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A study of non-interest income in private sector banks with special refers to ICICI bank

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Abstract
The study is focused on trends in non-interest income in private sector banks with special reference to ICICI Bank. The study is about the earning of non-interest income and its components in banks. The objective is to about, earnings on other income from the financial year 2011 to 2021 and its components ratio with other incomes and also, year to year growth for the year 2021 to 2022. It has been recommended and concluded to the bank, that other incomes, with their components, must be made visible and it should be mandatory by the regulatory authority for all the banks so that it can be referred to as a measure to check and updates the activities to enhance the business of the bank. And each branch manager has to do a survey in his area with regard to the potential of doing business to earn other incomes in that respective area.

Keywords: Non-interest income, interest income, CAGR, YoY growth rate

Introduction
Financial Management in Banking Industry
Finance is the life blood of trade, commerce and industry. Nowadays, the banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. Banks developed around 200 years ago. The banking sector plays a crucial role in the economic development of a nation. A sound, efficient, effective, vibrant, and innovative banking system stimulates economic growth by mobilizing savings on a massive scale and efficiently allocating resources for productive as well as consumption purposes.
The wave of diversification became apparent in the Indian banking sector in the eighties and nineties. The reforms opened areas like investment in banking, leasing, merchant, banking, and factoring, hire purchase and mutual funds for the commercial banks through the setting up of separate subsidiaries. As a result, there has been a manifold interest amongst foreign banks also to expand their operations in India.
Commercial banks being financial institution performs diverse types of functions. It satisfies the financial needs of the sectors such as agriculture, industry, trade, communication, etc. That means they play a very significant role in the process of economic social needs. The Indian banking industry has been steadily shifting away from traditional sources of revenue-generating business like loans and advances to non-traditional activities that generate fee income, service charges, trading revenue, and other types of NII. Not only the banks in the private sector are making headway into diversifying their operations, but the public sector banks are also in the lead in their operations in a competition.
Diversification has opened the doors for commercial banks to earn fee income from investment banking, merchant banking, insurance agency, securities brokerage, and other non-traditional financial services. And banks' motives to diversify as synergy economic motive, managerial motive, value maximization motive, increased market power motive, and capital strength and risk diversification motive.

Types of bank income
There are two broad sources of bank income or revenues. One is Interest Income or Fund Based Income and the second is, Non-Interest Income or Non-fund Based Income or which comes under the heading other income.

Interest income/fund-based income/other income in banks

Banks sometimes keep their cash in short-term deposit investments such as certificates of deposits with maturities up to twelve months, saving accounts and money market funds. The cash placed in these accounts earns interest for the business, which is recorded on the income statement as interest income. For others such as insurance companies and financial institutions that generate profit by investing the money it holds for policyholders into interest-paying bonds, it is a crucial part of the business.

Meaning

"Interest income is generated over the life of loans that have been securitized in structures requiring financing treatment (as opposed to sale treatment) for accounting purposes; loans held for investment; loans held for sale; and loans held for securitization.

"Interest income is generated from what is known as „the spread „. The spread is the difference between the interests a bank earns on loans extended to customers. Corporate etc. and the interest paid to depositors for the use of their money. It is also earned from any securities that the banks own such as treasury bills or bonds."

Components of interest/fund-based income

Main components of Interest/ Fund Based Income are.

Income from the lending of money

Generally lending money refers to disposing of the money or property with the expectation that the same thing will be returned. In other words, lending of money is the transfer of securities to a borrower (usually so the borrower can pay back a short-term liability), in return for a fee. The borrower agrees to replace them in due course with identical securities and the lender risks/returns of the securities in the meantime.

Income from Investment (SLR) Every bank is required to maintain at the close of business every day, a minimum proportion of their net demand and time liabilities as liquid assets in the form of cash, gold and unencumbered approved securities. The ratio of liquid assets to demand and time liabilities is known as Statutory Liquidity Ratio (SLR). A bank's leverage position to pump more money into the economy.

