

Indian Banking Sector In The Global Scenario

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INTRODUCTION:

Banking services that started in Europe in the 12th century evolved from the need of safeguarding the money of travelers who roam across the continent. Present day banking system is much more complex and requires huge investments and a plethora of legal compliances & permissions to start banking business. These services reflect the current changes in the demographics and they change with the changing demography. For instance, banking industry witnessed a surge in growth as employment levels increased in the post-liberalization era leading to increased disposable incomes. India, the fourth largest economy in the world according to purchasing power parity, presents lucrative and diverse opportunities for western companies with the right products, services, and commitment.

In recent years, there has been a considerable widening and deepening of the Indian financial system, of which banking is a significant component. With greater liberalization, the financial system has come to play a much larger role in the allocation of resources than in the past and its role in future can be expected to be much larger than at present. The growing role of the financial sector in the allocation of resources has significant potential advantages for the efficiency with which our economy functions. Consequently, the adverse consequences of malfunction of the financial system are likely to be more severe than they used to be in the past. Hence, all our efforts today are focused at ensuring greater financial stability. Given the significance of the Indian banking system, one cannot afford to underplay the importance of a strong and resilient banking system.

STATEMENT OF THE PROBLEM

The dynamic changes in banking services have led to attract the customers by adopting new techniques in marketing of their services. The changing scenario is inevitable in the banking sector due to globalization and liberalization. Indian Banking industries have started opening their branches in the overseas and on the contrary foreign and new private sector banks were allowed to start their banking services in the domestic market. The study is mostly focused on banking industries contribution to national and international gross domestic product. The study also highlights the role of Indian Banking Sector vis-a-vis to worldwide market of banking industry.

OBJECTIVES OF THE STUDY:

- To study the contribution of services industries to Global GDP.
- To understand the number of bank branches has grown in the recent years.
- To know the Indian's Banking Sector role in economic growth and employment.
- To study the Bank Branches opened by Indian Banks in the Overseas.
- To know the performance of Indian Banking Vs peer Countries Banks in the global.

HYPOTHESIS TESTED:

"Indian Banks performance is better than their peer countries banks in the worldwide."

RESEARCH METHODOLOGY:

The study is based on secondary data. Since the study is a descriptive and exploratory, the data were gathered from various sources like books, annual report of RBI, journals, newspapers and dissertations and various websites.

OBSERVATIONS FROM THE STUDY:

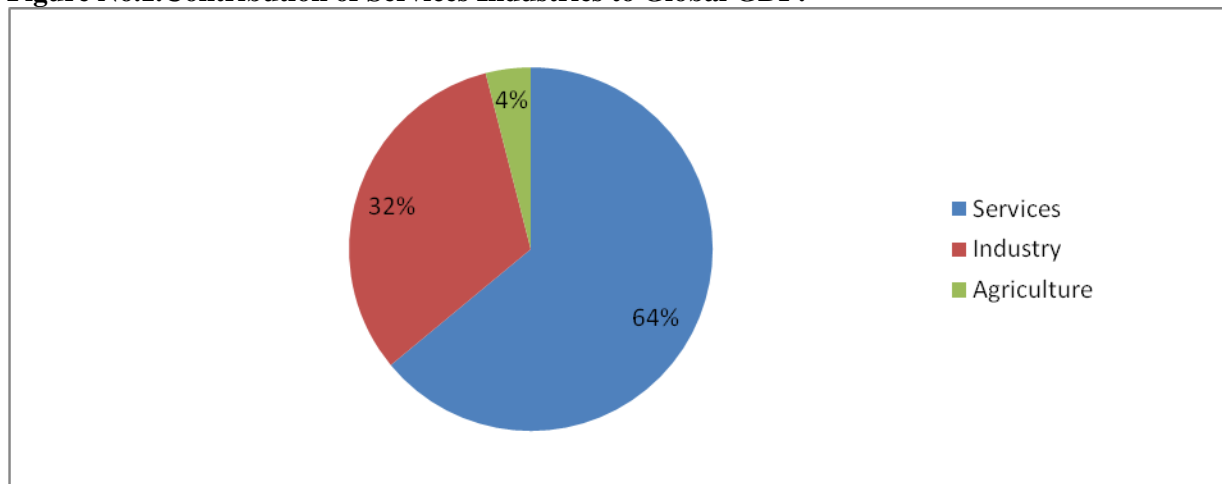
The economic and social development vision articulated in the Independence Day (15th August, 2014) address is a far reaching national aspiration that sets a renewed tone for growth and upliftment of the economy. As a proactive strategic financial intermediary, banks should be able to grasp the business

