The Resilience Of The State Bank Of India To Externalities In The Development Paradigm Of India

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Abstract— This research aims to analyze the resilience of the State Bank of India (SBI) amidst the various market shocks from 2007 to 2022. SBI is not just the largest public sector bank, but also the largest bank in India in terms of asset size. The total assets of SBI stand at Rs.55,16,979 crore as of 2023. This study has equipped a graphical analysis, using the GDP of India to identify the market shocks and the Net Interest Margin of SBI to analyze the bank's performance. The market shocks identified include the Global Financial Crisis, NPA crisis, demonetization, IL&FS crisis and the COVID-19 pandemic. Various interventions adopted by the bank to overcome these market shocks have been navigated. These interventions include compliance adjustments, restructuring schemes and policies, and fiscal packages among others. Lastly, an attempt has been made to suggest ways to deal with such situations inthe future.

Keywords— ***Net Interest Margin, Gdp, Non-Performing Assets, Risk Management, Stressed Assets***

I. Introduction

The banking sector in India comprises diverse institutions, including Public Sector Banks (PSBs) such as the State Bank of India (SBI) and other major entities like Punjab National Bank (PNB) and Bank of Baroda (BoB), along with well-established Private Sector Banks such as HDFC Bank, ICICI Bank, Axis Bank, and Kotak Mahindra Bank. Foreign banks also operate in India, offering specialized services and catering to specific segments. Regional Rural Banks (RRBs) and cooperative banks play pivotal roles in rural and agricultural finance, promoting financial inclusion and supporting small-scale industries. The regulatory landscape is overseen by the Reserve Bank of India (RBI), functioning as the central bank and regulator, setting policies, issuing licenses, and ensuring compliance for a stable banking environment. The sector is witnessing a technological revolution, embracing digital banking, mobile services, and fintech collaborations to enhance customer experiences and operational efficiencies. Initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY) contribute to expanding banking access, fostering financial literacy, and serving unbanked populations. Challenges persist, notably in managing Non-Performing Assets (NPAs), maintaining asset quality, implementing advanced risk management practices, and navigating regulatory changes while ensuring sustainable growth. Despite challenges, the banking sector in India remains a critical driver of economic development, constantly evolving to meet diverse customer needs and contribute significantly to the nation's financial well-being.

State Bank of India (SBI) is an Indian multinational public sector bank and financial services statutory body headquartered in Mumbai, Maharashtra. SBI is the 48th largest bank in the world by total assets and ranked 221st in the Fortune Global 500 list of the world's biggest corporations of 2020, being the only Indian bank on the list. It is a public sector bank and the largest bank in India with a 23% market share by assets and a 25% share of the total loan and deposits market. It is also the tenth largest employer in India with nearly 250,000 employees. On 14 September 2022, the State Bank of India became the third lender (after HDFC Bank and ICICI Bank) and the seventh Indian company to cross the ₹ 5-trillion market capitalisation on the Indian stock exchanges for the firsttime.

The cornerstone of SBI's business has always been to serve the interests of the common man. The Bank uses technology to deliver and manage a wide range of unique products and services in a professional and customer-focused manner. SBI, through its various offices and branches, joint ventures, subsidiaries, and affiliates, provides a wide range of products and services to individuals, small and medium-sized businesses, large corporations, government agencies, and institutional customers. The company is always at the forefront of embracing change, with a focus on its core values of sustainability, service, and transparency.

The State Bank of India (SBI) stands as a central focus for studying the resilience of financial institutions in India's developmental framework due to its unparalleled size, systemic significance, and extensive nationwide presence. As the largest public sector bank, SBI's policies often align with government objectives, impacting India's economic landscape directly. Its ability to adapt to changing environments, historical context since 1806, and influence across diverse communities make it a crucial case study for understanding how financial institutions navigate externalities. The transparency of its operations, community impact, and role in various sectors further underline its importance. By analyzing SBI's response to external shocks, policymakers can derive valuable insights for strengthening the resilience of India's entire financial system, making it an ideal subject for in-depth research into financial resilience within a developing economy.

