A Comparative Study of Foreign and Public Sector Banks in an Emerging Economy - A Case Study of India: for the Period 2000-2014

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Abstract: **This paper attempts to fill a gap in existing literature by comparing the conduct of foreign and public sector banks in the Indian construct. Using the theory of strategic groups, the study has developed, tested certain hypotheses on conduct variables and derived inferences from the results based on statistical 'pair wise t-test'. Foreign banks mobilise lower volume of deposits, take more risk for earning profits, contribute less to priority sector lending and manage to stay less burdened compared to public sector banks. Clearly, such differences do not augur well for development of banking in our country.Paradoxically, the current agenda of the government stressing on financial inclusion and distinctive conduct of foreign banks are working at cross-purposes.**

1. INTRODUCTION

Schumpeter (1911) argued that financial services are paramount in promoting economic growth. He added that the services provided by financial intermediaries – mobilisingsavings, evaluating projects, managing risk, monitoring managers, and facilitating transactions are essential for technological innovation and economic development. An integral part of the Schumpeterian story is that financial intermediaries make possible technological innovation and economic development. "The banker . . . authorizes people, in the name of society as it were, to... [innovate]" [Schumpeter, 1911, p. 741].

Keynes (1930), in his work 'A Treatise on Money', also argued for the importance of the banking sector in economic growth. He suggested that bank credit "is the pavement along which production travels, and the bankers if they knew their duty, would provide the transport facilities to just the extent that is required in order that the productive powers of the community can be employed at their full capacity" (Keynes, 1930, II, p. 220).

While the financial sector provides critical input in the process of economic development and banks constitute the most dominant component of financial sector in emerging economies, one needs to distinguish between the public sector and foreign banks. One may justify the existence of foreign banks in the economy, only when it may be demonstrated that foreign banks can do things which public sector banks cannot or which are outside their control. This makes it imperative for us to focus on the conduct of foreign banks vis-à-vis public sector banks.The study endeavours to develop and test certain hypotheses and attempts to infer some conclusions based on statistical analysis of the data available in the secondary domain.

2. PLAN OF THE PAPER

Section I provides the motivation and objectives of the paper. Section II develops the theoretical framework of the paper. Section III provides the hypotheses of the study. It is followed by Section IV, which discusses the data sources and provides the methodology. Section V provides the results of statistical exercises and their implications. Section VIgivesthe summary and conclusions of the paper.

Section I: Motivation and Objectives of the Paper

There exist two distinct views about role of foreign banks in emerging countries. The first one looks at them as being inevitable means of international integration of financial systems of emerging market economies[13] (Raghuram Rajan, RBI Governor). The other looks at them most suspiciously and dismisses them as being undesirable components of financial

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[13]"….going to be a big-big opening because one could contemplate taking over Indian banks, small Indian banks and so on," RBI Governor Raghuram Rajan said at an event of the Institute of International Finance in Washington on Oct 13, 2013…As reported by Press Trust of India

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system of an emerging economy (Viswanathan, 1993; Charvaka, 1993; Murthy & Deb, 2011; Murthy & Deb2012). While the above two views are poles apart, they share the idea that foreign banks behave differently from their local counterparts, exerting different kinds of impact on financial sector and consequently on the economic development of the host countries. However, while one view treats the difference in conduct of foreign banks and public sector banks to be favourable to emerging economies, the other group considers such difference to be distinctly unfavourable to emerging economies. It is against this background that the paper seeks to examine the differences in conduct of foreign and public sector banks in an emerging economy like India and examines the implications of such differences in their conduct.

Section II: Theoretical framework of the study

The two groups of scholars arguing against or in favour of foreign banks agree with regard to differential conduct of foreign banks vis-a-vis public sector banks. It is here we find the theory of strategic groups to be useful enough to provide the theoretical framework of our study.