Non-interest income/non-fund-based income/fee-based income

In the face of declining net interest margins, depository institutions have entered new product areas over the past two decades, moving from traditional lending to the areas that generate Non- Fund Based Income. The change is of importance for financial stability. The more unstable is a bank's earnings stream, the riskier the institution is. The conventional wisdom in the banking industry is that earnings from fee-based products are more stable than loan-based earnings and those fee-based activities reduce bank risk via diversification.

Meaning

1. "Non-Fund Based Income is earned by providing a variety of services, such as trading of securities, assisting companies to issue new equity financing, securities omissions and wealth management, sale of land, building, profit and loss on revaluation of assets etc."
2. "Bank and creditor income derived primarily from fees. Examples of non-interest income include deposit and transaction fees, insufficient funds (NSF) fees, annual fees, monthly account service charges, inactivity fees, check and deposit slip fees, etc. Institutions charge fees that provide non-interest income as a way of generating revenue and ensuring liquidity in the event of increased default rates."

Components of non-interest/non-fund-based income

The main components of Non-Interest/Non-Fund Based Incomes are.

Income on remittance of business

Apart from accepting deposits and lending money, Banks also carry out, on behalf of their customers the act of transfer of money -both domestic and foreign. From one place to another. This activity is known as "remittance business". Banks issue Demand Drafts, Banker's Cheques, Money Orders Etc. for transferring money. Banks also have the facility of quick transfer of money also known as Telegraphic Transfer.

For Example, In the Remittance business, Bank 'A' at place 'a' accepts money from customer 'C' and makes arrangements for payment of the same amount of money to either customer 'C' or his "order" i.e. a person or entity, designated by 'C' as the recipient, through either a Branch of Bank 'A' or any other entity at place 'b'. In return for having rendered this service, the Banks charge a pre-decided sum known as an exchange or commission, or service charge. This sum can differ from bank to bank. This also differs depending upon the mode of transfer and the time available for affecting the transfer of money. The Faster the mode of transfer the higher the charges. All banks are eager to go for fee-based activities to a large extent with various sources of income.

The structure of Non-interest income is

1. Commission And Brokerage
2. Sale of Investment
3. Sale of Land Building
4. Exchange Transaction
5. Income from E-Delivery Channels
6. Misc. Income

It is, therefore, important to examine to what extent fee-based income contributes to total income. These days, banks are competing on the basis of fee-based activities by launching innovative products or services. Non-interest income is a vital part of the total income of the banks and it may create stability in bank income.

Types of ratios are used to know the noninterest income performance of the study banks are

1. Interest income to total income ratio
2. Non-interest income to total income
3. Share of commodities exchange and brokerage to other income
4. Investment for sales to other income
5. Bank exchange transactions to other income

Objective of the study

1. To study the strategies and guidelines for other incomes to banks by the Reserve Bank of India (RBI)
2. To study the bank's Compound Annual Growth Rate (CAGR) of other incomes of the Private Sector Banks – ICICI bank from 2011 to 2021 financial year.
3. To study the year-to-year growth rate of other incomes of the Private Sector Banks for the financial year 2021 to 2022.
4. To analysis the Fee-based income earned by Private Sector banks.
5. To study and analyze the ratio of interest income and non-interest income to net income by the respective studied bank.

Need of the study

- In India banks like public sector banks are in the evolutionary stage then the private sector banks so, it become important and need to study more on better business to win the competitive market and need to study how better an existing bank customer can be served in more efficient manner.
- Nowadays banks are transforming, their thinking process is changing from traditional banking to non-traditional banking i.e., concentrating more on secondary functions of the bank by providing additional financial products to existing customers which will give them rise in the fee-based income / other income.

It needs to be understood that it takes a great deal of time, effort and teamwork to successfully cross-sell beyond the traditional bank product set. Credibility and motivation are very important aspects. The staff members interacting with the customers need to have expertise on the subject and help the client to understand and get the right product.