Externalities within the banking sector are unanticipated outcomes, whether advantageous or disadvantageous, arising from banking operations that impact parties not directly engaged with the financial institutions. Positive externalities emerge when activities such as lending to small businesses foster economic growth and community welfare. At the same time, negative externalities arise from risky lending practices that lead to broader economic repercussions, impacting individuals and businesses. Market shocks within the banking sector denote sudden, disruptive events originating from various sources. Financial crises, regulatory changes, economic downturns, and technological disruptions can all trigger significant shocks, causing panic, liquidity problems, and instability in the financial markets. Responding effectively to these externalities and market shocks is pivotal for banks, necessitating robust risk management, compliance, adaptable business models, and adequate capitalization to ensure resilience and stability amidst unpredictability in the banking industry.

In this paper, the following externalities were used as a buffer to understand how SBI as a bank has overcome these externalities, developed growth opportunities and adapted to the newer volatilities in the market and possible newer markets for banking innovations.

Global Financial Crisis (2007-08)

Non-Performing Assets (NPA) Crisis (2015-2018)

Demonetization (2016)

IL&FS Crisis (2018)

COVID-19 Pandemic (2020)

II. Objectives

Through this research paper, our aims are:

- To assess the resilience of the State Bank of India(SBI) in navigating externalities within the developmental paradigm of India,
- To focus on the bank's adaptive strategies during the shock and post the shocks taking place in correlation with the country's GDP fluctuations andthe SBI's net interest margin.

III. Literature review

Deolalkar, G. H. (1998) focused on how the banking sector in India is working compared to the outside world and also why population density has a major impact on the functionability of the banks and what is the requirement of the customers for the development of the country.

Adhikari, A. (2022, March 6) worked on SBI's commitment to leveraging technology as a pivotal driver for growth, showcasing the bank's innovative initiatives in digital banking and partnerships within the fintech sphere. The article highlights SBI's demonstrated resilience amid challenges, likely delving into the bank's strategies for navigating market shocks and adapting its approaches while maintaining stability.

According to a report IBEF. India Brand Equity Foundation for State Bank of India (SBI), analyses on why the banking sector will move forward with increasing credit which will guarantee a time of sustained gross domestic product (GDP) expansion.

Adwani, V. K. (2023, September 16) emphasised on productivity difference while tackling any externality and understand the relationship between alternative banking channels and on how a nudge boosts the productivity and development in the bank.

Chadaram, satyanarayana. (2023, May 28) focus of the paper was to conduct an analysis of several key financial ratios pertinent to State Bank of India (SBI), aiming to provide a comprehensive understanding of SBI's financial health and performance.

IV. Methodology

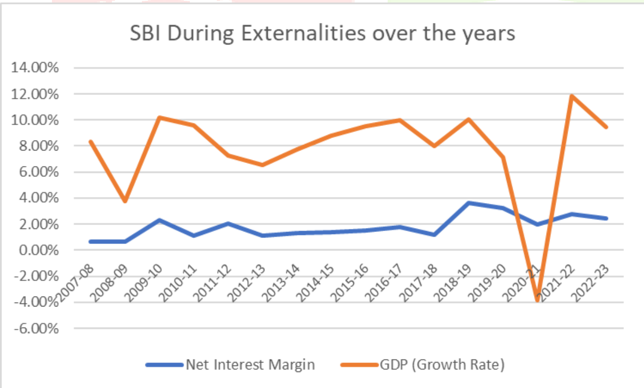
The author has taken secondary data for analyzing the performance of SBI to the GDP of India. The secondary data has been meticulously sourced from reliable and authoritative repositories, ensuring the credibility and accuracy of the information. The data will be further analyzed using MS Excel. Additionally, insights from industry experts have been considered for the analysis section of the paper.

The author intends to interview senior officials from the Reserve Bank of India, in the second phase of this research work. This methodology would ensure a holistic consideration required for understanding the performance of the largest public sector bank in India irrespective of the externalities.

V. Limitations

Relying solely on parameters such as the country's GDP and the Net Interest Margin (NIM) of State Bank of India (SBI) for performance review during externalities presents several limitations. While these indicators offer valuable insights into the financial health and profitability of SBI amidst external shocks, they provide an incomplete picture of the bank's overall performance. The exclusive focus on GDP and NIM overlooks critical operational, risk management, and strategic factors that significantly influence SBI's resilience during turbulent times. Factors like asset quality, capital adequacy, customer-centric initiatives, and specific risk exposures are not fully captured through these metrics alone, limiting the depth of understanding regarding how SBI navigates challenges and adapts its strategies amid external uncertainties. Additionally, using static indicators might not accurately reflect the dynamic nature of externalities and their evolving impacts on the banking sector, potentially leading to misconceptions or oversimplifications in assessing SBI's response to adverse conditions.