Let us probe more and ask why should foreign banks behave differently from public sector banks? Even if both groups of banks seek to maximise their profitability, they need not behave similarly. There are two reasons behind it. Firstly, foreign banks are endowed with certain intangibleadvantages on the basis of which they seek to compete with public sector banks in a foreign country. Secondly, foreign banks in a host economy are part of a global network and their conduct will be guided by global decision making. In a country like India, banking sector is still dominated by public sector banks and hence foreign banks need to be compared with public sector banks. While public sector banks also seek profit in the current market-led regime, they need to earn profits through promoting inclusive banking. Other banks including foreign banks and private sector banks need to practice exclusive banking in search of profitability. Thus, there exist reasons to expect that there are larger differences in conduct between foreign banks and public sector banks as compared to foreign banks and private banks in an economy.

On the basis of differential conduct of foreign banks from public sector banks, one may invoke the theory of strategic groups in order to provide the theoretical framework of our study. Caves and Porter (1978) have extended Bain's initial concept of entry barriers to mobility barriers, formulated in terms of their concept of strategic group. Mobility barriers include both artificial and natural ones and are related to the ability of the firms to shift from one strategic group in the industry to the other. Strategic groups consist of firms following similar strategy, and firms belonging to different strategic groups operating in the same industry need not behave alike in terms of key decision variables. Depending on their history, management philosophy, firm specific assets, they differ in their strategic approach to competition. The

products they produce may differ significantly in non-price attributes in response to heterogeneous buyers' preferences. Firms within a strategic group resemble one another very closely and stand out from firms belonging to another strategic group. Potential entrants to a strategic group include existing firms in other industries considering diversification and firms in the same industry contemplating a shift to another strategic group. Entry to a group thus depends on the height and nature of barriers, both to entry into the industry and to inter-group mobility within the industry. The impact of entry barriers is different for firms belonging to different strategic groups due to the presence of mobility barriers.

Section III: Hypotheses of the study

While the major hypothesis of the study is that foreign banks conduct their activities differently from their domestic counterparts, we need to develop a number of hypotheses, which need to be actually tested.

In banking theory, a bank needs to mobilise deposits from diversified sources. The idea is that the probabilities of withdrawals of deposit by different sections of population should be different, which will prevent a run on the bank. Foreign banks do not seek deposit from all sections of population. They insist on a significantly higher minimum deposit, while seeking deposits leading to mobilisation of deposit only from well-off sections of the population of the host country having sufficient spare cash and very low probability of withdrawal. Since this section of the population has a higher opportunity cost of time, it is met by providing a higher rate of interest to the depositors. Interestingly, the logic used by foreign banks in mobilisingdeposits is more straightforward as compared to the standard theory of banking. The practice of such exclusive banking bythe foreign banks as opposed to public sectorbanks practicing inclusive banking leads to lower deposit mobilization by foreign banks vis-a-vis public sector banks and hence different strategy of banking centering on non-fund, fee based business. Deposits will form a lower component of liabilities in case of foreign banks vis-à-vis public sector banks. On the basis of low volume of deposits, credit deposit and investment deposit ratios for foreign banks may turn out to be larger.Since foreign banks do not follow inclusive banking strategy, it is expected that it will provide a lower volume of priority sector advances as compared to public sector banks practicing inclusive banking as per their mandate. In an attempt to maximise profit, foreign banks are expected to service the well-off segment of the society by using a lower volume of work force.

Even when public sector banks have been forced into earning profits, the pressure of earning profits by branches of foreign bank is higher in order to justify their operation in a foreign land. Pressure of making profitsincreases their risk appetite and results in conduct like providing more unsecured advances and evenmaking more non-approved investment.

Thus, we have a set of hypotheses to be tested.

- Hypothesis no. 1: Deposit to Liability ratio is same for the two categories of banks.

- Hypothesis no. 2: Credit Deposit ratio of the two groups of banks is same.

- Hypothesis no. 3: Investment deposit ratio is same for foreign and public sector banks.

- Hypothesis no. 4: Non-interest income as a proportion to total assetsdoes not differ between foreign and public sector banks.

- Hypothesis no. 5: The proportion of secured advances to total advances is same for foreign and public sector banks.

- Hypothesis no. 6: Foreign banks and public sector banks do not differ so far as the ratio of non-approved investment to total investment is concerned.

- Hypothesis no. 7: The proportion of priority sector advances to total advances does not differ between foreign banks and public sector banks.

