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## **A comparative study of fund based and non-fund based income of IDBI bank and ICICI bank**

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### **Abstract**

In the last one decade, banking sector in India has shown tremendous growth and also supported the growth of Indian Economy. In today's scenario, whole banking has become paper less. By the support of technology, branches of the banks have become digitalized. Banking sector adopt internationally accepted norms by which transparency came into the whole banking industry. During the last one decade, banking sector has become diversifiable. Banking sector now not only depends on its interest income only but also create a source of income in the form of non-interest incomes like insufficient funds fee, annual fees, deposit and transaction fees and others.

**Keywords:** banking sector, technology, fund-based income, non-fund based income

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### **Introduction**

The IT revolution has had a great impact on the Indian banking system. In today's scenario, technology and competitive environment leads to automation in the banking industry. The banking industry is going through a period of rapid change to meet competition, challenges of technology and the demand of end user. Technology is a key differentiator in the performance of banks. Banks need to look at innovation not just for product but for process also. In modern times, it is necessary for the banking sector to adopt the latest technology. Banks 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 Non-Interest Income.

### **Bank Income**

There are two broad sources of bank income or revenues. One is Interest Income or Fund Based Income and second is, Non-Interest Income or Non-fund Based Income.

### **Interest Income/ Fund Based Income**

Banks sometimes keep their cash in short term deposit investment such as certificates of deposits with maturities up to twelve month, saving account and money market funds. The cash placed in these accounts earn interest for the business, which is recorded on the income statement as interest income. Interest income is generated over the life of loans that have been securitized in structures requiring financing treatment for accounting purposes as 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.

### **Non-Interest Income/Non-Fund 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 areas that generate Non-fund Based Income. The change is of importance for financial stability. The more unstable is a bank's earning stream, the more risky 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 diversifications. 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 commissions and wealth management, sale of land, building, profit and loss on revaluation of assets etc. Non-interest income include deposit and transaction fees, insufficient funds 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.

### Literature Review

Trope, David (2000) assumed that among bankers that all one needs to do to combat competitive pressures on bank margins is to diversify into fee-generating activities. By doing so, banks would generate higher levels of non-interest income, which would be sufficient to compensate for the reductions they have been experiencing in their interest income. There may be a further assumption that non-interest income will not be as sensitive as net interest income to changing economic conditions, and that non-interest income in that way will help make a bank's overall income less variable. To reflect this, some banks have imposed specific targets for the level of non-interest income that ought to be earned. The target can be expressed as a ratio of non-interest income to total income (defined to be net of interest expense).

Stiroh and Rumble (2006) [2] studied the quarterly data of U.S. financial holding companies from 1997 to 2002 to investigate the diversification benefits of offering a range of financial services and shifts in activities that generate fees, trading income and other non-interest income. It was found that diversification gains were more than offset because of the costs involved in increased exposure to non-interest activities on account of its high volatility.

Prakash, A, Ghosh, Saibal (2006) [3] found in their research that competition in the Indian banking sector has increased since the inception of the financial sector reforms in 1992. Using annual data on scheduled commercial banks for the period 1996-2004, the paper evaluates the validity of this claim in the Indian context. The empirical evidence reveals that the Indian banking system operates under competitive conditions and earns revenues as if under monopolistic competition.

Uppal R. K. (2007) [4]. The financial liberalization has changed the behavior of income of the commercial banks in India. Of late, banks have been increasingly diversifying into non-funds based income activities as against traditional banking. In this context, this paper attempted to compare the behavior of interest and noninterest income of all scheduled commercial banks in India. The paper analyzes the contours of interest and non-interest income at bank level, bank group level and also at industry level. It further found some glaring issues related to banks' income and suggests some appropriate strategies to increase non-interest income, which may be helpful to stabilize the total income of the banks in the emerging competition Singh, Y. P., Seth, A. K., Rajput, Bhawna (2008). In this study the researchers tried to examine the link between revenue portfolio and risk adjusted performance of banks in Indian context. Traditionally it is believed that earnings from non-fund based sources are more stable than loan based earning and the increases focus on these activities overall revenue and profitability volatility via diversification effects

### Objectives of the Study

The study is based on the following objectives:-

To study the involvement of fund based and non-interest based income in the total income of IDBI and ICICI banks in India.

To make comparison between the fund based and non-fund based income of IDBI and ICICI bank in India for the financial year 2012 to 2021.

