IMPACT OF FOREIGN DIRECT INVESTMENT ON THE PERFORMANCE OF INDIA'S BANKING SECTOR WITH REFERENCE TO SELECTED PUBLIC AND PRIVATE BANKS

Neha Arora[1]
Bhawna Nagi[2]

ABSTRACT

Foreign Direct Investment (FDI)is considered to be the lifeblood of economic development, especially for a developing country like India.Indian banking has undergone a major change after liberalization and the reforms undertaken after that have paved the way to foreign direct investment into Indian banking sector. This paper attempts to examine the impact of Foreign Direct Investment on the performance of India's banking sector with reference to top 10 selected public and private banksfrom National Stock Exchange. Operating Income, Net Sales and Total Sales have been taken as proxies for the performance of banks for collecting data for 5 years from2012-13 to 2016-17 and FDI data for same period has been collected from government website of Industrial Policy and Promotion. Correlation and Simple Regression Technique have been employed for the purpose of data analysis. The results of the study have been concluded under the heading results and discussion and the same is being supported by available literature.

Keywords: Foreign direct investment, National stock exchange, Regression, Liberalisation, Operating income.

INTRODUCTION

The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and existence of number of foreign banks in India. Therefore, Banking in India has been through a long journey.Banking industry in India has also achieved a new height with the changing times.The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same.

It is more than a decade now that we have received Foreign Direct Investment (FDI) in Banking and hence it is important to see the impact of FDI on the performance of Indian banking sector. Foreign direct investment (FDI) is considered to be the lifeblood of economic development, especially for a developing country like India.

It plays an important role in the long-run development of a country not only as a source of capital, but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity, and generating employment opportunities. The financial sector is always the key sector for the overall development of any country, and the banking sector is the primarysector amongst all. Indian banking has come along way since India adopted economic reforms in 1991.

The competitive forces and reform structure in our country has led to the emergence of Internet, e-banking, ATM, credit cards, and mobile banking too so that the banking sector can attract and retain its customers.Therefore, the performance of the Banking Sector can beanalyzed through financial indicators as Net Sales, Operating Profit and Total Assets of each selected bank representing the Indian Banking Sector.

LITERATURE REVIEW

Yadav & Dular (2017) discussed the FDI Equity inflows in Service Sector in India and also highlights the top countries which are investing in the Service Sector in the form of FDI. They also examined FDI inflows in Banking Sector from January, 2000 to June,2015. Their study concluded that India is considered to be the Third most preferred investment destination in the world after China and United States. Also, FDI in Banking Sector has solved various problems like Inefficient Management, Non-Performing Assets, Financial Instability and Poor Capitalization along with providing benefits of Technology Transfer, Better Risk Management, Financial stability, Innovative Products and Employment.

Jaiswal (2016) studied the capital raising capacity of India and concluded that we require investment from abroadto take the Indian banking sector to worldwide.She further concluded that this investment would address the number of complex problems often being faced by Indian Banking Sector which are Instability in financial matters, Lack of innovativeness in financial products or schemes, Poor marketing strategies, Inefficiency in management and Changing financial market conditionsto name a few.

Vyas (2015) discussed that his paper is focused on the trends of FDI Flow, country wise approvals of FDI inflows and FDI inflows in different sector in India during 2000-01 to 2014-

1 Assistant Professor, Gitarattan International Business School, Delhi, neha.arora@gitarattan.edu.in
2 Student, Gitarattan International Business School, Delhi, bhawnanagi7@gmail.com

15. The study concludes that Mauritius emerged as the most dominant source of FDI contribution. It is because the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius and most of the foreign countries like to invest in service sector. The inflow of FDI in service sectors and construction and development sector, from April, 2000 to June, 2015 attained substantial sustained economic growth and development through creation of jobs in India. The other sectors to which attention was shown by FDI are Computer, Software & Hardware and Drugs & Pharmaceuticals.From the point of view of India, researcher has concluded that the banking and insurance sector is helping to a great extent in providing the strength to the Indian economic condition and developing the foreign exchange system in country.

Treesa (2015) in his paper discussed therole of FDI in Indian banking sector in generating wealth to Indian economy.He discussed about the global banking industry and turbulent times in 2007-2008, however he concluded that the impact of the economic slowdown on the banking and insurance services sector in India has so far been moderate.The researcher has also highlighted the problem of delayed projects which are keeping the money locked in projects without developing any revenue/returns.Too many outdated regulations and bureaucratic procedure are keeping projects to run at required pace and therefore, he recommended that they need to be revised and made more flexible. In a developing country like India, people who are working in non-government organisations have less social security after their retirement therefore, researcher has further recommended to encourage the saving habits amongthem by introducing various schemes in banking sector.

Sekar (2015) discussed about the impact of FDI in India on banking and finance sector and concluded that the investment climate in India has become much friendlier today than previous decades. FDI has become the major contributor in financing the economic development of the country but FDI alone is not a solution for poverty eradication, unemployment and other economic ills. The researcher further concluded that India needs a massive investment to achieve the goals of vision 20-20 and policy makers need to ensure transparency and consistency in policy making along with comprehensive long term development strategy.

Lamçja (2015) analyzed the importance of foreign capital in the world economy and the effects of foreign direct investment in the banking sector in Albania.His study concluded that different states take a certain number of tax incentives to encourage investment in order to develop an area or a particular region, given the scope of its development. Their work has argued the necessity of the presence of foreign banks in transition countries like Albania.Their research recommended the elimination of unnecessary regulations in order to reduce corruption, improvement of legal framework at implementation stage, expansion of the number of bilateral agreements with other countries so as to improve its image in the eyes of investors and aim to develop specific geographical areas in the country.