Research methodology

- The study is carried out on secondary data.
- The bank's Compound Annual Growth Rate (CAGR) was calculated for the financial year from 2011 to 2021 financial year, for Private Sector Banks.
- Secondary data is collected from Journals, Magazines, Annual Reports of studied banks, Articles, Research theses, Publications, and Internet resources.
- Information on banks and RBI strategies towards cross-selling business, financial reports and financial products
- To find out the year-to-year growth rate, of each selected bank with respect to income from other sources (non-interest income or fee-based income), we have calculated the CAGR from the financial year 2005-2016 and also calculated the rations" of each individual source of other incomes compared with total of other income.

Literature reviews

1. **The article, by R.K. Uppal, director of ICCSR,** is an attempt to study the "trends in non- interest income". This article talks about the parameters like, interest and non-interest income as a percentage to total income. The non-interest income components are exchange and brokerage, sale in investment and exchange transaction. On the basis of these parameters the study concluded that interest income is continuously declining due to deregulation in interest rates and non-interest income is rising. Among the non-interest income components, commodity exchange and brokerage witnessed a large share, while exchange transactions witnessed a meager part. The paper also gives some ways and means to bring stability to the total income.
2. **The article by Harpeet Singh an officer in the Bank of India talks about "banks non-interest income".** According to this study, the banks function on deposits and lending interest rates which is a matter of concern to gross interest income. The non-interest income sources are income from selling services, commission, exchange and brokerage, net profit sale of investments, land or building and other assets, foreign exchange transactions, income earned by way of dividends and miscellaneous income. The author also studied about the growth trends of NII for each of the four categories of Indian banks – Public Sector Banks, Old Private Sector Banks, New Private Sector Banks, and Foreign Banks. The data has been compiled and analyzed by percentage, and by computing compounded average growth rate (CAGR) for the years 2004 to 2008 to understand the pace and pattern of growth in NII. The author has concluded that the public sector banks and private sector banks need to concentrate more on increasing revenues through non-interest incomes. One of the suggestions given by him is for schedule 14 of the standard format of the balance sheet where a separate head, namely "income from cross-selling of financial products" should be made mandatory by the regulator.
3. **"Income Diversification in the Banking Sector and Earnings Volatility: Evidence from Kenyan Commercial Banks". By AJosephat Mboya Kiweu (2012).** This paper investigated, whether diversification of income sources for Kenyan banks leads to better earnings and reduced the systemic risks. It has been identified that, these banks are started concentrating, toward fees based income activities, for better earning. The study focuses on banks primary income sources of interest and noninterest / fee based income. Such as investment banking and insurance services. It has been identified that, the income diversification in Kenyan banking industry has been improved. It was also established that bigger banks are more diversified than small banks and tend to have higher returns. And the study assesses the volatility of the two primary streams of revenue and consequently checked if non-interest income could stabilize total operating income. The findings were clear that non-interest income is much more volatile than interest income as observed over the sample period. The results show a push for Kenyan banks to diversify their revenue stream.

Data Analysis

- Reserve Bank of India has given guidelines to all banks in India for encouraging the banks to earn fee-based income to stabilize the profits of the banks under Para-Banking activities or Cross-Selling business.

- Know Your Customer norms (KYC) / Anti – Money Laundering (AML) standards / Combating of financing of Terrorism (CFT) are some norms/standards that are given by the RBI to all other banks in India to follow at the time of cross-selling business of non-interest income to total income for public sector banks

Other income from ICICI bank

The study is about the financial performance of the private sector banks with respective to Non-Interest Income ratios and it also shows the detailed study about trends in non-interest incomes earned by the studied banks.