- Hypothesis no. 8 Wage bill to intermediation cost do not differ between foreign and public sector banks.

- Hypothesis no. 9: The ratio of burden to asset does not differ between foreign and public sector banks.

Section IV: Data Sources and Methodology

Murthy and Deb (2011) made an attempt to compare different segments of Indian banking sector. However, in an attempt to cover a vast area relating to market structure, conduct and performance they had used only one variable to represent each of these three diverse aspects. Although the paper makes interesting conclusions, it is important to make the study further broad-based by taking into account more variables. Each of this aspect requires separate attention. For example, while it is known that off balance sheet activities constitutes a distinctive conduct on the part of foreign banks, there are other important aspects of conduct that need attention. The paper seeks to make a contribution in that direction. In doing so, the study considers as many as nine conduct variables. Murthy and Deb's (2011) paper covers a period from 1996-97 till 2008-09. Although, the endeavour was to start the study from the year 1996-97 but the number of conduct variables that are included in the study were available from 1999-2000 only.

Definition and brief explanation of the banking ratios used for testing the hypotheses are as under:

S. No.	RATIOS	FORMULAE	Description
	Ratio of deposits to total liabilities	(Deposits/Total Liabilities)*100	Deposits are in the form of current and saving account as well as term deposits. This ratio indicates the percentage of deposits (which are also liabilities of a bank) as a percentage of total liabilities (comprising borrowings as well) of a bank. This ratio tells us the strength of the bank in mobilization of deposits from the public at large. Current account and Savings Account (CASA) are the cheapest source of funds available to the banking system and they form part of the total deposits. Therefore, higher this percentage better the profitability of the bank, provided it deploys the fund efficiently as well.
2.	Credit - Deposit Ratio	(Advances/Deposits)*100	This ratio indicates how much of the advances lent by banks are done through deposits. It is the proportion of loan-assets created by banks from the deposits received. The higher the ratio, the higher the loan-assets created from deposits. The outcome of this ratio reflects the ability of the bank to make optimal use of the available resources.
3.	Investment - Deposit Ratio	(Investments/Deposits)*100	Banks are required to maintain SLR as specified by RBI from time to time. Banks are the biggest investor in the government bond market. This ratio tells us how much the bank has invested (both approved and non-approved investments) out of the total deposits raised by it.
4.	Ratio of non-interest income to total assets	(Other Income/Average Total Assets for Current and Previous Years) *100	Non-interest income comprises income from investment banking, advisory, brokerage, underwriting fees and commissions, net gains from sale of investments, net gain from revaluation of investment, net profit on exchange transactions and miscellaneous

S. No.	RATIOS	FORMULAE	Description
			income like DD charges, safe deposit charges, etc. This ratio shows how much the bank is earning on total assets through non-interest income. The higher it is, the better it is for the bank.
5.	Ratio of secured advances to total advances	[(Advances secured by tangible assets + Advances covered by bank/government guarantee) /Total Advances]*100	This ratio is an important measure of a bank's risk taking abilities. By definition, advances extended by a bank against some tangible assets or a strong guarantee are safer than an unsecured lending. Foreign banks catering to high networth individuals might be willing to extend more unsecured loans than its more conservative counterpart public sector banks. Higher the ratio, more risk averse the bank.
6.	Ratio of investments in non-approved securities to total investments	[(Shares + Debentures and Bonds +Subsidiaries and/ or Joint ventures + Others) / Investments]*100	RBI has allowed banks to make non SLR investments such as investments in stocks, bonds, commercial papers of companies and various mutual fund schemes as well. Investment in such instruments is guided by return considerations and not by regulations.
7.	Ratio of priority sector advances to total advances	(Priority sector advances/ Total advances)*100	This ratio indicates the priority sector advances as a percentage of total advances. RBI has mandated 40% of Adjusted Net Bank credit to go towards priority sector lending. However, foreign banks have been given some leeway. Large foreign banks (having more than 20 branches) have been asked to meet the PSL targets - on a par with domestic banks - by 2018. The targets for small foreign banks will be brought on a par with those for domestic banks by 2020, in a phased manner.
8.	Ratio of wage bills to intermediation cost	(Payments to and provisions for employees/Operating Expenses)* 100	This ratio tells us the employee expenses incurred by the bank as a percentage of total operating expenses. So a bank which invests more in technology and has less number of branches shall have a lower ratio than a traditional public sector bank which liberally employs more people and even today believes in expanding its branch network.
9.	Ratio of burden to total assets	[(Operating Expenses - Other Income)/Average Total Assets for Current and Previous Years]*100	The focus of the banks in today's competitive environment is to lower their operating expenses. Burden is defined as difference of operating expenses and other income. This ratio puts into perspective the importance of other income in the operation of a bank. Higher the other income (sources of non-interest income as given above), lower the burden on the bank.

