

# IMPACT OF GLOBALIZATION ON BANKING SECTOR

Sangeetha.D

Assistant Professor

KG College of Arts and Science

## **ABSTRACT**

There are three distinct spells of development of banking industry in post independent India, the pre-nationalisation era from 1947 to 1969, the post-nationalisation cum pre-liberalisation era from 1969 to 1991 and the neo-liberalisation era from 1991 onwards. The first phase was mostly city-centric private Banking marked by frequent failures and liquidation of Banks and consequent pauperisation of numerous poor and middle class depositors and loss of jobs for the employees. The post-nationalisation era saw a sea-change in the Banking scenario: financial stability of Public Sector Banks (PSBs) controlling more than 84% of banking business of the country, PSBs commanding trust and confidence of the Banking-public, expansion of Branch net-work of Banks.

### **Impact of Globalization:**

The implications of globalization for a national economy are many. Globalization has intensified interdependence and competition between economies in the world market.

These economic reforms have yielded the following significant benefits: Globalization in India had a favorable impact on the overall growth rate of the economy. This is major improvement given that India's growth rate in the 1970's was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India's average annual growth rate almost doubled in the eighties to 5.9%, it was still lower than the growth rate in China, Korea and Indonesia. The pick up in GDP growth has helped improve India's global position.

### **Introduction:**

The banking sector is one of the most important economic sectors and the most influential and responsive to changes, whether international or domestic. The most important of those changes include technological developments, the internationality of money markets, and freedom from the constraints that hinder all banking activities, the removal of barriers that prevent some financial institutions from working in certain sectors, and the trend to develop and manage the risks of lending in light of the increase in international competition in this sector while seeking to attract foreign capital with the emergence of giant banking entities.

### **Globalization of Indian Banking Sector:**

Globalization refers to widening and Deepings of international flow of trade, capital, labour, technology, information and services. Globalization has led to an overall economic, political and technological integration of the world. In our country, first economic reforms (1991) gave birth to globalization and

second phase of banking sector reforms strengthened the globalization. Various reform measures introduced in India have indeed strengthened the Indian banking system in preparation for the global challenges ahead.

### **The Concept of Banking Globalization and its Economic Effects on the Banking System:**

The concept of banking globalization: The phenomenon of globalization has become one of phenomena that are most associated with economic activity. Globalization is also linked to banking activity as part of economic globalization. Globalization has taken banking dimensions and contents of a new, made the banks tend to the fields and activities unprecedented, and led to the transition from the attitudes and perceptions of activities and extended range, in order to maximize the opportunities and increased gains, and look to the future.

As the banks and banks manufactured identity and personality through orientation, which charted throughout its history, since its inception, the bank has made globalization futuristic vision of a new dimension to enter the new world of cosmic, a world of enormous economic opportunity.

In light of globalization and the restructuring of the banking services industry trend banks and commercial banks in particular, the shift towards universal banks. Are those banking entities that seek always behind the diversification of sources of funding and employment, and mobilization of the greatest possible savings from all sectors, and employ their resources in more than one activity in several diverse areas. It opens and gives credit to all sectors. As well as working to provide all the miscellaneous services and renewable which may not based on the balance of knowledge. In light of globalization become banks innovate and create distinct clients, and provide them with future richer and richer more at the level of banking service. And the future of this innovative technology is owned and used by banks, which are only common denominator in all the work of trying to progress and to the growth and prosperity.

Hence the concept of globalization has been associated with the concept of abundance and availability of the services provided by banks. The accurate view to provide banking services, whether related to deposits, loans, or bonds (as traditional services), or to the contracts of complex derivatives or other innovative advanced services, leads banks to exist effectively in all fields of economic activity. Banking globalization never means abandoning what exists and is directed towards the national domestic market, but it means gaining new momentum, and moving to provide banking services from the inside to outside, keeping the national position more effective and more capable and active to ensure banking extension and expansion.

### **Economic Effects of Globalization on the Banking System:**

Many changes and developments, studies and events and repercussions of globalization indicate that it has a large-scale impact on the banking system in any country in the world. It must be noted that the economic effects of globalization on the banking system may be positive or negative; the task of those in charge of the management of the banking system is to maximize the positive effects and minimize the negative ones.