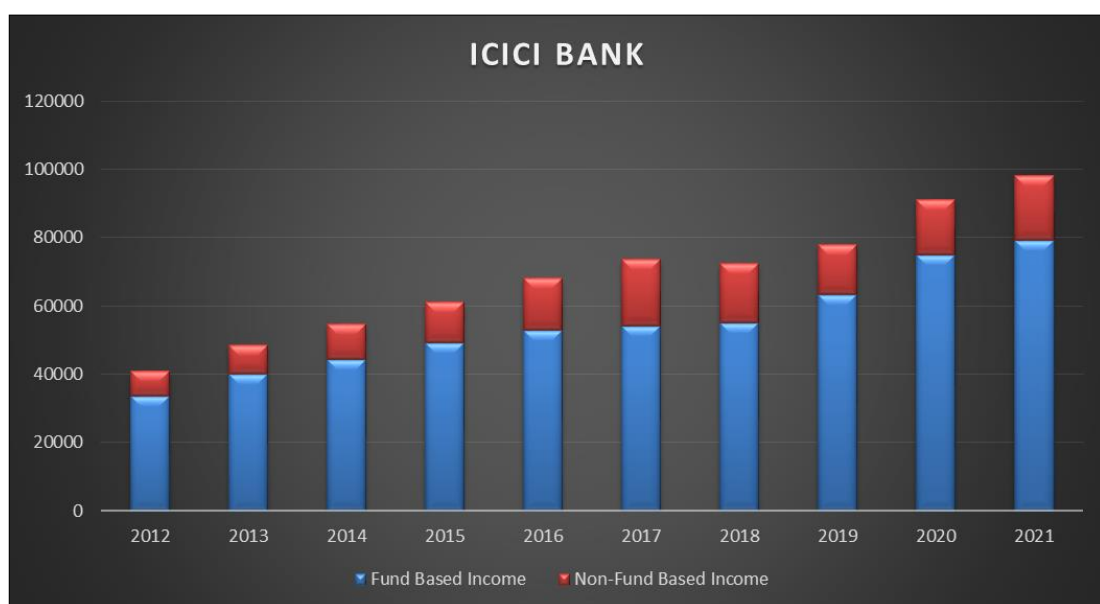
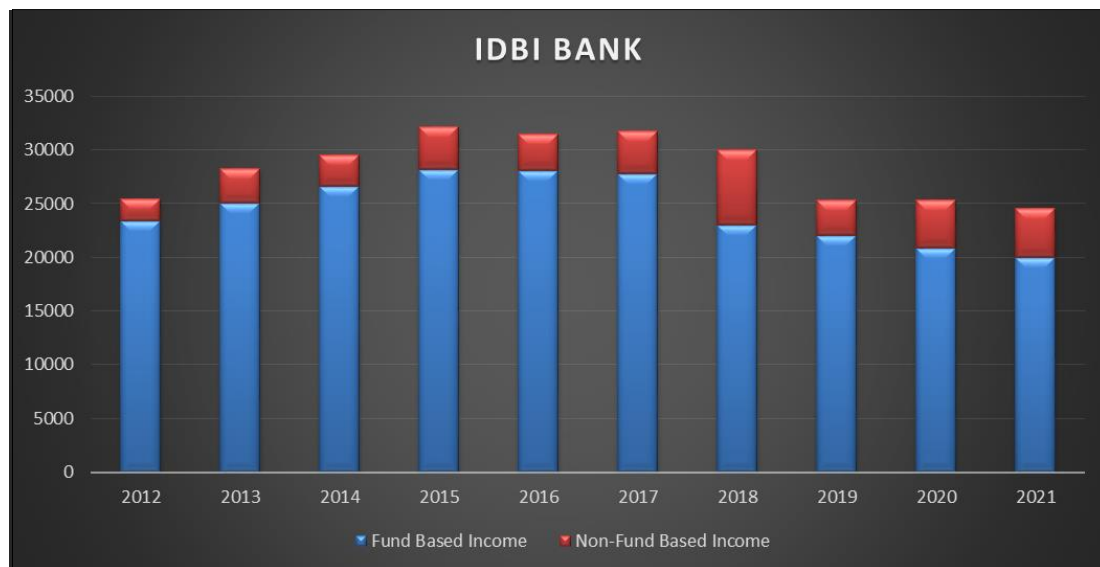
### Research Methodology

The present study used secondary data in period from 2012 to 2021. The study is based on published sources of data collected from various sources. The data were gathered from the secondary sources such as journals, magazines, annual reports of banks, articles published online and offline on various newspapers and websites. IDBI bank and ICICI bank are selected to find out the year to year growth rate of these banks with respect to fund based and non-fund based income. The mean and standard deviation are used for the purpose of comparison of fund based and non-fund incomes of the banks.

**Table 1:** Comparative Income of Fund Based VS Non-Fund Based

Year	IDBI Bank			ICICI Bank		
	Fund Based Income (Crores)	Non-Fund Based Income (Crores)	Total Income (Crores)	Fund Based Income (Crores)	Non-Fund Based Income (Crores)	Total Income (Crores)
2012	23369.93	2112.18	25482.11	33542.65	7502.76	41045.41
2013	25064.30	3219.51	28283.81	40075.60	8345.70	48421.30
2014	26597.51	2978.75	29576.27	44178.15	10427.87	54606.02
2015	28153.99	4007.63	32161.62	49091.14	12176.13	61267.27
2016	28043.10	3410.36	31543.46	52739.43	15323.05	68062.49
2017	27791.37	3967.6	31758.97	54156.28	19504.48	73660.76
2018	23026.53	7008.88	30035.41	54965.89	17419.63	72385.52
2019	22071.24	3300.30	25371.53	63401.19	14512.16	77913.36
2020	20825.14	4470.33	25295.48	74798.32	16448.62	91246.94
2021	19931.76	4625.18	24556.93	79118.27	18968.53	98086.80
Average	24487.487	3910.072	28406.559	54606.692	14062.893	68669.587
Standard Deviation	3076.3469	1318.2013	3008.8387	14467.2171	4280.7094	18028.7167

