IMPACT OF GLOBAL RECESSION IN BANKING INDUSTRY
(A COMPARATIVE STUDY OF SBI AND ICICI BANK)

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ABSTRACT
In this paper an attempt has been made to analyze the impact of global recession on financial performance of selected Indian public and private sector banks. For the purpose of analysis SBI the leading public sector bank and ICICI Bank the leading private sector bank have been taken into consideration. Secondary data have been collected through annual reports of selected banks and related websites. Further in the study the comparison of impact of recession on financial performance of public and private sector bank on the basis of Financial Performance have been analyzed. Sample has been drawn by using convenient random sampling and statistical tools-ratios, paired t-test has been used. This study ends with findings and few suggestions.

Keywords: Recession; Financial Performance; Indian Banking Industry

INTRODUCTION
Meaning of Recession
A recession is a business cycle contraction, a general slowdown in economic activity. During recessions, many macroeconomic indicators vary in a similar way. Production, as measured by gross domestic product (GDP), employment, investment spending, capacity utilization, household incomes, business profits, and inflation all fall, while bankruptcies and the unemployment rate rise.

REVIEW OF LITERATURE
Abhijit Sarkar, ‘Service in Times of Recession: A Comparative SERVQUAL Study of Retail Banking between Axis Bank and HDFC Bank in Kolkata, India’ the result of that paper globalization and technological advancements, today, the competition has peaked. In this environment, only those companies can survive which offer the best services and products to the customers. Due to so many options available to the customers in the same place, attracting customers has become a tough job for the companies. Companies should possess knowledge about consumer behavior and customer satisfaction in order to survive in the market. Once the company understands the expectations of the customers, it enables the management to innovate better products/services with added benefits. This, in turn, increases its market share/profitability or even both. This stands true for the Banking sector too; also the dynamic and flexible nature of the communication channel as well as its ubiquitous reach has helped in leveraging a variety of banking activities. Naturally the banks have become more customer oriented and offer customized services to meet individual needs. There is an increased focus on the
high net-worth customers as they contribute more to the business. Banks have been offering 24-hour service to customers all 365 days of the year through their customer care centers and anytime banking services. Since liberalization of the Indian Economy in the early 90’s the market environment has turned turbulent & dynamic the going has got a lot tougher and after coming through a global recession, the service element in banking sector has turned even more important. In such a back drop it becomes interesting to study the perceived quality of the services rendered by the Axis Bank and the HDFC Bank during the height of recession and to ponder over as to whether their operations in those difficult times has anything to do with their present market status.

K. Vidyakala, S. Madhuvanthi, S. Poornima, ‘Recession in Indian Banking Sector’ according to the study banks act as important players in the financial markets. They play a vital role in the economy of a country. The Recession that began in December 2007 impacted the revenues and profitability of businesses worldwide. We are in a globalised world and no more immune to the things happening outside our country. Built on strong financial fundamentals, strict vigil on risk appetite and firm monetary guidelines, Indian banks have proved among the most resilient and sound banking institutions in the world. But there has been considerable divergence in the performance of the various banking institutions in the country as also among the public, private and foreign banks operating in India. The Indian banking system is relatively insulated from the factors leading to the turmoil in the global banking industry. Going by the performance for the calendar year 2008, Indian public sector banks have not only been able to weather the storm of global recession but have been able to moderate its impact on the Indian economy as well, compared to its peers among the foreign and private banks. The banking sector faces profitability pressures due to higher funding costs, mark-to-market requirements on investment portfolios, and asset quality pressures due to a slowing economy. But Indian banks’ global exposure is relatively small, with international assets at about 6 per cent of the total assets. The strong economic growth in the past, low defaulter ratio, absence of complex financial products, regular intervention by central bank, proactive adjustment of monetary policy and so called close banking culture has favored the banking industry in India in recent global financial turmoil.

NEED OF STUDY

This study is an attempt to evaluate the impact of global recession in banking industry of selected banks over a selected period of time.

OBJECTIVES OF THE STUDY

- To analyze the impact of recession on Financial Performance of both the selected banks.
- To study the comparison of impact of recession on financial performance of selected public and private sector bank.

RESEARCH DESIGN AND METHODOLOGY

Hypotheses

\( H_0_1 \): The mean values of operating profit per share of Indian public and private companies are equal to each other pre and post recession period.

\( H_0_2 \): The mean values of return on long term funds of Indian public and private companies are equal to each other pre and post recession period.

\( H_0_3 \): The mean values of return on net worth of Indian public and private companies are equal to each other pre and post recession period.

\( H_0_4 \): The mean values of return on capital employed of Indian public and private companies are equal to each other pre and post recession period.

\( H_0_5 \): The mean values of dividend payout ratio of Indian public and private companies are equal to each other pre and post recession period.
**Ho**: The mean values of earnings per share of Indian public and private companies are equal to each other pre and post recession period.

**Scope of study**
This study has been undertaken in two banks SBI and ICICI bank.

**Sample Size**
The current study includes two banks SBI (public sector bank) and ICICI bank (private sector bank) and period of six financial years 2005-06 to 2010-11 has been taken into consideration.