### **Restructuring the banking service industry:**

A significant change occurred in the work of banks and the size and scope of their banking services whether at the local or international level expanded. All banks are going to perform banking and financial services that they have not provided before. This is clearly reflected in the structure of bank budgets. On the other

hand, declined relative share of deposits in total liabilities to banks. The liabilities are trading in the share relative to the total liabilities of banks due to the increasing activity of banks in activities other than lending, and led to a decline in the share of loans and increase the relative share of other assets, in particular the issuance of bonds. The effects of globalization on the banking system did not stand on the restructuring of the banking services industry, has been extended in an indirect entry to non-bank financial institutions such as insurance companies and pension funds, a strong rival of the commercial banks in the area of financial services, which led to the retreat of the role of commercial banks especially in the field of financial intermediation.

Diversification of banking activity and the tendency towards dealing in financial derivatives: This includes the diversification of banking services at the level of funding sources, the issuance of marketable deposit certificates and long-term loans from outside the banking system and at the level of expenditure and banking investments, and then the diversification of loans granted and the establishment of banking and securitizing holding companies. In other words, this means transferring banking debts to contributions in the form of securities and engaging in new investment areas such as attribution and performance of investment banking and the financing of the privatization at the income level to engage in non-banking areas, then the tendency towards leasing and trafficking in currency and deepening the activity of issuing securities, the establishment of investment funds, and insurance activity through sister insurance companies involved in holding companies management of investments for the benefit of customers.

### **Competition within the framework of the Banking Services:**

**First trend:** Competition among commercial banks whether in the local banking market, or the global market.

**Second trend:** Competition between banks and other financial institutions.

**Third trend:** Competition among banks and other non-financial institutions to provide banking services.

These trends led to the intensification of competition in the banking market in light of the removal of geographic barriers to meet the needs of clients so that financial institutions other than banks may enter the banking market, particularly financial services markets. Competition is expected to continue with the entry of insurance companies, securities firms, financial institutions and financial intermediation institutions in the light of the increasing desire to provide financial services related to banking activity.

### **Importance and characteristics of modern banking services:**

Banking services represent one of the important activities in any country. If we look at the banking services as an economic activity, we find that it has a number of characteristics, the most important of which are the following.

### **The Concept of Banking Mergers:**

One of the economic impacts of globalization is what happened in the present time of the wave & Majat bank between big banks and small banks and large and each other. The process of integration of numerous banking and speed become a global phenomenon affected by all the banks in the world. Mergers and

banking in general is the Union Bank in more than one bank or melting bankers or more entities into one entity, and the most important of many mergers motives to achieve economies of scale and defended expansion and improve profitability in the context of Liberation of banking services.

The banking mergers is the process whereby financial cornering bank or more by other banking institution where the bank abandon integrated usually give up on the smaller bank license and take a new name on behalf of the institution Aldamjh as add-nuclear assets and liabilities of the bank integrated to the assets and liabilities of the merger bank.

**Global Changes:** Global changes occurred successively in the form of shocks that had a significant impact on banks and other institutions. Among the most important of these changes are the electronics revolution, and economic blocs, and the emergence of the new world order, and control of the market economy, the information revolution, and the Liberation of world trade, and increased competition, and the spread of the phenomenon of privatization, mergers between banks and the Basel agreement issued in 1988 on the banks.

**Competition and the Global Market:** Global changes forced banks and other institutions to compete with one another. At the same time, large blocks appeared to expand the scope of the market before and reduce cost and maximize profit through service, speed, innovation and meet the needs of the consumer.

**Change of banking and credit policies:** The developments undergone by the Indian economy affected the course of the banking sector, and as a result considerations required by economic liberation emerged, according to which it was seen banks have the right to determine debit and credit interest rate and the need arose to increase credit to finance private investment. Banks had to go to areas they were allowed to go before when they were forced to exercise the functions of investment banks, and then enter the retail operations to expand the market.