The study uses secondary sources of data published by RBI in the form of "Statistical Tables Relating to Banks in India"for the period 1999-2000 till 2013-2014. The study conducts 'pair-wise t-test'to the hypotheses developed in the earlier section. The data distinguishes between two types of public sector banks: State Bank of India and its Associate Banks on the one hand and Nationalised Banks on the other hand. Thus for testing the hypotheses, two tables will be produced - one for comparing a conduct variable between Foreign Banks and State Bank of India and its Associatesand secondbetween Foreign Banks and Nationalised Banks on the other. We reject the null hypothesis up to a 'p value' of 10%.

Section V: Results of the Study

We now proceed to test the hypotheses developed in the earlier section by using'paired t test'. We tested nine hypothesesand hence a total eighteen tables have been produced to show the results of the tests, which are as under:

1. RATIO OF DEPOSITS TO TOTAL LIABILITIES

t-Test: Paired Two Sample for Means				t-Test: Paired Two Sample for Means		
	State Bank of India & its Associates	*Foreign Banks*			*Nationalised Banks*	*Foreign Banks*
Mean	78.37315053	53.63321387		Mean	84.77473173	53.63321387
Variance	1.165440438	25.07951683		Variance	3.703103846	25.07951683
Observations	15	15		Observations	15	15
Pearson Correlation	-0.153529294			Pearson Correlation	0.324196257	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	18.13856823			t Stat	25.40772361	
P(T<=t) one-tail	2.01265E-11			P(T<=t) one-tail	2.05268E-13	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

2. CREDIT –DEPOSIT RATIO

t-Test: Paired Two Sample for Means				t-Test: Paired Two Sample for Means		
	State Bank of India & its Associates	*Foreign Banks*			*Nationalised Banks*	*Foreign Banks*
Mean	67.05709127	79.89242413		Mean	64.24709207	79.89242413
Variance	224.9964765	38.8466876		Variance	122.1302252	38.8466876
Observations	15	15		Observations	15	15
Pearson Correlation	0.55355131			Pearson Correlation	0.606560446	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	-3.925830437			t Stat	-6.886671615	
P(T<=t) one-tail	0.000761196			P(T<=t) one-tail	3.74085E-06	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

3. INVESTMENT-DEPOSIT RATIO

t-Test: Paired Two Sample for Means				t-Test: Paired Two Sample for Means		
	State Bank of India & its Associates	*Foreign Banks*			*Nationalised Banks*	*Foreign Banks*
Mean	40.95257233	60.30456387		Mean	37.30426433	60.30456387
Variance	114.0081211	106.3976738		Variance	48.56894623	106.3976738
Observations	15	15		Observations	15	15
Pearson Correlation	-0.554717798			Pearson Correlation	-0.530149124	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	-4.0493024			t Stat	-5.858642945	
P(T<=t) one-tail	0.000597442			P(T<=t) one-tail	2.07799E-05	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

4. RATIO OF NON INTEREST INCOME TO TOTAL ASSETS

t-Test: Paired Two Sample for Means				t-Test: Paired Two Sample for Means		
	State Bank of India & its Associates	*Foreign Banks*			*Nationalised Banks*	*Foreign Banks*
Mean	1.399764667	2.698231133		Mean	1.195733467	2.698231133
Variance	0.077474712	0.281837329		Variance	0.131845308	0.281837329
Observations	15	15		Observations	15	15
Pearson Correlation	0.543946723			Pearson Correlation	0.50406668	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	-11.28584736			t Stat	-12.42488326	
P(T<=t) one-tail	1.02374E-08			P(T<=t) one-tail	2.98827E-09	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

