

## ABSTRACT

A robust banking system is vital for the smooth functioning of an economy. Banks mobilize, allocate and invest society's savings in an economy. Banks play a vital role in funds allocation, firm growth, industrial expansion and economic development. Competitive environment in banking system would lead to efficiency, better services and positive impact on economic growth. Thus, it is important for policy makers to assess Banks' competition and look at ways to improve competition. The study seeks to estimate the degree of competition and its implication in the Indian Banking Sector. The assessment of competition will help in designing further liberalization policies particularly in the areas of product development, customers' welfare, new entry norms, product pricing policy, capital planning, risk management and regional penetration of banking services. The literature on the assessment of competition can be divided into studies that take a structural (non-formal) approach and those that take a non-structural (formal) approach. The structural approach centers on the Structure-Conduct-Performance (SCP) paradigm. The SCP hypothesis assumes a causal relationship running from the structure of the market to the firm's pricing behavior. Non-structural approach measure the degree of competitive behavior in the market through formal econometric models. The popular methods for assessing competition in banking are concentration, Lerner Index, Panzar-Rosse Model and conjectural variation model.

In the context of Indian Banking Sector; performance, competition and efficiency is the focus area of research in this study. The thesis looks at competitive conditions in the Indian banking sector for the period 1994 to 2011 with a large sample size covering more than 90% of the banking sector assets. The Study applies structural and non-structural measures to analyze the competitive conditions and found that Indian Banks are monopolistically competitive with larger banks exerting significant market power. Various strategic variables in the forms of advertisement and selling activity, brand building, financial infrastructure, diversification, pricing etc., also influence competition. The findings of the study can be used by policy makers for competition and market power analysis for decision making. This study can also help banks in their strategic decision making and competition analysis.

**Keywords:** Competition Assessment, Indian Banking Sector, Market Power, Panel Data Analysis, Implications.