

## **DIVERSIFIED INCOME STRATEGIES OF BANKS - A REAL WORLD SITUATION**

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### **Abstract**

*Generally speaking banking helps the economy by connecting savers to investors. The excess fund is collected as deposit and advances some portion to the needy people for various purposes. By this way banks make revenue from their usual banking business. But it never reaches their anticipated profit to compete in the market. The nationalized banks, private banks, foreign banks and even co-operative banks are also facing the similar situation in the market to. The npa portion of bank is a double edged weapon, as it never creates an income nor it reduces the profit by creating reserves.*

*To meet the operational expenses of the banks, the interest income not enough. So they try to improve their profits by increasing the non-interest incomes of the banking business. The charges, commission, fees etc collected by banks through various ancillary services will reach the destinations. The ATM Fee, Bank Statement Charges, Cheque Return Charges, SMS Charges etc are major item in this scenario.*

**Key word: Bank, Deposit, Advances, NPA, Fee, Commission, Charges, Cheque Return, SMS.**

### **Introduction**

The Indian financial system is at the heart of the economy. Banks, as the key in the system are significant to economic growth and also contributed to development of our country. The banks are channels in the payment system with a range from cash to negotiable instrument to electronic payments. This way banks helps businessmen, households, governments etc to connect to the financial system.

### **Importance of Banking System**

- It is the important pillar in the economic system
- It is the safe place for depositing money and wealth
- It offer advances to personal and businesses for their development
- It ensures financial stability to the nation
- It ensures balanced economic growth

Now days along with basic banking functions like deposit and lending facilities banks are rendering various other types of financial services to its customers. These expansions in products and services are due to various factors such as high competition among public, private and foreign banks, advancement of technology, openness to national economies for business transitions and many more.

The money accepted by the bank for lending either for short term or for long term tenure from public. For that purpose they have to pay interest and receiving income as interest from loans and advances. This interest is the main source of income to all types of banking businesses. So banks are maintaining their loans and advances in good condition to receive regular interest income.

As far as the term deposits of banks are considered, they have to pay regular interest income without any fail.

It means interest expended is a routine expenditure for the banks. But in the case of advances are considered there may be some defaulters. This will result in the shortage of income for banks and financial institutions on interest received. As the interest income coming downwards it will reflect in Profit and Loss Account and future of banking business.

Whenever these types of income shortages are familiar in banks, they have to compel to generate various incomes other than interest income. This will lead to create different types of bank charges from bank's end. For the existence banks cannot depend on the money being deposited by the customers in the bank and had to venture in other financial services to earn profit. These banking services other than lending and deposit are known as ancillary services.

### Objectives of Study

- To understand the diversified income strategies of banks
- To understand the profit level of commercial banks
- To evaluate the income earning capacity of various banks
- To analyse the non interest income with their profit

### Statement of Problem

During 2018-19 and 2019-20, 19 nationalized banks including State Bank of India and IDBI Banks are reported huge losses in their Financial Statements. Indian Bank and Vijaya Bank made profits during these periods. From these analysis we can understand that the need for increasing the other incomes. As the banks' regular income does not match with expenses, they may try to increase the other sources of income.

### Scope of the study

As the NPA items are increasing, the banks have two types of shortages in their profits. Firstly, the regular income of interest on loan advances and secondly, provision for the above mentioned NPA items. This way the profits of banks are going downward and sometimes it will reach to loss. In this scenario this helps us to understand that, what are the ways banks can withstand in the market either by reducing losses or by increasing profits. Various studies reveal that private banks are charging higher amount that nationalized banks for this type of ancillary functions.

**Loss made by top five Banks during 2019-2020**

Sl. No	Name of Bank	Amount (cr)
1	Bank of India	3,571
2	Canara Bank	3,259
3	Union Bank of India	2,503
4	Central Bank of India	1,529
5	Punjab National Bank	697

From the above table we can understand the major banks in India are facing the problem of generating profit for their usual banking business. The interests earned on advances are far from interest expended on the deposits and operating expenses of banks. So they are deeply thinking that how to reduce their losses and to convert this losses to profit by doing various ancillary services. Now days RBI has given permission to banks for doing various allied banking services to their customers. By this way banks can make wonder services to customers and the NPA losses can reduce to its minimum.

**Financial Performance of Commercial Banks (Amount in crore)**

Sl. No	Item	Mar – 18	Mar - 19
A	Income (i +ii)		
	i) Interest Income	175.9	255.2
	ii) Other Income	1003.6	2093.7
B	Expenditure		
	i) Interested Expended	26.2	35.8
	ii) Operating Expenses	1677.1	2925.9
	iii) Provisions and Contingencies	-7.4	14.0
	of which Risk Provisions	-8.4	0.9
	Tax Provisions	1.0	13.0
C	Net Interest Income	151.5	219.4
D	Profit		
	i) Operating Profit (EBPT)	-523.0	-612.8
	ii) Net Profit / Loss	-515.6	-626.8

From the above table we can conclude that commercial banks are facing severe financial crisis. The interest income is enough to meet interest expended of banks. But the operational expenses are very high in all of the banks irrespective of nationalized banks and private banks are considered. In case of private banks the top executives are controlling the operational expenses by various measures. But it's not properly practicable in nationalized banks as it is controlled by government.

