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INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 3 | Issue 3

2020

The Effect of Globalization on Banking Operation in India

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ABSTRACT

The concept of globalization is based on the hypothesis that the entire globe is a single unit which takes decisions as one, and there is little to no role of States in the decision making process. From an economic point of view, this hypothesis leads to the conclusion that national economies open up to the world, leading to a free movement of goods, services and capital. A socialist result of this hypothesis would be that there is increased interaction and integration among national systems leading to increased social and cultural changes[2]. From this point of view, globalisation looks like a harmless and rather positive process. However, there is another view which should be looked at. From this other point of view, globalisation is a push towards a global economic system by the supranational corporate trade and banking institutions so that they can avoid the accountability that arises due to democratic processes in nations. Whatever be the point of view, the result is the same- change.

Keywords: *Globalization, Banking Operations, Economy, Financial Reform, Banking Institutions.*

I. INTRODUCTION

Globalisation began in the middle and late 1900s and since then has led to major overhauls in the concepts of nations, societies and families. This era saw major financial reforms, evolution of communication technologies, and the advent of the internet. These reforms along with privatisation and liberalisation totally reformed the banking sector of the world, which is one of the most important sectors for the economic life of a nation. Although banks create no new wealth, by facilitating borrowing and lending, they drive the production and distribution processes of an economy. They further mobilize savings which in turn leads to increased investments. Thus, a sound banking system is the backbone of a sound economy.

With the advent of globalisation, foreign and private banks started developing technology

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[2]E. EZIKE, INTERNATIONAL BUSINESS FINANCE AND MANAGEMENT 197 (Concept Publications Limited, 2009).

based services, which forced Indian banks to follow their lead due to the threat of losing their customer base. Though the Indian banking sector was strong even prior to India's independence in 1947, the development picked a momentum in the 1990s when the first banking sector reforms were put in place. These reforms increased the productivity, profitability and efficiency of banks. The Indian banking sector was further supported in this transition by the Indian software industry. Soon new products and services started emerging in the Indian banking sector, and this development was further boosted by the Rangarajan Committee Report which decided to computerise the Indian banking branches in a limited manner.[3] The motive behind this decision was not only to increase the competitiveness of the Indian banking sector, but also to make supervision of the sector's capabilities easier. Thus, within a few years India became a superpower in Information Technology (IT). Against this background, the aim of this essay is to study the impact of globalisation in India. Part I studies the global banking trends amidst globalisation and discusses the benefits and challenges that accrued from globalisation of the banking sector. Part II discusses the development of the Indian banking industry from the 1990s to the present and concludes with a discussion on the way ahead.

II. GLOBAL TRENDS OF BANKING OPERATION AMIDST GLOBALISATION

The globalisation process which began in the 1970s and gained a momentum in the 1990s was considerably significant for the world economy. For global sustainable development, no nation could function on its own. Global integration was the necessity, and competition intensified over time. Banks needed to increasingly focus on international standards like the Basel norms, and the development of customer relations and retail banking to be able to survive this competition and attract customers.[4]However, globalisation reduced the scope for any surprises and made the present and future challenges to the banking sector very apparent.[5]Taking advantage of this transparency, the banking industry around the globe witnessed various trends over the years and continued to transform with the changing markets. The commercial banking sector was transformed by the advent of marketable instruments competing with loans and demand deposits. Due to this competition, the commercial banks entered the investment banking sector, which in itself became another huge transformation for the financial sector as a whole. In the United States, banks began

[3]RupaliSagar, *Impact of Globalisation on Banking Services in India*, MONEY CONTROL, https://www.moneycontrol.com/mccode/news/lp_news_detail.php?autono=2336&classic=true (last accessed April 2, 2020).
[4] K. Saikrishna, *Commercial Banks in India: Challenges Ahead*, Professional Banker (September 2006).
[5]R.K. UPPAL, INDIAN BANKING IN THE GLOBALISED WORLD, 53 (New Century Publications, 2008).

entering pension and insurance services and started to refer to themselves as financial services companies.[6]Thus, globalisation changed the very nature of banking. Today, banking not only means deposits and lending, but includes a huge variety of other value added services which are being exploited by the sector and the consumers alike.

