Competition in Banking Industry
Types of Banks

• Commercial banks
  • Accept deposits
  • Fund business requirements
  • Transfer funds
  • Trustee services
Investment banks

- Underwriting securities, issuing instruments, broking and trading of government securities, bank and corporate debt securities.
- Research analysis and investment management.
- Corporate advisory services, mergers and acquisitions and corporate restructuring.
- Bridge finance.
Competition in Commercial Banks

- Reserve Bank of India plays a crucial role in the establishment of banks.
- Competitive nature of a bank is based on size of bank capital, size of deposits mobilized by banks.
- Trust on ability of banks to fulfil its deposit obligations
- Services offered by banks.
Competition in Investment Banks

Competitive nature of banks are based on

• Types of services offered by banks
• Flexibility of services provided
• Cost of services offered by the banks
• Reputation of the banks
• Confidence in the banks
• Number of clients handled by the banks
Changes in Bank Operations

- New Customer Needs
- New Players [Increased Competition]
- New Regulation [New Rules]
- New Technology [Change in Efficiency Measure]
- Knowledgeable Customer [Change in Customer Loyalty]
- New Services [Shift in Structure]
- Change in Mindset [Increased Marketing]
- Rebuilding Human Resources [Change in Skills]

[Utilizing New Opportunities]
New Players

- Business opportunities
- Earnings expectation
- Segmented players in the market
- Globalization of banking business
New Regulations

- Changing economic prospects
- Changing Government outlook
- Changes in global banking business expectations
- Increased risks assumed by banks
- Need for assessing and reducing bank risks based on social expectations.
New Technology

• Innovations in banking technology.

• Application of new systems and practices in technologies for the banking system.

• Unprecedented risks requiring technological interventions.

• Need for improving customer relations and confidence.
Knowledgeable Customer

- Customized banking practices.
- Increased transparency of bank services.
- Large number of bank participants in the market.
- Multiple services offered by banks.
- Scope for reducing banking costs.
New Services

- Complex business practices in the production and service sectors.
- Increased reliance on banks as service providers.
- Innovation in banking practices.
- Need for banks to meet changing economic functions.
Changing Mindset

- Customer relationships.
- Role of marketing practices.
- Need for promotion of banking business.
- Innovative methods of accessing and servicing customers.
Change in Skills

- Human resource potential.
- Change in human resource practices in banks.
- Need for coping with technological changes.
- Flexible structure of bank operations.
- Need for promoting the banks as market makers besides financial intermediaries.
Changed Customer Needs

- Flexibility requirement of customer banking habits.
- Customization of banking services.
- Types of business ranging from family units, agencies, trusts and corporate houses.
- Changes in evaluation pattern of customers.
Managing Competition

• Introduce new technology through additional investments by the banks to meet the efficiency requirements.

• Bring in efficiency of bank operations by reducing the cost structure and increasing income generation capacity.

• Increase customer base to increase the income possibility of banks and segmenting the customer services to support the bank operations.
Managing Competition

• Improving the bank’s processes and people performance through adoption of advanced methods and systems.

• Enlarge banking operations through service based functions besides core banking functions.

• Introduce new banking products to meet the customer needs.

• Evaluate the risk structure of banking business and identify possible measures of risk management to improve bank performance.
Managing Competition

- Introduce new products
- Introduce new processes
- Introduce new technology

- Cost efficiency
- Improved systems
- Productive Human Resources

- Change oriented structure
- Innovative Marketing
- Innovative top management
Optimal Competition

• Measurement of market concentration.

• Herfindahl-Hirschman Index (HHI).

• Proportion of total assets / deposits / sales by each bank in the economy.

• Each bank’s market share is squared to compute the index.

• HHI = Sum of squared market share for all banks in a defined locality or economy.
HHI

$$HHI = \sum_{i=1}^{k} A_i^2$$

Where

$A_i =$Percent of market / deposits / assets of the $i^{th}$ bank.

$k =$Total number of banks.
## Competition among Private Sector Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Assets</th>
<th>Percentage</th>
<th>Percentage Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Rajasthan</td>
<td>1730006</td>
<td>0.0150</td>
<td>0.0002</td>
</tr>
<tr>
<td>Catholic Syrian Bank</td>
<td>768925</td>
<td>0.0067</td>
<td>0.0000</td>
</tr>
<tr>
<td>City Union Bank</td>
<td>1155940</td>
<td>0.0100</td>
<td>0.0001</td>
</tr>
<tr>
<td>Dhanlaxmi Bank</td>
<td>808689</td>
<td>0.0070</td>
<td>0.0000</td>
</tr>
<tr>
<td>Federal Bank</td>
<td>4367561</td>
<td>0.0380</td>
<td>0.0014</td>
</tr>
<tr>
<td>ING Vysya Bank</td>
<td>3388024</td>
<td>0.0294</td>
<td>0.0009</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir Bank</td>
<td>4254679</td>
<td>0.0370</td>
<td>0.0014</td>
</tr>
<tr>
<td>Karnataka Bank</td>
<td>2703515</td>
<td>0.0235</td>
<td>0.0006</td>
</tr>
<tr>
<td>Karur Vysya Bank</td>
<td>2199349</td>
<td>0.0191</td>
<td>0.0004</td>
</tr>
<tr>
<td>Lakshmi Vilas Bank</td>
<td>1048627</td>
<td>0.0091</td>
<td>0.0001</td>
</tr>
<tr>
<td>Nainital Bank</td>
<td>287712</td>
<td>0.0025</td>
<td>0.0000</td>
</tr>
<tr>
<td>Ratnakar Bank</td>
<td>208575</td>
<td>0.0018</td>
<td>0.0000</td>
</tr>
<tr>
<td>SBI Comm. &amp; Intl. Bank</td>
<td>64174</td>
<td>0.0006</td>
<td>0.0000</td>
</tr>
<tr>
<td>South Indian Bank</td>
<td>2553404</td>
<td>0.0222</td>
<td>0.0005</td>
</tr>
<tr>
<td>Tamilnad Mercantile Bank</td>
<td>1358554</td>
<td>0.0118</td>
<td>0.0001</td>
</tr>
<tr>
<td>Axis Bank</td>
<td>18064785</td>
<td>0.1570</td>
<td>0.0246</td>
</tr>
<tr>
<td>Development Credit Bank</td>
<td>613667</td>
<td>0.0053</td>
<td>0.0000</td>
</tr>
<tr>
<td>HDFC Bank</td>
<td>22245857</td>
<td>0.1933</td>
<td>0.0374</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>36339972</td>
<td>0.3158</td>
<td>0.0997</td>
</tr>
<tr>
<td>IndusInd Bank</td>
<td>3536952</td>
<td>0.0307</td>
<td>0.0009</td>
</tr>
<tr>
<td>Kotak Mahindra Bank</td>
<td>3743632</td>
<td>0.0325</td>
<td>0.0011</td>
</tr>
<tr>
<td>Yes Bank</td>
<td>3638251</td>
<td>0.0316</td>
<td>0.0010</td>
</tr>
<tr>
<td>Summation</td>
<td>115080850</td>
<td>0.1705</td>
<td></td>
</tr>
</tbody>
</table>
HHI for Private Sector Banks

- HHI = 0.1705.
- Maximum amount of HHI score = 1.00.
- Larger the score higher competitive dominance of banks in the industry.
- Smaller score indicates dominance of few banks.
- Private sector banks are dominated by few large entities (HHI score is low).