VI. Analysis



A. *Global Financial Crisis:*

Following the global financial crisis of 2007-2008, the State Bank of India (SBI) encountered a multitude of challenges that tested its resilience and strategic insight. The bank grappled with a surge in Non-Performing Assets (NPAs) due to economic downturns, facing compromised asset quality and profitability. Liquidity concerns arose, necessitating adept management to ensure sufficient funds for lending while maintaining operational stability. SBI navigated through heightened market volatility affecting investment portfolios and trading activities, requiring vigilant risk management in the face of fluctuating market conditions. Regulatory reforms and changes demanded compliance adjustments, impacting the bank's strategies and potentially influencing profitability and risk management practices. Moreover, global economic uncertainties affected SBI's overseas operations and exposure.

SBI Group's shareholding in bank deposits increased from 23.2% at the end of September 2008 to 24.4% at the end of December 2008. There are two reasons for SBI's market share growth. SBI was the biggest beneficiary of the “flight to safety” phenomenon observed after the Lehman collapse. Faced with rumours of bank difficulties, investors transfer capital from foreign and private banks to public banks.

B. *Non-Performing Assets Crisis:*

SBI grappled with the challenge of rising NPAs and took proactive steps to mitigate this issue. Employing a multifaceted approach, SBI intensified its recovery mechanisms, utilizing legal avenues and debt recovery tribunals to expedite the retrieval of dues from defaulting borrowers. The bank actively engaged in the resolution of stressed assets through the Insolvency and Bankruptcy Code (IBC), leveraging this structured framework to recover outstanding amounts. Furthermore, SBI conducted comprehensive asset quality reviews, allowing for the accurate identification and classification of stressed assets. To revive troubled accounts, the bank implemented various restructuring schemes and resolution mechanisms like Strategic Debt Restructuring and the Scheme for Sustainable Structuring of Stressed Assets. Additionally, SBI revamped its lending policies, focusing on stringent due diligence processes to prevent the creation of new NPAs while fortifying risk assessment and credit monitoring mechanisms. Embracing government-funded recapitalization, SBI bolstered its balance sheet and provisioning to absorb losses from bad debts, striving to ensure financial stability while continually refining strategies to address NPAs and prevent their recurrence in the future.

C. *Demonetization (2016):*

Demonetization in 2016 brought significant changes to the State Bank of India (SBI), the country's largest public sector bank. Following the announcement, SBI experienced a massive surge in deposits as people rushed to deposit invalidated currency notes, significantly bolstering its deposit base. However, the sudden influx of deposits posed challenges in cash management, leading to long queues and logistical issues at SBI branches and ATMs. The surge in deposits also contributed to a notable increase in Current Account Savings Account (CASA) deposits, strengthening SBI's low-cost deposit portfolio. Embracing the digitalization wave, SBI actively promoted digital transactions and invested in technology to support electronic banking services.

Despite short-term disruptions impacting economic activities and raising concerns about potential effects on asset quality, SBI played a pivotal role in supporting government initiatives for financial inclusion and the formalization of the economy, aligning its strategies with the changing dynamics post-demonetization.

NBFCs and microfinance institutions (MFIs) are under severe pressure as their collection cycles (mainly cash) hit a snag after November 8. Most NBFCs and MFIs have announced a 'toll holiday' until there are enough funds in the system. Rural loan growth from September 30, 2016, to March 31, 2017 was just 2.5%. Compare this with growth of 12.9% in the second half of 2015-16 and the extent of the slowdown becomes clear. Lending by the State Bank of India and its partners to rural India in the second half of fiscal 2017 also increased by only 0.6%. SBI and its associates saw credit growth slow to 7.8% in the second half of 2017 from 13.7% in the second half of the previous year.

