



**Article : CHALLENGES OF GLOBALIZATION IN INDIAN BANKING  
SECTOR : Banking**

**Author : M.SENTHIL MATHI [ DG VAISHNAV COLLEGE ]**

**Introduction:**

The global challenges which banks face are not confined only to the global banks. These aspects are also highly relevant for banks, which are part of a globalized banking system. Further, overcoming these challenges by the other banks is expected to not only stand them in good stead during difficult times but also augurs well for the banking system to which they belong and will also equip them to launch themselves as a global bank.

**INDIAN BANKING AFTER GLOBALIZATION :**

When one looks at the reforms in the banking sector since 1991, it may appear that we have come a long way. With the banks in the system competition has indeed intensified. Prudential regulation is in place. There has been deregulation of interest rates which has given banks power over pricing of their products. These are the major changes which have taken place already. And yet the banking sector in the medium term is expected to see even more fundamental changes. The first relates to ownership. Public sector banks are to remain as public sector banks. In respect of private sector banks, RBI has declared a road map for reforms in their ownership. The road map has opened up possibilities of organic as well as inorganic growth of foreign banks operating in India. After globalization there are many changes in Indian Banking system such as:-

**MERGER OF NATIONALISED BANKS :**

Since 1991-92 with the onset of liberalization and deregulation process the banking sector in India is undergoing a sea change. A gradual shift has taken place from the regulated environment to market driven competitive system. With the opening up of financial service under WTO, the process of globalization would gain momentum. In the banking system all over the world forthcoming changes are associated with,

- \* Consolidation of player through mergers and acquisitions.
- \* Globalization of operations.
- \* Development of new technology.

The high level committee constituted by IBA in its report on banking “Banking Industry vision 2010 has made the following observations. “Mergers and acquisitions would gather momentum as management will strive to meet the expectations of stock holders. This could see the emergence of 4-5 world class Indian Banks. A banks see niche areas, we could see emergence national banks 100% global scale and a number of regional players.”

Mergers among banks in India are going to be a natural phenomenon in the year to come. The process of merger and acquisition is not a new happening in case of Indian Banking. Grind lays bank merged with standard chartered bank, Times Bank with HDFC Bank, Bank of Madura with ICICI Bank, Nedungadi Bank Ltd., with Punjab National Bank and most recently global trust Bank merged with oriental bank of commerce.

#### **Mergers of Banks since – 1991**

<b>Sr.No.</b>	<b>Merged with</b>		<b>Year</b>
1.	Sikkim Bank Ltd.,	Union Bank of India	1999
2.	Times Bank Ltd.	HDFC Bank	2000
3.	Bank of Madurai	ICICI Bank	2001
4.	ICICI	ICICI Bank	2002
5.	Banaras State Bank	Bank of Baroda	2002

Source : Indian Banks Association.

After merger, being big in size will help Indian Banks to venture in hitherto un know areas even at the cost of viability as these banks would have long term sustainability to be able to cross subsidize. In addition, it will help them to exploit vast untapped potential in the country where 60% house holds still did not have access to banking services.

#### **AN INTEGRATED APPROACH TO FINANCIAL PLANNING :**

Bank intermediation in India is much lower than in most of south east Asia. Further given the changing profiles both in terms of age profile and increasing affluence, customers increasingly demand enhanced service levels and multiple

products from banks. Today customers seek flexible and convenient and convenient distribution channels available at all times and places. They prefer banks which offer doorstep holistic banking service to enable them to meet all their financial needs under a single umbrella-be it traditional banking, insurance, mutual fund investments or credit cards. In short, today bank customers are buyers of total financial solutions. The financial system of the future would, therefore entail large size banking malls as banks convert themselves into super shops offering a wide range of financial products and other value added technology driven services. The new growth paradigms would focus on the retail segments. India has already witnessed a market shift towards retail banking since the mid nineties. Areas like mortgage products credit cards, utility services etc. are still offering vast potential waiting to be tapped.