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opportunities inherent in the new development vision spelt out. The following are the findings from the study.

Figure No.1. Contribution of Services Industries to Global GDP:



Source: <http://www.slideshare.net/iimjobs/india-banking-sector-report-april-2014>

The above figure depicts that 64 percent of the total Global GDP is derived from services sector across the world. The industrial sector contribute 32 percent and agriculture sector with 4 percent around the world for the global domestic product. It shows that services sector has the potential to not only grow but also to dominate in the world economic contribution in the recent years. Services become essential for all types of commercial activities in the globalised world. This has witnessed the reason that services sector growth is increasing year by year.

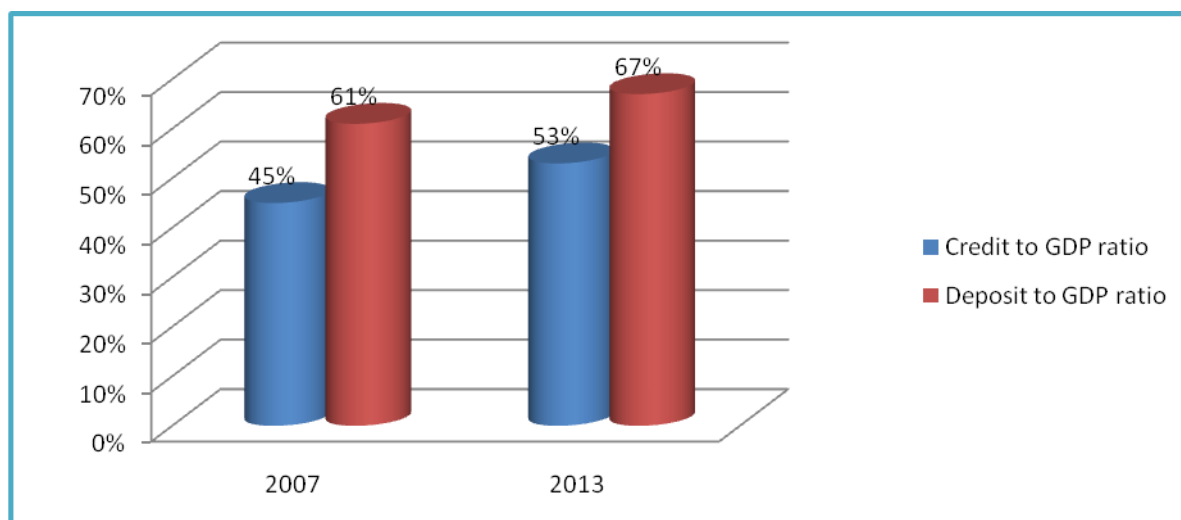
It's a world where convenience and customization are the norm, and customers come first. It's about preference and presence and knowing what your customers want, and knowing exactly when and where to offer it to them. And in today's world, customers are loyal to experiences...not companies.

The key challenges you face in the financial sector are how to combine all your channels in the most effective, and efficient way, while ensuring that you provide your customers with a personalized and interactive experience that engages them in more relevant and convenient ways.