D. IL&FS Crisis (2018)

The IL&FS crisis in India, which unfolded in 2018, was a significant financial downturn with widespread implications. IL&FS Financial Services faced a capital shortage, leading to an inability to meet its obligations. Active projects experienced cost overruns due to delays, and the company defaulted on various financial commitments, including bank debt, deposits, and commercial paper. Reports on intercompany deposits were allegedly ignored, and credit rating agency ICRA downgraded IL&FS's loan schemes.

With hundreds of investors, banks, and mutual funds connected to IL&FS, the defaults raised concerns among equity investors and posed risks to other non-banking financial institutions. The company's massive debt of 94,000 Crores underscored the severity of the situation. In response to the crisis, the Indian government intervened, superseding the IL&FS board and implementing a resolution plan. This crisis adversely affected infrastructure projects dependent on IL&FS funding, leading to delays and disruptions.

E. Covid-19 Pandemic(2020)

The onset of the pandemic served as a litmus test for SBI's robust risk management frameworks and Business Continuity Plans (BCPs). As a customer-centric institution, SBI's primary focus was on seamlessly transitioning to the 'new normal' without any interruption in services. The bank, with a detailed BCP, ensured the continuity of operations at branches and offices, covering contingencies ranging from natural disasters to pandemics and global disruptions. The Risk Management function at SBI took a proactive approach, identifying, assessing, and managing risks associated with the various activities of the bank, including those emerging from disruptive events. The bank's commitment to risk mitigation was not only regulatory compliance but a strategic imperative to safeguard the interests of its customers and stakeholders. In alignment with the Reserve Bank of India's (RBI) directives to support Small and Medium Enterprises (SMEs), SBI implemented various initiatives during the pandemic. These initiatives included the deferment of instalments for term loans, deferment of interest on working capital limits, reassessment of working capital cycles, and resetting of credit periods and limits. Proactively reaching out to eligible customers through messages and emails, SBI showcased its commitment to providing financial relief and support.

VII. RECOMMENDATIONS

For the State Bank of India (SBI) to effectively navigate and mitigate negative externalities in the future, several critical strategies must be embraced. This involves implementing advanced analytics to assess potential impacts on loan portfolios and stress-testing mechanisms to prepare for economic downturns. A steadfast commitment to improving corporate governance is essential, emphasizing transparency and accountability to prevent ethical lapses. Diversification of the loan portfolio across sectors should be prioritized to mitigate concentration risk, with particular emphasis on sustainable and responsible investments. SBI can play a pivotal role in promoting sustainable finance by integrating environmental, social, and governance (ESG) factors into lending decisions and offering financial products that incentivize environmentally friendly initiatives. Additionally, substantial investments in technology and cybersecurity are necessary to protect against external threats, with a focus on customer education to enhance awareness of potential risks. Proactive regulatory compliance, strategic partnerships, and a commitment to financial literacy programs will further fortify SBI's resilience against negative externalities, ensuring it contributes positively to sustainable development and responsible banking practices.

VIII. CONCLUSION

In response to multifaceted challenges, the State Bank of India (SBI) strategically prioritized risk management, asset quality enhancement, and operational streamlining. The bank's resilience and proactive measures have facilitated its successful navigation through post-crisis economic landscapes, positioning SBI for sustained growth. While the comprehensive strategy effectively addressed the Non-Performing Assets (NPA) crisis, the bank acknowledges the need for continuous refinement in its approach, emphasizing prudent lending practices and robust risk management to preclude the recurrence of similar issues. In the aftermath of Demonetization, SBI, akin to other banks, encountered challenges in managing deposits and adapting to economic disruptions. However, the bank's adaptive strategies aligned with the evolving Indian economy, contributing to financial inclusion and digitization objectives. Amid the COVID-19 pandemic, SBI showcased resilience and adaptability through effective risk management and customer-centric initiatives, emerging as a stabilizing force. The economic history of SBI underscores its commitment to India's development, demonstrating endurance and innovation, especially in the digital era post-demonetization.

The economic history of the State Bank of India demonstrates its unwavering commitment towards the development of the country. SBI demonstrated incredible endurance, ingenuity and commitment throughout its early days as a colonial-era bank, given its pivotal position in digital evolution post-demonetisation of 'India'. As India's financial environment evolves, SBI's legacy is a sign of stability and prosperity that determines the future of the country's banking industry.

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