

Significance and Strategies of non interest income in Banking Sector

* Eknath Kundlik Zhrekar



ABSTRACT

Historically, commercial banks have been considered as institutions which accept deposits and give loans, and therefore making profits from the difference between costs of the former and earnings of the latter. However, deregulation, emergence of advanced technologies and the consolidation epidemic allowed traditional retail banks to shift into fee-earning activities such as insurance, investment banking, mortgage financing, securitization and other non-banking activities. Today banks generate an increased portion of their income from non-intermediation and non interest activities.

Introduction

In post reform period RBI has deregulated interest rate on Loans and Advances and hence every bank is independent to decide the interest rate on Loans and Advances. Now RBI has deregulated interest rate on saving account also, therefore almost all banks will increase interest rate on saving account to increase deposits in their banks. Therefore banks offers low interest rate on Loans and Advances to increase advances and on other hand increase rate of interest rate on savings or deposits in bank account. As a result of this "Net interest margin" shrinking day by day in banking sector. To increase revenue banks offer other services to their customers or clients and from these other services banks earn "NON-INTEREST INCOME" (fees, commission, charges, exchange fees etc.).

Banks offer various services to their customers at cheaper cost and as early as possible. The financial report shows almost all banks "Non-interest Income" increase by 20% to 25% over previous year. In banking business nationalize and private banks earn huge income from these source but not all schedule banks offer so many services and schedule banks earn less "Non-interest income" as compare to nationalize and private banks in India.

Following are the services offer by various banks in India.* ATM facilities* NEFT money transfer* Demand draft/ pay orders* Signature verification* Demat account* Online bill/ Tax payments* Online ticket booking* Third party product* Sale of insurance* Sale of mutual funds * Sale of gold coins etc.

Significance

Banks, the world over, are transcending their normal business operations and diversifying their activities in response to economic and financial sector reforms. The Indian banking industry too has been seen steadily shifting away from traditional sources of revenue like loan-making etc, towards nontraditional activities that generate fee income, service charges,

trading revenue, and other types of noninterest income. The Indian banking industry too has been seen steadily shifting away from traditional sources of revenue like loan-making and towards nontraditional activities that generate fee income, service charges, trading revenue, and other types of noninterest income.

Strategies

Increase in the competition in banking sector, every bank try to adopt new and innovative strategy to increase customers.

* Now bank started mobile banking and this concept is new in banking operations. Through the mobile banking a customer can make his telephone bill, electricity bill, insurance premium etc. payments without any additional banking charges. Money transfer is also very safely possible through this service. This is a very customer friendly, safe and secure when compared to internet banking. A customer can enjoy the services from any mobile number, any brand handset and any network operator. This strategy also will help to increase the number of banking transactions and the bank can earn more revenue. Banks will have to provide good services, faster services and accurate services laving lesser charges from the customers, because customers are king in the market.

* The use of the debit cards in India has caught on, but not in the way that banks wants. Banks especially from the public sector are discovering that their customers prefer using debit cards mainly for withdrawing cash from the ATMs. For shopping or eating out, customers prefer using cash even though most retail stores and restaurants now accept cards payments.

* State bank of India, the largest bank in the country, has an advertising campaign currently running on the television which shows a family's debit card complaining that it does not get a chance to go out. The card implores the family to take it out with them. When a family pulls out cash at the stores to pay for the shopping bills, the card reminds them to use it to make the

payments.

* PSU banks look at ATM and debit cards as a cost reduction channel to drive customers away from the branch and not as relationship channel. But foreign and private banks look it as a retail liability product. If more people use debit cards then fund will remain with the banks and their net interest margin will improve as well as the use of debit cards give them other income (non interest).

* The banks should reduce the commission, exchange, brokerage fees to attract more and more customers. As this source comprises various services, helps to earn fees, they should make some attractive policies, which may help to convince the customer to avail these services. Side by side they can earn more from other ac-

tivities except commission, exchange and brokerage, if banks proved to attract customers to avail another services of the banks also. For earning more from commission, exchange, brokerage and other sources of non interest income, following Strategies are suggested separately for possible sources of non interest income.

Some other strategies are:

* Charge higher commission for issuing draft of large amount.

* Issue and Ancash banks drafts electronically to save the time and to provide the accurate result.

* Offer the excellent customer services at the counter.

* Open branches in areas having large inflow and out-flow of non banking activities.etc.

* Service charges for credit cards should be increase at least to the bearable extend.

** Asst. Prof. Mahatma Night Degree College of Arts & CommerceChembur Naka, Mumbai*

REFERENCE

1. Internal Determinants for Diversification in Banks in India an Empirical Analysis by Mrs. Sangeeta Arora and Ms. Shubpreet Kaur (year 2009) 2. Testing the Relationship between Abnormal Returns and Non-Interest Earnings: The Case of Jordanian Commercial Banks by Ala'a M. Al-Horani (year 2010) 3. Customer management in Retail banking by Smitha Ramchandran (year 2008) (The ICFAI university press) 4. Indian journal of finance - Indian banking non interest income - trend, issues and strategies by Dr. R. K. Upal and Ms. Rimpi Kaur (year 2007) 5. Non interest income can be risky- The Financial Express (year 11 January 2011) 6. business line news paper- Chennai, dated: 24th February, 2012 7. banking sectors reforms in India, a review of post-1991 developments by R.K. uppal and Rimpi Kaur (year 2006) 8. Debit card usage on the rise, but mainly at ATMs- The hindu business line newspaper, Mumbai on dated 28th February, 2012