that have gone since the year 1990. This can be deduced from the fact that there has been a distinct shift in ownership. When one thinks about the word "considerable degree," one can see that this is the case. When one looks at the ownership structure of the company, it is quite clear that this is the case. In India, the total number of private banks accounts for more than two thirds of the total, while the number of state-controlled banks makes up a smaller percentage of the entire banking system. On the other hand, in terms of the amount of business that is transacted, PSBs not only exceed PVBs and FBs, but they also lead ahead by a large margin given their historically strong position in the IBS. This is due to the fact that PSBs have been around longer than PVBs and FBs. This is due to the fact that the PSBs have been the dominant force in the IBS ever since it was originally founded. The reason for this can be found in the history of the IBS. The explanation for this may be found in the statement that came before this one. Despite the fact that private banks in India make up more than two thirds of the total number of state-controlled banks in the nation, this continues to be the case. The increased level of competition in the IBS has led to an interesting discovery. In the year 1990, the deposits that were mobilised by the PSBs were more than 23 times greater than those that were mobilised by the domestic PVBs. However, in the year 2021, this margin has reduced to 2.6 times even though the number of banks in both groups is nearly the same. This data is intriguing because it demonstrates that the IBS has gotten more competitive over the course of the last few years. This is a fascinating observation since it suggests that the IBS has become a more competitive environment over the course of the years. This finding is very important because

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it provides evidence that the degree of competition in the IBS has recently grown to a higher level. This is evidence that the chasm that has been present between the two categories of banks is starting to close. According to Table 1, PVBs have the highest compound annual growth rate (CAGR) in terms of the total amount of deposits. This is something that can be seen. The abbreviation "CAGR" refers to the compound annual growth rate. The degree of privatisation in the IBS has increased from 10 percent in the year 1990 to 30 percent in the year 2021, as shown by the data that was obtained during the operation of deposit mobilisation. When compared to the prior level of 10 percent, this is a considerable gain.

Table 1: The rise in deposits across the board at all of the different bank groupings (CAGR)

Year	Public Sector Banks	Private Sector Banks	Foreign Banks
2018- 2019	15.55	29.85	18.37
2019-2020	18.02	23.59	17.16
2020-2021	10.73	17.37	9.64
2021-2022	15.02	26.63	16.59

Source:ComputationsbasedondatasourcedfromPublicationsofRBI

If one examines at the relative amount of the loans made by each of the three bank groups (Table 2), as was shown in the previous line, one can observe a similar picture of rising competition in the IBS. Advances on PSBs were 22 times larger than those on PVBs in the pre-reform year of 1992; however, in the year 2021, the same ratio has reduced to 2.14 times more than it was in the previous year. This is a significant decrease from the ratio that existed in the pre-reform year of 1992. This shows the remarkable leaps achieved by PVBs in advances since banking reforms and implies that the gap between the two in terms of their market presence is narrowing, even if it is not closing in terms of market strength. Specifically, this underlines the exceptional leaps gained by PVBs in advancements since banking reforms. Since the changes in the banking industry were enacted, PVBs have advanced tremendously.

Table 2: The Relative Advances Ratio of the Various Bank Groups

Year	PSBs :PVBs	PSBs : FBs	PVBs : FBs
2019	22.56	16.79	0.74
2020	6.32	9.88	1.56
2021	4.27	16.54	3.87
2022	2.14	13.23	7.58

Source: Computations based on data sourced from Publications of RBI

Table 3: Based on Advances, the Public Sector Bank Segment's Concentration Ratio (in percent)

BANK	2022	2020	2021	2022*
State Bank of India (& Associates)	34	31	34	40
Bank of Baroda	7	7	7	12
Bank of India	8	6	6	6
Canara Bank	7	6	7	12
Punjab National Bank	7	7	8	12
Concentration Ratio CR5	63	57	62	82
Total Number of Banks	27	25	19	12