5. RATIO OF SECURED ADVANCES TO TOTAL ADVANCES

t-Test: Paired Two Sample for Means				t-Test: Paired Two Sample for Means		
	State Bank of India & its Associates	*Foreign Banks*			*Nationalised Banks*	*Foreign Banks*
Mean	83.272746	55.38989907		Mean	84.51178887	55.38989907
Variance	18.22538134	72.35781424		Variance	12.79912533	72.35781424
Observations	15	15		Observations	15	15
Pearson Correlation	0.487833477			Pearson Correlation	0.553862768	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	14.54122819			t Stat	15.72488467	
P(T<=t) one-tail	3.83547E-10			P(T<=t) one-tail	1.36075E-10	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

6. RATIO OF INVESTMENTS IN NON-APPROVED SECURITIES TO TOTAL INVESTMENTS

t-Test: Paired Two Sample for Means				t-Test: Paired Two Sample for Means		
	State Bank of India & its Associates	Foreign Banks			Nationalised Banks	Foreign Banks
Mean	16.11590553	27.71905007		Mean	19.43830893	27.71905007
Variance	11.79560033	121.2739742		Variance	5.244524044	121.2739742
Observations	15	15		Observations	15	15
Pearson Correlation	0.045245229			Pearson Correlation	0.57351117	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	-3.946753589			t Stat	-3.246456848	
P(T<=t) one-tail	0.000730525			P(T<=t) one-tail	0.00292691	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

7. RATIO OF PRIORITY SECTOR ADVANCES TO TOTAL ADVANCES

t-Test: Paired Two Sample for Means				t-Test: Paired Two Sample for Means		
	State Bank of India & its Associates	Foreign Banks			Nationalised Banks	Foreign Banks
Mean	29.98243473	27.07429133		Mean	32.19704873	27.07429133
Variance	4.323381761	19.15855737		Variance	7.02218556	19.15855737
Observations	15	15		Observations	15	15
Pearson Correlation	0.053802539			Pearson Correlation	-0.423356553	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	2.374351112			t Stat	3.306647588	
P(T<=t) one-tail	0.016210639			P(T<=t) one-tail	0.00259657	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

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8. RATIO OF WAGE BILLS TO INTERMEDIATION COST

t-Test: Paired Two Sample for Means	State Bank of India & its Associates	Foreign Banks		t-Test: Paired Two Sample for Means	Nationalised Banks	Foreign Banks
Mean	66.46131493	37.24117587		Mean	66.78008233	37.24117587
Variance	16.47214241	22.91530896		Variance	22.35666283	22.91530896
Observations	15	15		Observations	15	15
Pearson Correlation	-0.816063824			Pearson Correlation	-0.809300905	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	13.42152399			t Stat	12.64088072	
P(T<=t) one-tail	1.09748E-09			P(T<=t) one-tail	2.39152E-09	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

9. RATIO OF BURDEN TO TOTAL ASSETS

t-Test: Paired Two Sample for Means	State Bank of India & its Associates	Foreign Banks		t-Test: Paired Two Sample for Means	Nationalised Banks	Foreign Banks
Mean	0.768053933	0.221727067		Mean	0.789225067	0.221727067
Variance	0.098559935	0.107579779		Variance	0.151602239	0.107579779
Observations	15	15		Observations	15	15
Pearson Correlation	0.779610836			Pearson Correlation	0.631618937	
Hypothesized Mean Difference	0			Hypothesized Mean Difference	0	
Df	14			Df	14	
t Stat	9.91032253			t Stat	7.026115616	
P(T<=t) one-tail	5.22144E-08			P(T<=t) one-tail	2.99763E-06	
t Critical one-tail	1.761310115			t Critical one-tail	1.761310115	

In the first hypothesis, we sought to test existence of difference between Depositsto Liabilities of the two groups of banks. Practice of exclusive banking by foreign banks led to adoption of alternative hypotheses of a smaller ratio for foreign banks and test accepts the same in both cases.