Table 1: Interest Income to Total Income

Year	Interest Income to Total Income	Other Income to Total Income
2011	73.37	26.63
2012	73.45	26.55
2013	76.05	23.95
2014	77.75	22.25
2015	80.35	19.65
2016	77.47	22.53
2017	79.62	20.38
2018	81.72	18.28
2019	82.76	17.24
2020	80.89	19.1
2021	80.13	22.51

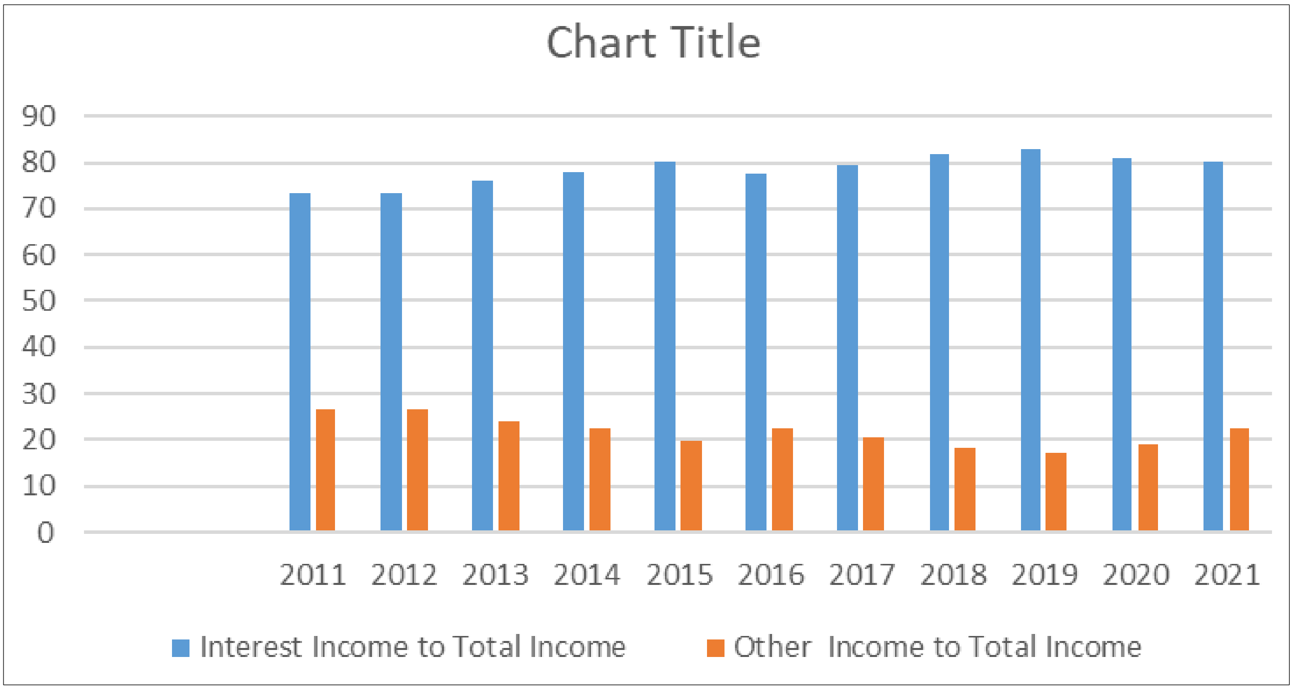

Fig 1: Shows Interest Income to Total Income and Other Income to Total Income

Interest income to total income % of ICICI bank earnings averagely is 78.42% which is a good percentage, whereas non-interest income averagely 21.58 percentage.

Table 2: Ratios of Components of Other Income

	Income on sale of commodities to other income	Investment, Land, Building to other income	Bank Exchange Transactions to Other Income
2011	56.23	15.99	9.21
2012	60.24	15.05	9.49
2013	62.51	16.1	9.3
2014	63.63	21.34	1.25
2015	73.99	23.68	0.11
2016	64.6	7.31	14.79
2017	82.95	3.27	13.79
2018	72.44	4.42	16.78
2019	65.44	6.77	15.97
2020	60.49	4	17.52
2021	57.32	12.73	16.81