**Sources of other Income to Banks**

- Average Monthly Balance – The average monthly balance in Savings Bank and Current Deposit vary bank to bank from Rs. 500/- to Rs. 10,000/- . If the balance is in short they may collect Rs.50/- to Rs 250/- periodically.
- ATM Usage Fee – Each and every bank has collected ATM usage fee from their customers starting from Rs. 100/- for Debit cards and Rs. 300/- for credit cards annually. If one bank's ATM is used by other bank's customers either for cash withdrawals for balance enquiry, for this they may get ATM usage fee on it.
- ATM Transaction Fee - As per the recent RBI circular the free transaction by ATM card is restricted to 5 and charges collected after this exception has increased from Rs 15/- to Rs 17/-.
- Account Statement Charges - The charges collected for account statement is Rs.50/- and above from bank to bank
- Agency Services Fees – The bank act as an agent of customers. For doing such duties they may collect fee on the risk and time associated with services. Most of the private banks are doing variety of services than nationalized banks. This includes collection of cheques, bills, dividends, rent, purchase of securities, payment of loans and insurance premium, purchase of foreign exchange etc.
- Cheque Book issue charges – Most of banks are issue cheque book to their customers on free basis. But if more cheque books or cheque leafs required above its minimum, they may collect charges on it.
- Cheque Return charges – The charges collected on cheque return as the balance is not maintained in the account is Rs 300/- and above.
- Cheque Book Lost Charges – Some banks are collected charges for lost cheques by customers. It is varying from Rs. 50/- per leaf from bank to bank.

- Cash counting charges - The banks are charging counting fee for depositing money in Savings Bank and Current Deposit accounts. It may be for huge amount of deposit and also for number of bundles.
- Commission on Letter Credit – The bank act as agent for export import business. For such services they may collect charges from their customers.
- Fund Transfer Charges - For transferring funds to various accounts from customers' accounts, banks are collecting charges on the amount transferred. These service charges are not only for of line services rendered at branch counters and for online services too. It may be Demand Draft, NEFT, RTGS, IMPS, CTS etc.
- Gold Appraisal Charges – Some banks are appointed an appraiser for checking the purity and quality of gold pledged by the loanes. Either at the time pledging the gold or at time of closing the same the banks are collected and appraiser charges ranging from 0.10 % to 0.50%. But the amount paid as the valuation charges to appraiser charges is less as compared to the collection is considered. This difference is also revenue to the banks.
- Loan Syndication Charges – Banks are collected 0.20 % to 3.00% as loan syndication charges on the loan amount from the applicant. This is the major revenue as far as the bank is considered as the expenses on it are very negligible one.
- Loan Renewal Charges – Normally Overdraft Loans and Cash Credit Loans are given for 12 months to 24 months. After this stipulated period this loan should be renewed. For this purpose all the banks are collecting charges from their customers depending on the amount of loan.
- Locker Rent-Banks are providing an additional facility to their customers for keeping their valuables as Locker services. For this they may collect rent annually depending upon the size of lockers. This is also an income to the banks as no additional cost is required on providing it.
- Interest on outside Investment – Commercial banks has to maintain CRR and SLR as in the form of investment. And also their surplus fund is also invested in outside sources. All these type investments are made interest revenue to the banks. This is one of the major revenue to the banks and financial institutions are considered.
- Income from Insurance Business – Many banks are doing insurance business along with their banking business with help of private insurance firms. These types of general insurance and life insurance businesses are providing huge revenue to banks. SBI and HDFC banks are the major player in this segment.
- Income from Mutual Funds - Mutual Fund is also a profit making services to the banks. Banks are doing this business along with Mutual Fund agencies in India. The commission on each transaction made by the fund depositor is the revenue to the banks.
- Income from Merchant Banking and Underwriting – The commission received on merchant banking and underwriting services rendered by banks are also an income to the business. The fee is calculated on the amount of business is done by the corporates.
- Income from Underwriting - Banks are collecting commission on underwriting process done by them for corporates. The commission is calculated either on the amount of underwriting securities taken by them or on the entire amount of issue.
- Sale and Purchase of Bullion - Commercial banks act as an agent for purchase and sale of gold and other valuables. For this they collect commission on the amount of dealings.
- SMS Charges - Bank collects as charges for Sms from their customers periodically for message service provided to them. This may collect monthly, quarterly, half yearly or yearly basis.
- Premature Closing charges - Banks are collecting closing charges on loans if they are closing before the due date. It may vary from 0.50 % to 2.50% of the loan amount depending upon the customers.



In addition to the above mentioned services, banks are giving Bank Guarantee, Bill Discounting, Demat account facilities, Consultancy Services to their customers by receiving commission or fees. From these ancillary and allied services provided by commercial banks to their customers develop the banking business through other income.

### **Conclusion**

The problems of NPAs can be overcome by the income generated from other sources. It means that, the bank has to create other sources of income for recovering from losses or to reduce losses. Now day's major banks are concentrated on this type of enhancement of other incomes. Due to covid and other related problems increased for the past one year, many of the commercial banks are facing NPA and its recovery. This situation in the bank compels to increase the other income for sustaining in the competitive world. To become first to increase the profit, is the motto of each and every bank.

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