**Collection of Data**
This study is based on secondary data which have been collected from annual reports of the selected companies and related websites.

**Statistical Tools**
To test the hypothesis statistical techniques: Ratios, paired t-test have been used.

<table>
<thead>
<tr>
<th>INDIAN BANKING COMPANIES</th>
<th>State Bank of India</th>
<th>ICICI Bank Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Years (Pre)</strong></td>
<td><strong>R1</strong></td>
<td><strong>R2</strong></td>
</tr>
<tr>
<td>2005-06</td>
<td>124.77</td>
<td>97.39</td>
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<tr>
<td>2006-07</td>
<td>147.72</td>
<td>99.2</td>
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<tr>
<td>2007-08</td>
<td>173.61</td>
<td>85.83</td>
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<tr>
<td><strong>Mean</strong></td>
<td>148.71</td>
<td>94.54</td>
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<tr>
<td><strong>Years (Post)</strong></td>
<td><strong>R1</strong></td>
<td><strong>R2</strong></td>
</tr>
<tr>
<td>2008-09</td>
<td>230.04</td>
<td>100.35</td>
</tr>
<tr>
<td>2009-10</td>
<td>229.65</td>
<td>95.02</td>
</tr>
<tr>
<td>2010-11</td>
<td>255.39</td>
<td>96.73</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td>258.33</td>
<td>97.37</td>
</tr>
<tr>
<td><strong>t-value</strong></td>
<td>11.48</td>
<td>0.67</td>
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<tr>
<td><strong>HO&lt;0.05</strong></td>
<td>R</td>
<td>A</td>
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**Note:** Ratios: R1=Operating profit per share, R2=Return on long term funds, R3=Return on Net worth, R4=Return on Capital Employed, R5=Dividend payout, R6=Earnings per share

**Source:** Secondary data collected from website

In order to test the hypothesis, the mean score of pre and post selected years for operating profit per share of two Indian banks having significant difference at (0.05 level of significance) the table value is (1.96) which is less than the t-value i.e. (SBI 11.48) and (ICICI 6.74). Therefore, it can be safely said that there is a significant difference in the mean score of operating profit per share for selected years. Researcher can conclude that on this parameter both the selected banks are affected by recession.

In order to test the hypothesis, the mean score of pre and post selected years for Return on long term funds of two Indian banks having no significant difference at (0.05 level of significance) the table value is (1.96) which is more than the t-value i.e. (SBI 0.67) and (ICICI -1.71). Therefore, it can be safely said that there is no significant difference in the mean score of Return on long term funds for selected years. Researcher can conclude that on this parameter both the selected banks are not affected by recession.

In order to test the hypothesis, the mean score of pre and post selected years for Return on net worth in case of SBI Bank having significant difference at (0.05 level of significance) the table value is (1.96) which is less than the t-value i.e. (SBI -2.64). Therefore, it can be safely said that there is a significant difference in the mean score of Return on net worth for selected years. Researcher can conclude that
on this parameter SBI Bank is affected by recession. Whereas, ICICI Bank showing no significant difference at (0.05 level of significance) the table value is (1.96) which is more than the t- value i.e. (ICICI-1.78).Therefore, it can be safely said that there is no significant difference in the mean score of Return on net worth for selected years. Researcher can conclude that on this parameter ICICI Bank is not affected by recession.

In order to test the hypothesis, the mean score of pre and post selected years for Return on capital employed of two Indian banks having no significant difference at (0.05 level of significance) the table value is (1.96) which is more than the t- value i.e. (SBI 0.35) and (ICICI -0.53).Therefore, it can be safely said that there is no significant difference in the mean score of Return on capital employed for selected years. Researcher can conclude that on this parameter both the selected banks are not affected by recession.

In order to test the hypothesis, the mean score of pre and post selected years for Dividend payout ratio of two Indian banks having significant difference at (0.05 level of significance) the table value is (1.96) which is less than the t- value i.e. (SBI 13.52) and (ICICI 6.94).Therefore, it can be safely said that there is significant difference in the mean score of Dividend payout ratio for selected years. Researcher can conclude that on this parameter both the selected banks are affected by recession.

In order to test the hypothesis, the mean score of pre and post selected years for Earnings per share of two Indian banks having significant difference at (0.05 level of significance) the table value is (1.96) which is less than the t- value i.e. (SBI 2.58) and (ICICI 2.75).Therefore, it can be safely said that there is significant difference in the mean score of Earnings per share for selected years. Researcher can conclude that on this parameter both the selected banks are affected by recession.

FINDINGS

According to the analysis of Indian Banks i.e. SBI and ICICI the results show that except R1, R3, R5and R6 there is no impact of recession on SBI Bank. Whereas in ICICI Bank the results show that except R1, R5 and R6 there is no impact of recession on ICICI Bank Therefore, researcher can say that in Indian banking industry public and private banks are equally affected by recession. The profitability of both the Indian banks is affected by recession or slowdown because majority of selected parameters showing major changes in the pre and post recession period.

SUGGESTION

If recession hits Indian banking industry than governments should respond to recession by adopting expansionary macroeconomic policies, such as increasing money supply, increasing government spending and decreasing taxation.

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