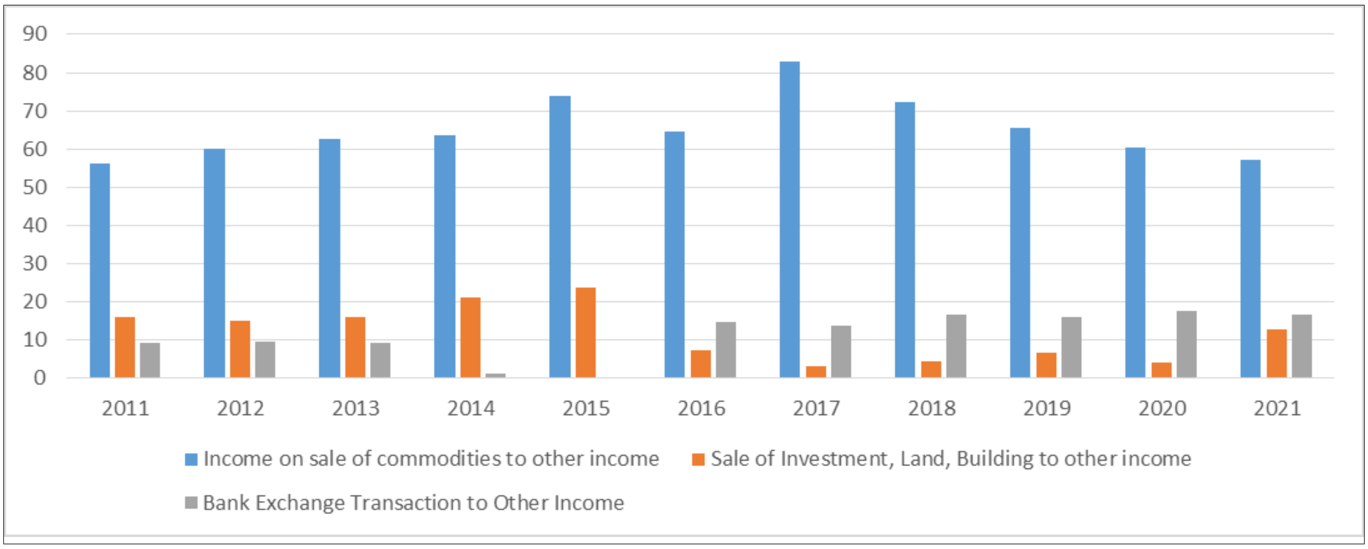

Fig 2: Ratios of Components of Other Income

ICICI Bank majorly concentrate on other income through sale of commodities with an averagely 65.44 percentage out of total other income whereas sale of investment, land etc is an averagely 13.20 percentage, these type of service, plays a major role to play to increase in noninterest income

Table 3: Compound Annual Growth Rate (CAGR) and Year To Year Growth Rate for the Financial Year 2021 – 2022

BANK	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR	YOYG 15
ICICI	3416.23	5036.62	8878.85	8117.76	7279.43	6647.89	7502.76	8345.7	10427.87	12176.13	15323	21.59	25.84
	26.6	26.7	23.4	22.3	20.7	22.1	20.38	18.28	17.21	19.1	19.87	21.59	25.84

The annual growth rate of the ICICI bank is 21.59% and it has very good increase in year-to-year growth rate with 25.84%.

Findings
It is found that ICICI bank has very good hold by earning interest income but this also shows that it is also concentrating on earning increase through other incomes, which helps them to be in the present competitive market.

Conclusion
The results of this study show that non-interest income is positively related to performance and risk because the increase in non-interest income increases both performance and risk. The non-interest income is higher for private banks while comparing with other sector banks. Income from brokerage and service fees contributes more to non-interest income than other non-interest income sources for public and private sector banks whereas, for foreign banks, forex transactions play a major role in contributing to non-interest income. The outcome of the study informs about different bank groups' extent of non-interest income and how that benefited or affected the bank groups' performance and risk. The stakeholders such as bankers, Reserve bank of India, customer, rating agencies, etc. may be benefited from this study because this study may help concerned authorities to draw certain framework and policies relating to non-interest income exposure.

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