### **MULTIPLE DELIVERY ACCESS :**

Financial services delivery has undergone rapid changes in the last two years. A particular faced of change has been the increasing usage of a banking model as against the 'Face to Face' branch banking. New Delivery channels are being developed in view of the changing customer profile. The younger generation have been introduced to computers at a very early age. This is the generation of future bank customers and they are driving the technological innovation in banks. Banks are now reengineering their services for optimal benefit to their customers. State of the art technology offers ATM's credit cards, debit cards, phone banking, internet banking etc., The ATM network for instance has changed the front offices of bank branches and given customers 24 hour access to their accounts anytime anywhere. Core banking solutions with capability for online, real time transaction processing are now being adopted by the public sector banks, an advantage earlier enjoyed only by newer private and foreign banks A number of bank have set up banking portals allowing their customers to access facilities like obtaining information, querying on their accounts etc. Multi channel banking over the telephone, internet, ATM or branch-infact provides a means for one bank to differentiate its service from another automated teller machines were only the first step in creating a 24 x 7 anywhere, branch free banking future.

It is technology that is enabling banks to provide these flexible distribution channels. Such technological innovations have resulted in a win-win situation for both the customers, who are getting quality customer service and saving on their precious time and bank with reduced transaction costs. Internet has become and increasingly powerful tool for banks to serve existing customers and access new

customers. Greater choice of services and increased information is encouraging customers to change their banks more frequently. The growth of internet base e-finance is a strong trend in India which is expected to continue in the next few years.

### **FOCUS OF EFFICIENCY OF OPERATION :**

Today, banks are no more competing locally, but in the global market place. The banking industry here has been a industry in transaction adapting to this new environment. Increased competitive pressures have forced managements to control and decrease assets through the use of ever expanding new technology. If E-Banking is introduced with corresponding changes in the process, there will neither be a reduction in time and costs nor improvement in the quality of services. This need for change is also being addressed. Process reengineering is being introduced to enhance the speed and efficiency of delivery of liability products and service, improve the quality of appraisal and sanction, reduce the turnaround time for sanction of loan and enable pooling of skills. This will create database marketing capabilities strengthening the banks ability to acquire new customers, build lasting relationship with existing customers and increase customer satisfaction.

### **CUSTOMIZATION OF PRODUCTS :**

In a business where products are increasingly being customized value addition and service quality is what will differentiate bank from their competitors. Over the last decade, competitors has thus dictated the growth strategies of banks. Induction of technology and introduction of new products like derivatives securitization etc have increased the depth of mark with varied financial products tailor-made to meet the specific needs of customers both in the retail as well as in the corporate segments. Price competitiveness and efficiency in delivery channel will dictate choices.

### **RURAL FORAY :**

The technology advantages enjoyed by private banks in the 90's have been more or less neutralized and service network in the future growth regions in India will emerge as the key differentiator. More than 58% of the country's population depends on agriculture and over 70% of the population is employed in rural India. The rural economy is undergoing vast changes in the form of increasing incomes

and greater integration between rural and urban arrears, leading to increasing consumerism. The challenge to capture the rural markets and develop them into profit centres. Bank have began to leverage their strong network in rural areas with customized products offering to suit the rural lifestyles and expectations. Going forward, banks will realize future income streams increasingly from their rural operations.

### **INTERNATIONALIZATION OF OPERATIONS :**

With corporate scaling up their operations and embarking on an overseas acquisition spree, opportunities for banks are also on the rise those have increased with the removal of restrictions of regulators for financing of such overseas buy – outs. As more Indian corporate spread their wings and foreign investment grows, the year a head could will see Indian banks following suit overseas. A large overseas network could provide the necessary support with the inherent advantage to the banks in raising foreign fund and simultaneously financing the corporate on both legs i.e. Indian and cross border.

Finally, in the ‘flattened’ world we have moved into a market driven competitive system. The dynamics of diverse markets and consumer preference are now dictating the new drivers of growth in the banking Industry. However, any new frontiers, new dimension, new value; Propositions and new strategies can be driven only by strengthening the learning curve. As Indian banks move to advanced technology platforms. Knowledge management is essential to cater to customer preferences, improve employee skills and change mindsets. Effective management of the human resources capital will then determine whether Indian banks can keep pace with technological innovations and meet the challenges of globalization. They need to break out of the old moulds and reshape new ones.

### **UNIVERSAL BANKING :**

There is a move towards universal banking because of the drastic changes in the political and technological environment in recent years.