Source: [www.moneycontrol.com](http://www.moneycontrol.com)



Sources: Collected and Compiled Data

**Fig 1:** Comparative Income of Fund Based VS Non-Fund Based

## Interpretation of Results

### Fund Based Income

Table1 depicts the fund based income of IDBI Bank from the year 2012 to 2021. Fund based income was highest Rs. 28153.99 Crores in year 2015, and it was lowest Rs. 19931.76 Crores in the year 2021. Average fund based income was Rs. 24487.487 Crores. From the year 2013 to 2017, the average fund based income was higher than the average fund based income. From this analysis, we can see that fund based income continuously go down from 2016 to 2021.

The above table shows the fund based income of ICICI Bank from the year 2012 to 2021. Fund based income was highest Rs. 79118.27 Crores in 2021, and it was lowest Rs. 33542.65 Crores in the year 2012.

Average fund based income was Rs. 54606.692 Crores. From the year 2018 to 2021, fund based income was higher than average fund based income. From the above analysis, we can see that fund based income continuously go up from 2012 to 2021.

We can observe that fund based income of IDBI Bank on an average was Rs. 24487.487 Crores i.e. approximately 86 % of its total income. However ICICI Bank collects on an average Rs. 54606.692 Crores i.e. approximately 79.50 % of its total income in terms of fund based income. The difference of fund based income between IDBI Bank & ICICI Bank is 6.50%. The Standard Deviations for the fund based income are 3076.3469 and 14467.2171 respectively for IDBI Bank and ICICI Bank.

Average fund based income of Rs.24487.487 Crores in IDBI Bank whereas Rs. 54606.692 Crores in case of ICICI Bank. There is a big difference of average fund based income i.e. Rs.30119.205 Crores between IDBI Bank and ICICI Bank which shows that ICICI Bank fund based income is far more than income of IDBI Bank income of based income.

### Non-Fund Based Income

Table 1 depicts that the non-interest based income of IDBI Bank from the year 2012 to 2021. Non-interest based income was highest Rs. 7008.88 Crores in year 2018, and it was lowest Rs. 2112.18 Crores in the year 2012. Non-interest based income represents invariable trends. Average non-interest based income was Rs. 3910.072 Crores. In the year 2015, 2017, 2018, 2020 & 2021, the average non-interest based income was higher than the average non-interest based income. The above table shows the non-interest based income of ICICI Bank from the year 2012 to 2021. Non-interest based income was highest Rs.19504.48 Crores in 2017, and it was lowest Rs.7502.76 Crores in the year 2012. Non-interest based income represents mix trends. Average non-interest based income was Rs.14062.893 Crores. From the year 2016 to 2021, non-fund income was higher than average non-bank interest. We can observe that non-bank interest of IDBI Bank on an average is Rs. 3910.072 Crores i.e. approximately 14 % of its total income. However ICICI Bank collects on an average Rs. 14062.893 Crores i.e. approximately 20.50 % of its total income on non-bank interest. The difference of non-based fund income between IDBI Bank & ICICI Bank is 6.50%. The Standard Deviations for the non-bank interest are 1318.20 and 4280.71 respectively for IDBI Bank and ICICI Bank. Average non-fund based income of Rs.3910.072 Crores in IDBI Bank whereas Rs. 14062.893 Crores in case of ICICI Bank. There is a big difference of average non-based fund income i.e. Rs.10152.82 Crores between IDBI Bank and ICICI Bank which shows that ICICI Bank non-fund based income is far more than income of IDBI Bank income of non-fund based income.

### Findings and Conclusion

In terms of fund-based income, we may conclude that IDBI Bank has a better contribution in comparison with ICICI Bank i.e. 86% in case of IDBI in comparison with 79.50% in ICICI Bank. Fund based income is regular income of Banks. So it shows that IDBI Bank is better in comparison with ICICI Bank in terms of fund-based income.

From the above interpretation, we may conclude that ICICI Bank has a better contribution of non-interest based income to total income i.e. 20.50% , whereas this ratio comes to 14% only in IDBI Bank. It refers that near about one-fifth of total income of ICICI Bank comes from non-interest based resources. Therefore, this ratio of non-interest suggests improved non-interest based activities of ICICI Banks operating in India in comparison with IDBI Banks. It shows that ICICI Bank provide better services to its customers than IDBI Banks in terms of non-interest based income. It results in higher profitability, higher variation in profits and a worsened risk-return trade-off for average commercial bank during tough times. From the last two decades, banking industry has been transformed by deregulation, technological changes and advancement in information flows, financial markets.

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