Indian Banking Contribution towards Economic Growth and Employment:

Indian banking industry has created a huge volume of trade and employment opportunities to not only our Indian citizens and also to others from various countries too. The contribution of Indian banking industry with regard to GDP and creation of employment opportunities have been explained below:

Figure No.2. Contribution to GDP:



Source: Reserve Bank of India (RBI) National Skill Development Corporation (NSDC)

The banking contribution to the overall development of Indian economy is clearly explained as above. Aggregate deposits of all scheduled commercial banks (SCBs), as a percentage of GDP increased from 61percent FY07 to 67percent in FY13, driven by increasing demand from retail customers. With regards to the credit to GDP is concerned, it has increased from 45 percent in FY07 to 53 percent in FY13 indicating the improved lending of SCBs to various industries which has enhanced trade and economic development.

Table No.1. Contribution to Employment (in 000s):

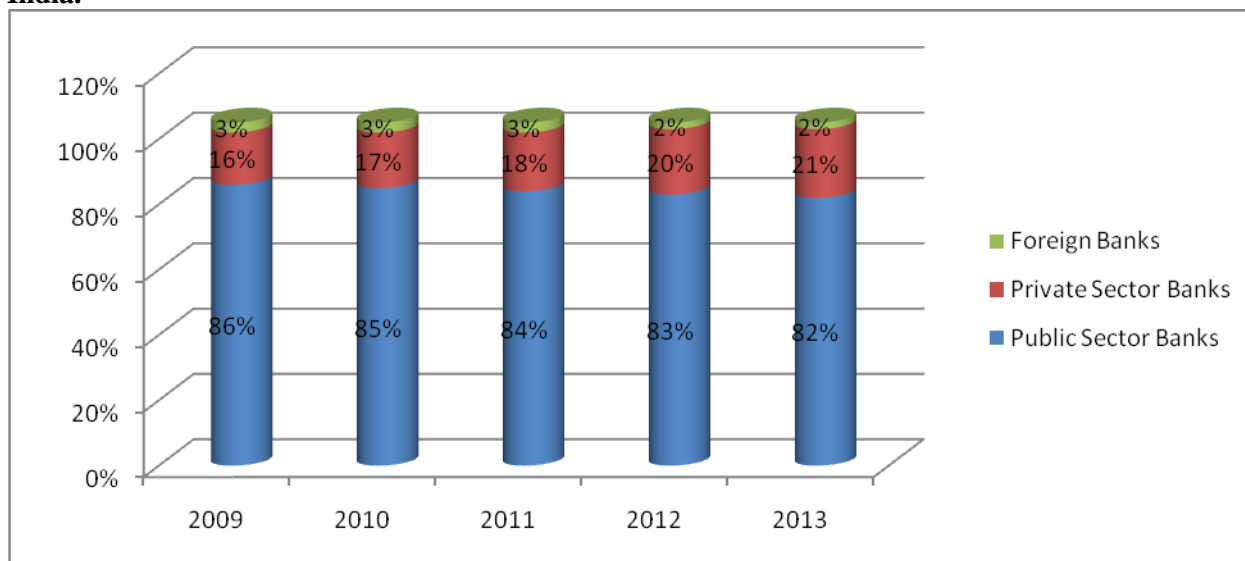
Industry Segments	Total Employment FY13(in'000s)	% of Total
Banking	1,100-1200	25-30%
Insurance	200-300	4-5%
NBFC	25-30	0-1%
Mutual Funds	15-20	0-1%
Financial Intermediates	2,500-3,000	65-70%

Source: Reserve Bank of India (RBI) National Skill Development Corporation (NSDC)

The above table illustrates the employment have been created by various service industries in India. Indian Banking Industry and its allied financial intermediates have created large junk of employment opportunities in India over the years. Within the banking, financial services and insurance sector, financial intermediates (65% - 70%) such as DSA's, insurance agents, mutual fund advisors, etc, account for the largest share of creation of employment over the years. As far as banking alone concerned, it stands second in terms of employment. The banking sector is projected to create up to 2 million new jobs in the next 5-10 years. Again, over the period of time, insurance sector too have good opportunity to create large amount of employment in the coming years.