The second hypothesis we tested relates to Credit Deposit ratio. On the basis of an expectation of a lower deposit mobilisation capability consequent to a smaller branch network compared to public sector banks and larger capability for finding out appropriate borrowers, we make the alternative hypothesis that the ratio will be greater for foreign banks and our test agrees with the alternative hypothesis.

The third hypothesis relates to Investment-Deposit ratioand the test produced the result that the ratio is higher for foreign banks. We must not forget the fact that the reason why banks have come from foreign locations to our country is to earn profit and it is reflected in that they employing a larger proportion of their deposits in the form of advances on the one hand and investment on the other hand to earn profit.

A logical outcome of lower deposit mobilization by foreign banks is a lower contribution of interest earnings to their income. The next alternative hypothesis points out a larger component of non-interest income for foreign banks compared to public sector banks. Results of our paired t test confirm it.

Next in line, our hypothesis relating to Investment in non-approved securities is tested. Non-approved securities pose an element of risk for the investor, which is why they have been kept in the category of non-approved securities by the regulator. However, a larger appetite for risk on the part of foreign banks may lead to larger involvement with such securities and our test confirms such a propensity for foreign banks.On similar grounds, the test established that foreign banks have a significantly lower ratio of secured advances to total advances.

Our next hypothesis related to priority sector lending. It is well known fact priority sector lending does not go along with their practice of exclusive banking and hence it is expected that their involvement with this kind of lending is low. The result of our test agrees with such an expectation.

So far as the hypothesis of wage ratio is concerned, we make the alternative hypotheses that the ratio will be higher for foreign banks, because of their compulsion to provide efficient services to better-off section of the population through non-manual meansinvolving less labour and through better technology. Here again the results of the test confirms the alternative hypothesis. Lastly, we test the difference between the ratio of burden to asset with the alternative hypothesis that larger profit orientation of foreign banks, this ratio will be smaller. The results of our test confirm it.

Section VII: Summary and Conclusion

The paper began with premise that financial services provide critical inputs for economic development and sought to analyse the contribution of foreign banks in our economy vis-à-vis the public sector banks, the most dominant component of our banking system. It drew our attention to two diametrically opposite viewpoints about the role of foreign banks in our economy. Both these view points are implicitly based on an idea that they conduct their business differently. Such differences, according to one group, are beneficial to the economy and detrimental, according to the other. The literature on foreign banks in India does not explicitly deal with the issue.

The paper developed the theoretical framework in terms of theory of strategic groups, collected secondary data from publications of RBI and used a paired t test to test hypotheses developed from common ideas prevalent about foreign banks. The objectives were to test whether common place ideas prevalent about foreign banks hold good in the actual scenario.

The paper produced interesting conclusions clearly bringing out differential conduct of foreign banks vis-à-vis public sector banks. Foreign banks are found to be mobilising lesser deposits, employing a larger port of such deposit to making advances and investment and earning a larger component of income from non-interest sources. Under greater pressure to earn profit, they are more involved with non-secured lending on the one hand as well investment in non-approved securities.Quite clearly they are creating moral hazard problems, being protected by both deposit insurance and RBI's commitment to act as lender of last resort. Their commitment to priority sector lending is lower and they are

creating a lower proportion of wage income as well. At the same time, they are found to be less burdened compared to the public sector banks. Quite clearly such differences in conduct of foreign banks vis-à-vis public sector banks put them in a different strategic group. Summing up, the most important conclusions produced by the paper are that these banks mobilise lower volume of deposits, take more risk for earning profits and contribute less to priority sector lending, manage to stay less burdened compared to public sector banks. Clearly, such differences do not augur well for development of banking in our country.While banks need to earn profit, development of banking industry must take place in terms of meaningful financial inclusion so as to include the excluded sections, so far overlooked by banking sector. The performance of banks must be broadened beyond efficiency to include fairness and progress. Fairness involves how equitably market agents distributes the benefits of economic activity to the participants in the market and even more how to include sections excluded from participating in economic activities. Progress concerns how effectively market agents nurture and yield better products and production techniques, or even more how to create different products and services to include the excluded. Paradoxically, the current agenda of the government stressing on financial inclusion and distinctive conduct of foreign banks are working at cross-purposes.

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