**Meeting global and local challenges:** Through a review of the most important global and local changes and their impact on the banks, we can say that the most important challenges facing the banks are as follows:

**First:** Assessing the risks related to the change of product mix with increased competition.

**Second:** Obtaining the resources needed, especially human resources for the exercise of outstanding jobs and new roles and the requirements of the application of banking legislation.

**Third:** Obtaining better operational results so that profitability may be the basic element for measuring the efficiency of performance.

#### **Globalization – its Challenges for Indian Banks:**

The benefits of globalization have been well documented and are being increasingly recognized, but at the same time it has thrown many challenges for Indian banks. It affects the banking industry in one or more of the following ways:

- Greater and intensive competition
- Focus on efficiency, productivity and cost reduction
- Superior risk management system and practices
- Strengthening service quality, delivery and cross selling of production/services
- Product innovation as an integral part of the retail banking revolution

- Upgradation of technical infrastructure
- Competency building and investment in human capital as a catalyst for transformation
- Consolidation within the financial system
- Opportunity to increase size and scale to gain dominance in the local market and penetrate into the global markets
- Transparency, disclosure and market discipline

It is, therefore, imperative for Indian banks to address all the above issues, if they aspire to play a role in the global area.

### **Globalization and Future Opportunities for Indian Banks:**

Globalization will gain greater speed in the coming years with the opening up of the financial sectors under WTO regime.

#### **Consolidation of Banks:**

Consolidation is a crucial preparatory step to be undertaken by banking sector in India.

- ⌚ Weak banks need to exit and one of the options will be to merge with a stronger bank. Mergers amongst public sector banks are politically very sensitive; therefore the government has a big role in establishing the framework, which will include flexible labour laws.
- ⌚ Increased revenue, size and scale
- ⌚ Increased productivity by reducing ‘transaction cost’
- ⌚ Benefits to stakeholders through lesser intermediation cost
- ⌚ Increased ability to meet competition from global banks
- ⌚ Easy mobilizing resources from the market

**Asset Quality:** Indian banks should concentrate on asset quality and earnings there from.

**Global Players and Customer's Satisfaction:** In the emerging scenario, with more and more global players operating in India, there has been an urgent need to serve the customers promptly and efficiently.

**Competitiveness in Banks:** Domestic banks should begin to make themselves as competitive as possible. They should also increase their productivity and profitability because at the present day context, size is no longer a key indicator in the banking industry.

**E-Delivery Channels:** The Indian banks particularly public sector banks should create awareness among the masses about all the e-delivery channels with demo for how to operate and use. They should provide efficient services through e-delivery channels.

**Autonomy in HRM:** Autonomy in HRM areas such as deciding categorization of branches, vacancy, placements should be given to banks.

**Efficient Capital Markets:** An efficient capital market should be developed to channelise private savings into infrastructure financing.

**Privatization of Public Sector Banks:** Productivity, profitability and efficiency is quite higher in partially privatized public sector banks. The government should continue the process to make the Indian banks competitive at the global level.

**Resources Optimization:** Asset optimization, which include unlocking money from real estate investment to strengthening capital, human resources optimization and value sourcing with the focus on risk and associated benefits besides cost arbitrage.

### **Conclusion:**

Globalization in its purest form is a global village with no boundaries. The size of the market is the entire world. Indian banks have negligible presence in the global market. But foreign countries are penetrating in our country a big way, their investments are increasing and they are capturing Indian market fastly in urban and metropolitan cities. Globalization is both a challenge and an opportunity for Indian banks to gain strength in the global market. As the legal and state environment is increasingly becoming conducive what is needed is a mindset to look beyond the horizons. Indian banks today have everything, they need to do only one thing – dream big. The world will then follow them.

### **Future Developments:**

The government and other various research organizations should make comprehensive research in the following areas to get the fruits of the globalization:

- ✓ Indian banks and portfolio investments
- ✓ Profitable segments in foreign countries for investments
- ✓ Possibilities of merger and acquisition of Indian banks
- ✓ Perceptions and expectations about Indian financial products in foreign countries.