As per the figure no.3, the Indian banking system has been continuously expanding with the number of branches over the years. In the year 2009, the number of bank branches was 68,000, in the year 2010 it was 73,000 branches and in the year 2011 it was 78,000 branches, in the year 2012 it was 85,000 branches and in the year 2013 it was 92,000 branches. Over the years the number of SCB branches increasing at a CAGR of 7.8% during FY09 to FY13. The private sector banks have been expanding at a faster rate (7.1%CAGR in number if branches) compared to public sector banks (-1.1%) and foreign banks (-10%).

Figure No.3.Number of Bank Branches in the recent years in India.



Source: RBI Report 2014 (<http://www.slideshare.net/iimjobs/india-banking-sector-report-april-2014>)

Over the years the number of SCB branches increasing at a CAGR of 7.8% during FY09 to FY13. The private sector banks have been expanding at a faster rate (7.1% CAGR in number of branches) compared to public sector banks (-1.1%) and foreign banks (-10%).

Of the total number of new branches opened in FY13, 24% were opened in unbanked centers. The proportion of branches opened in unbanked centers has witnessed a consistent increase in recent years driven by aggressive rural expansion by private sector banks.

Forces Transforming the Service Economy in India:

There are many forces which have the potential to transform the service industry in India. The major forces are:

Government Policies: Central and State Government policies bound to change as per the political climate. If the political climate is favorable to any industry, it has the full length and breadth to increase its operations at wide range around the global.

Social Changes: Customer behavior pattern is purely depends on their income level and their social status. Social changes are due to change in the environment like change in new product and its delivery mechanism and so on. Especially, in service sector the first person (pioneer) who has the maximum chances to grab the opportunity into demand for his new product.

Business Trends: Due to new markets, product categories and ever increasing demand for services and more intense competition led to change the delivery mechanism of service industry. Business people started giving emphasis on productivity and cost saving, value through services and sell services, focus on quality and customer satisfaction and growth of franchising are the witness for the business trends in India.

Advances in Information Technology: Innovation in service products and delivery systems, stimulated by better technology. New technology has the potential to solve the entire problem of banking industry. Growth of internet, greater bandwidth, compact mobile equipment, wireless networking and digitization are the elements of information technology. Customers have more choices and exercise more power to get the service on time.

Globalization: Liberalization, privatization and globalization has created the value to the customers worldwide. Customers have become valued by the marketers due to their advance knowledge in all service sectors.

Table No.1. Offices of Indian Commercial Banks outside India - 2011 to 2013

Sr. No.	Name of the Country	As on March 31		
		2011	2012	2013
		(1)	(2)	(3)
1	Afghanistan	1	1	1
2	Australia	1	1	2
3	Bahamas Island (Nassau)	2	2	2
4	Bahrain	5	7	6
5	Bangladesh	5	6	6
6	Belgium	3	3	3
7	Cambodia	1	1	1
8	Cayman Islands	1	1	1
9	Channel Islands	1	1	1
10	China	4	4	5
11	Fiji Islands	9	9	9
12	France	2	2	2
13	Germany	1	1	1
14	Hong kong	18	18	19
15	Israel	1	1	1
16	Japan	4	4	4
17	Kenya	4	4	4
18	Maldives Islands	2	2	2
19	Mauritius	8	8	9
20	Qatar	1	2	2
21	Saudi Arabia	-	1	1
22	Seychelles	1	1	1
23	Singapore	16	17	17
24	South Africa	3	4	4
25	South Korea	1	1	1
26	Sri Lanka	8	9	9
27	Sultanate of Oman	4	4	5
28	Thailand	1	1	1
29	United Arab Emirates	11	11	13
30	United Kingdom	28	30	30
31	United States of America	8	8	8
	Total	155	165	171
Source: Department of Banking Operations and Development, RBI.				