Sharma (2013) discussed about the history of banking system, necessity of FDI in banking system, guidelines for FDI and also showed the statistics of FDI in Indian banking sector. The researcher has concluded that since the capital raising capacity in India is very less to take the Indian banking sector to worldwide we require investment from abroad. To conclude further researcher commented that RBI should make such policies that FDI should not over ride the regulations of RBI and should result in the growth of Indian economy.

Korna et. al. (2013) had studied the level of impact foreign direct investment has on the Nigerian banking sector during the recent global economic recession affecting the Nigerian Economy. The data under study is for 25 deposit money banks for the period 2006-2010 and it concluded that FDI does not have a significant positive impact on the Nigerian banking sector. The researches have therefore recommended that already existing FDI in Nigeria should be sustained and that Government should begin to look at FDI from a deeper perspective of investment in broader aspects of the economy (i.e power, manufacturing, banking, and export-oriented industries) and the use of local suppliers, rather than a lopsided focus on extractive industries.

OBJECTIVES OF THE STUDY

(a) To study the relationship between FDI and the performance of India's Public& Private sector banks.

(b) To study the impact of FDI on the performance of India's Public& Private sector banks.

SCOPE OF THE STUDY

The study is focussed on the performance of top 10 banks, from both Public and Private Sector, selected from NSE (National Stock Exchange) and is considered to be representing the Indian banking sector. The period of the study covers 5 years from 2013- 2017. Further in the study, Sales, Operating Profit and Total Assets have been taken as proxy to determine Bank's performance and FDIis the Foreign Direct Investment in the banking sector in India.

HYPOTHESIS

H_1: There is a significant relationship between FDI and the Operating Profit of India's banking sector with reference to selected public and private sector banks.

H_2: There is a significant impact of FDI on the Operating Profit of India's banking sector with reference to selected public and private sector banks.

H_3: There is a significant relationship between FDI and the Net Sales of India's banking sector with reference to selected public and private sector banks.

H_4: There is a significant impact of FDI on the Net Sales of India's banking sector with reference to selected public and private sector banks.

H_5: There is a significant relationship between FDI and the Total Assets of India's banking sector with reference to selected public and private sector banks.

H_6: There is a significant impact of FDI on the Total Assets of India's banking sector with reference to selected public and private sector banks.

RESEARCH METHODOLOGY

Methodology for Data Collection

The study relies on secondary sources for the purpose of data collection. Financial data is extracted from bank's balance sheet, annual reports and other relevant manuals and publications using internet.

Techniques used for Data Analysis

The data collected has been analyzed using correlation and regression analysis with the help of SPSS tool. Correlation is the statistical measure used to describe the degree to which one variable is linearly related to another or the extent to which two or more variables fluctuate together and Regression is the technique for determining the statistical relationship between two or more variables where a change in dependent variable is associated with or depends on the change in one or more independent variables.In this study, Sales, Operating Profit and Total Assets are taken as the dependent variable and FDI in banking sector is taken as independent variable.

RESULTS AND DISCUSSION

Table 1 show that the value of Pearson's Correlation coefficient (r) in case of Banking Sector between FDI and Operating Income is 0.025 signifying a negligible positive correlation between them. Also, the p value is 0.433 which is more than 0.05, therefore, null hypothesis is accepted and hence we conclude that there is statistically no significant relationship between FDI and Operating Income of Banking Sector.

Table 1: Correlation between FDI and Operating Income

Pearson Correlation Coefficient for Operating Income in relation to FDI	0.025
Sig. (1-tailed)-p value	0.433
N	50

Further, Table 2 depicts the value of Pearson's Correlation coefficient (r) between FDI and Net Sales which is 0.024 and signifies a negligible positive correlation between them. Also, the p value of 0.434 is falling above 0.05, therefore, in this case also null hypothesis is accepted and hence we conclude that there is statistically no significant relationship between FDI and Net Sales of Banking Sector.

Table 2: Correlation between FDI and Net Sales

Pearson Correlation Coefficient for Net Sales in relation to FDI	0.024
Sig. (1-tailed)-p value	0.434
N	50

Similar is the scenario with Table 3 having Pearson's Correlation coefficient (r) between FDI and Total Assets as 0.016 and p value as 0.455 (greater than 0.05), therefore, null hypothesis is accepted and it has been concluded that there is statistically no significant relationship between FDI and Total Assets of Banking Sector.

Table 3:Correlation between FDI and Total Assets

Pearson Correlation Coefficient for Total Assets in relation to FDI	0.016
Sig. (1-tailed)-p value	0.455
N	50

FINDINGS

Results reveal that Foreign Direct Investment do not have any significant relationship with the Operating Income, Net Sales and Total Assets which together are taken as proxy for performance indicators of selected Indian Banks.The Regression analysis has not been performed on the given variables as the correlations results are not positive. The available Literature also supports above findings.Therefore, Null Hypothesis is accepted which says:

1. There is no significant relationship between FDI and the performance of India's banking sector with reference to selected public and private sector banks.
2. There is no impact of FDI on the performance of India's banking sector with reference to selected public and private sector banks.

CONCLUSION

The research work concludes therefore that foreign direct investment (FDI) does not have a any impact on the Indian banking sector. It can also be inferred in a way thatprofitability and growth of the Indian banking industry is not necessarily a function of foreign direct capital injection.The Indian banking sector perhaps, depends largely on other sources of capital rather than the foreign capital for its growth and sustainability. This conclusion is consistent with the findings of other studies conducted in the past with respect to the impact of FDI on the performance and liquidity of banking sector inother developing countries.

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