Universal banking refers to the entention of financial services by banks and non banking financial institution, so as to cover and provide the entire range of financial services by a single institution.

Traditionally the banking services were limited to the mobilization of deposits from the public and disbursal of loans the non banking financial institutions including the development financial institutions differ from the commercial banks

in their scope for deposit mobilization and lending. In the last few years the development financial institutions are showing inclination towards retail banking and the commercial banks are showing inclination towards investment banking. The transition from investment banking to retail banking and vice versa by the development financial institutions and the commercial banks are supposed to secure the following benefits.

\* Higher operating efficiency.

\* Better deposit mobilization

\* Better portfolio and asset management and provision of complete range of financial service and the value added services to the customers.

Universal banking is increasingly being accepted by many countries in the world. Even countries like U.K. and U.S.A., which are traditionally opposed to the concept of universal banking are now giving a serious thought to it. In India. It has assumed significance in the last few years. The two major groups of institutions, which are involved in the financing of industrial and economic development in India, are commercial banks (CBs) and the development financial institutions (DFIs). The commercial bank and DFIs have their own reasons for charting the path of universal banking.

### **INTERNET BANKING :**

Internet banking involves use of internet as a medium of communication for accessing and utilizing host of banking and financial service. The customer's demand for personalized service and the concept of "Anywhere and Anytime banking" has made "Internet Banking" as one of the primary delivery channel available to present day customers.

As a business tool, internet banking has not only transformed the 'way' of banking but also is rapidly transforming the banking and financial world. It has made bank more efficient and fast in providing personalized services to the end users i.e. the customer. Internet banking but also all the aspects of the finance and commerce. Internet banking has predominantly become a mode of e-banking in which the internet offering itself as a new delivery mechanism for the bank in reaching the customer. With the advent of internet banking, there is a perceptible shift in the customer preferences for delivery channel. According to a study in USA by the Pew Internet & American life projects, about 44 percent of the U.S. Internet suffers – i.e. 53 million people use online banking.

New generation private sector banks namely ICICI Bank, HDFC Bank etc. were pioneers in introducing Internet banking in India. They had the advantage of

technology platform and did not have legacy systems. However with the technology transformation of Public sector banks in the recent years, many banks have start offering the internet banking facility to their customers.

The number of banks offering internet banking in India, has increased exponentially during the last three years. Advancement in technology used by banks, especially centralized core banking solution, and the growth of internet usage is propelling the growth of Internet banking. This is supplemented by the wide range of services possible through internet banking, any where-anytime at the click of the mouse at customer's convenience. Besides, providing the routine banking services, Internet banking has enhanced capabilities like providing on line utility bill presentment and payment systems, online share trading, demat and broking services, online purchase and action fund management and payment gateways.

#### **CHALLENGES FACED IN INDIA :**

- \* A majority of customers are not computer savvy
- \* Availability of Internet bandwidth and connectivity is not uniform.
- \* Not availability of safe computing facilities across country.
- \* Banks are not networked and many of the banks still have legacy systems, where providing Internet banking solutions is not cost effective and efficient.
- \* Customer confidence in Internet banking needs to be built.
- \* The initial cost of implementation being high, benefits can be visible only when we have a critical customer base and volume of transactions. Cost of transaction will reduce only when customers shift to alternate delivery channel from the branch banking. The cost savings in the branch banking front will be redeployment of resources.
- \* Ensuring security including privacy and confidentiality of customer information is a challenge.

With consolidation of banks and technology upgradation of the banking platform, Internet banking is bound to grow leaps and bounds and will emerge as the most popular banking delivery channels, within the next few years. With greater emphasis been laid on e-governance, Internet banking channel will be key facilitator with about 40-50% of the total banking and financial transactions to be done through Internet.

#### **CONCLUSION :**

From the above discussion we can conclude that our banks have done a great job in extending banking service after globalization. They have built a pan Indian branch network. 14 years after reforms started with a bank, some sectors have responded admirably. Among these is financial sector, especially banking. As reforms took deep root in the banking sector, the mindsets that were cultivated after Independence also changed. The new challenges that we have overcome Shakespeare said, "Ignorance is a curse of God; Knowledge is the wing where with we fly to heaven."