The above table reveals the total bank branches opened by the Indian Banks at various places in the worldwide. Among the above countries, it is clear from the data that Indian Banks have opened maximum

branches in United Kingdom (30). Similarly, Hongkong has 19 branches, Singapore has 17 branches and United Arab Emirates has 13 branches in the worldwide.

Indian Banking Vs Peer Countries Banks at Global.

Banking industries have adopting various tools and techniques to perform well in the global level. Banking sector from different countries have different environment all over the world. The performance of banks from developed countries has shown good position in the worldwide market and the developed economy has always rising in the same direction in the worldwide.

Table.No.2.Indian Banking Vs Peer Countries Banks (2013)

Countries	Regulatory CRAR	Bank Capital to Assets	Bank NPL to Total Loans	ROA	ROE
Australia	11.6	5.6	1.4	1.2	20.2
France	15.2	5.4	4.3	0.5	9.4
Italy	13.8	5.5	15.1	0	0.7
Singapore	16.4	8.2	0.9	1.2	15.3
UK	16.4	5	3.7	0.3	5.8
US	14.4	11.8	2.6	1.6	11.6
Russia	13.5	11.5	6	1.9	14
China	12.2	6.7	1	1.3	19.2
India	12.6	6.9	3.8	0.8	11.1
Malaysia	14.7	9.3	2	1.5	15.6
Brazil	16.1	9.3	2.9	1.4	14

Source: Financial Soundness Indicators (FSI) IMF, Mckensy & Company

The above table exhibits various countries' banks performance in terms of their tools and techniques adopted by them. As far as regulatory is concerned, almost all the banks from worldwide show almost similar to others in case of their performance. In terms of bank capital to assets is concerned, UK and USs performance is very good position as compared to their counterpart in the worldwide. In case of bank NPL to total loans is concerned, Singapore and China has the good position compared to others. As far as ROA is concerned, Russia, US and Malaysia are in a standard position. In case of ROE is concerned, China and Singapore has outstanding position in the worldwide.

India ranks low with respect to non-performing loans and ROA while performing moderately in other parameters (ROE, CRAR, Capital/Assets).

Testing of Hypothesis:

“Indian Banks performance is better than their peer countries banks in the worldwide.”

According to the available data and information, it is been proved that Indian banks performance is not better (Regulatory CRAR, Bank Capital to Assets, Bank NPL to Total Loans, ROA and ROE) as compared to their peer countries banks across the world. Hence, the hypothesis is rejected.

CHALLENGES AND OPPORTUNITIES:

Changing consumer demographics and lifestyles are filled with innumerable opportunities for entrepreneurs to devise new and innovative business models around the consumer needs. Emerging segments within the consumer services industry like e-commerce, re-commerce and repair services prove to be investor-friendly with lower risk levels and lesser legal compliance. The following challenges are to be tackled by the banking industry in the worldwide market are:

1. Ever changing taste of customers on banking services regarding various products.
2. Maintaining quality in delivering services is always challengeable.
3. Vibrant change in information technology.
4. Multi- skills talent is the need of the hour.
5. Reach the unreached people (customer) through financial inclusion.

However, entrepreneurs need to develop their own strategies and innovative methods to scale up their businesses and succeed in these emerging markets. In order to overcome the challenges, banks to step up capacity building in terms of:

1. Innovation in product profile combined with improved processes in delivery of banking services to customers;
2. Business reengineering to improve the quality in services to customers worldwide.
3. Up-gradation of IT capability, creation of hardware capacity to handle the increase in business levels;
4. Sharpening skill sets of human resources to better collaborate with vendors, government and other stake holders;
5. Dissemination of financial and technology literacy to ensure that financial inclusion services are availed by the customers; and
6. Persuading customers to use technology led alternative delivery channels.

CONCLUSION:

Banks should be able to identify their core competence and take those initial quick steps to deliver better value to stay ahead in the worldwide market. In spite of adopting the various updated technology in delivering banking services to customers, still major portion of the people in the world are to be covered under the manifold of financial stream.

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