considering merger of ten banks into four

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Investigating the level of concentration that has grown in a certain region is a tried-and-true method that is widely used for assessing the structural shifts that have occurred in a certain industry. This method has been around for a long time and has a solid track record. It is calculated by adding up the market shares of the top three to five companies in a particular industry or sector. This measurement is known as the concentration ratio (CR), and it is used to determine it. For the purpose of this assessment, the concentration ratio will be used. If the number were larger, it would suggest that there was a higher degree of concentration, which would imply that there was less of a chance for people to compete with one another.[14] The existence of this would be compatible with a structure that is more monopolistic or oligopolistic. Utilising the concentration ratio of the top five banks in each bank group as well as for the IBS as a whole in terms of the progress that they have achieved, an analysis of the alterations that have taken place that have taken place in the composition of the IBS has been carried out in this part. The analysis of these alterations has been carried out in this section. This study was conducted out so that a more thorough comprehension of how the IBS has evolved throughout the course of its existence might be achieved. When research is conducted in this field, the credit rating is often computed in terms of the top three to five banks that claim a significant portion of the criteria that was selected. Because it was determined that more than one bank had a similar market share at the third rank, the CR3 level was not taken into account for this research project. The reason for this decision was given in the previous sentence. The findings of a study into the levels of concentration that were discovered for each category are shown here in Tables 3 through 6, which may be seen below. The initial decline in CR that occurred over the course of a decade in the PSB sector is reversed as a consequence of mergers that take place between 2020 and 2021 involving SBI and Bank of Baroda, which result in an increase in CR5 to 62. These mergers take place between 2020 and 2021. These mergers take happen between 2020 and 2021. It is anticipated that the newly announced mergers would take about two years to become fully operational after receiving authorisation from the government to proceed with the combination of their operations. On the other hand, for the year 2022, the advances of these different banks have been pooled together in order to evaluate the level of concentration that exists among the 12 banks that would continue to operate inside the PSB sector. This evaluation was done in order to prepare for the year 2022. In order to organise ourselves for the next year, we came to this conclusion. The conclusion that can be drawn from these findings is that there has been a considerable boost in the CR5, which now stands at 82%. However, it is important to note that the increase in the degree of concentration that has been seen is due to the inorganic growth of the PSBs brought about by mergers. This is something that should be brought to the attention of the reader. The increase in the level of concentration that has been seen as a result of this is the reason of the rise. Because of this, it is a given that the majority of PVBs will fall to a lower ranking in terms of the volume of breakthroughs that they have accomplished, and that the degree of concentration in the IBS will rise. Both of these outcomes are certain. It is very certain that both of these things will take place.

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Table 4: The concentration ratio, which is calculated based on the loans made by private sector banks and is stated as a percentage.

BANK	2022	2020	2021	2022
ICICI Bank	43	29	19	18.9
HDFC Bank	6	20	24	26.4
J & K Bank	6	4	-	
Axis Bank	5	17	16	16
Indusind Bank	6	4	-	
Kotak Mahindra Bank	-	-	8	7.8
Yes Bank	-	-	8	7.8
Concentration Ratio CR5	65	74	75	76.9
Total Number of Banks	27	20	21	21

Not only is the CV rate among PVBs already rather high, but it has also been steadily increasing to ever-higher levels in recent years. This trend is expected to continue.[15] The decrease in the number of independent financial institutions, sometimes known as banks, is one indication that the banking sector is becoming increasingly consolidated. The fact that new PVBs, which are banks that were founded at the time of the reforms, have ascended to the ranks of the top five biggest financial institutions is still another indication. In contrast to this, the experience of Bangladesh (Hossain) was one in which it was discovered that private banks that previously existed during the preliberalization period got greater market strength after the nation underwent liberalisation. This was found to be the case in the country of Bangladesh.[16] As a result of a lot of the traits that the new PVBs in India possess, they have been in a position to achieve more momentum and have put the PVBs that came before them a significant distance behind in terms of the competition. Among these characteristics is the fact that the new PVBs are unencumbered by the banking practises of the past and have a greater flexibility to contemporary and intelligent banking. This is one of the reasons why the new PVBs have been able to leave the prior PVBs in such a distant competitive position than they were before in. Despite the fact that fewer banks are taking part in the PVB market sector, it was found that the PVB group maintains an oligopolistic competitive structure. This was the conclusion reached by the researchers.

CONCLUSIONS

The IBS came to the conclusion that the industry as a whole has experienced considerable structural changes. The consolidation of PSB group companies is the primary factor behind the growing level of industry concentration in the IBS sector. Because PSBs predominate the IBS, alterations to the structure of the banking system have been brought about by market forces and legislative actions affected by the intended banking structure. They are reactions to the existing competition. Competition has risen in the IBS, which has resulted in a decline in NIM over time. Consolidation in the PSB segment and growing banking concentration with them are anticipated to spur rivalry among PVB lenders as they strive to extend their position in the industry. The level of competition between banks would increase as a result. Competition in the financial services industry would stimulate innovation, which would make it possible for financial technology and creative solutions to assist unbanked individuals in transitioning into the formal banking system. The expansion of the banking sector will be aided by enhancements to the IBC as well as to bank governance. When attempting to analyse the results of this research, it is necessary to take into account the aggregative data that was utilised for the NIM-based competition analysis. These figures were compiled by the

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banking sector as well as the body that represents it. Techniques and practises that are unique to individual banks, particularly those of the top five banks in each category, may provide light on the level of competition between different banks. It is not something that will be covered in this research. However, the current study's early assessments of the structural aspects of the Indian banking sector offer a platform for additional research on the sector's performance in connection to the changing structure and the optimum banking structure for India. These analyses were conducted as part of the present study.

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