A simultaneous boom in the technological sector further reformed the global banking industry with banks providing e-banking and e-finance services. An advantage of this boom was the deployment of IT in the banking sector.[7]IT is defined as the modern handling of information by electronic means, which involves its access, storage, processing, transfer and delivery.[8]The banking industry forced the IT sector to develop solutions to new challenges every day, and thus the IT sector became an integral part of the banking industry. New technologies were developed enabling banks to cope with the increasing competition with better risk management practices. Innovations like telebanking and mobile banking transformed the banking sector from branch banking to 'anywhere-anytime' banking.[9]Globalisation also led to development of products which quickly became popular among the corporate sector. Certificates of deposits, commercial papers and non-convertible debentures started being traded in the secondary markets and corporations started to derive huge profits from these trades.

The question that now arises is why was the banking sector globalising at such a fast pace? Why were banks motivated to set up subsidiaries or branches in other countries? Or enter foreign markets through mergers and acquisitions? A study has shown that low income countries were more prone to takeovers of the domestic sector by the foreign banks.[10]There can be two primary reasons behind this- profits and diversification. Market inefficiencies of low income countries and their outmoded bank practices allow foreign banks from efficient markets with advanced technology to reap higher profits from these nations. Further, bigger markets in these countries help foreign banks to diversify to cater to the needs of the varied customers. On the other hand, penetration into advanced economies is not so much since foreign banks face increased competition from the domestic market, not only in banking, but

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[6] E. Elyasiani and S. Mehdian, *The Comparative Efficiency Performance of Small and Large U.S. Commercial Banks in the Pre and Post Deregulation Eras*, 27 APPLIED ECONOMICS 1069, 1078 (1995).
[7]K C Chakrabarty, *New Paradigms in IT Security in Indian Banks* (Inaugural Address at DSCI Conference on Security Framework in Indian Banks, Mumbai, 2010).
[8] Yasser K. Alotaibi and Frank Federico, *The Impact of Health Information Technology on Patient Safety*, 38:12 SAUDI MEDICAL JOURNAL 1173, 1175 (2017).
[9]D.M. Misal, *Globalisation of Banking Sector and Web Banking*, 4:1 INTERNATIONAL JOURNAL OF ECONOMICS AND BUSINESS MODELLING 215, 216 (2013).
[10]George R. Clarke, Robert Cull et al., *Foreign Bank Entry: Experience, Implications for Developing Economies, and Agenda for Further Research*, 18:1 THE WORLD BANK RESEARCH OBSERVER 25, 26 (2003).

various other non-banking services as well.[11]

III. Benefits Of Banking Sector Globalisation

Several arguments can be made to show the benefits of opening a nation's banking sector to globalisation. Firstly, presence of a foreign bank increases the inflow of capital into a country, thus increasing the amount of funding available to domestic projects. It also leads to diversification of funding bases which leads to increase in the overall supply of domestic credit. Secondly, presence of foreign banks leads to improved quality and pricing of financial services. This may be either due to the foreign bank itself providing high quality services at low prices, or the because the mere presence of foreign banks increases competition for the domestic banks, thus encouraging them to improve the quality and price of their services. Thirdly, presence of foreign banks improves the overall financial system infrastructure of a nation. It leads to improved accountability and transparency norms, increases the presence of supporting activities like rating agencies and auditors and forces regulatory institutions to work effectively. Fourthly, foreign banks improve the cost efficiency in the host nation by bringing in new and better skills and management techniques, which are ultimately adopted and used by the domestic banks, thus increasing productivity and cost efficiency.[12] Further, where these banks have a developed nation as their home country, they may be considered safer investment avenues compared to a developing countries own domestic banks. Lastly, foreign banks are not as susceptible to political pressures in the host country, and can hence have a positive impact on a nation's economy.[13]

IV. Challenges Of Globalisation For The Banking Sector

(A) Competition

Both the private and the public sector banks face the challenge of increasing competition and constantly changing customer expectations. Competition comes not only form the world over, but also from within a country's own banking sector. To emerge victorious, banks are coming out of their traditional roles and working out their own private strategies based on their own strengths. They are diversifying their operations in a search for more income.[14] While some

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[11]AmitGhosh, *Banking Sector Globalisation and Bank Performance: A Comparative Analysis of Low Income Countries With Emerging Markets and Advanced Economies*, 6 RIVIEW OF DEVELOPMENT FINANCE 58, 62 (2016).

[12] A. DEMIRGUC-KUNT, R. LEVINE ET AL., *Opening to Foreign Banks: Issues of Stability, Efficiency and Growth*, in THE IMPLICATIONS OF GLOBALISATION OF WORLD FINANCIAL MARKETS 83, 88 (1998).

[13] B. Dages, L. Goldberg and D. Kinney, *Foreign and Domestic Banks Participation in Emerging Markets: Lessons from Mexico and Argentina*, 6:3 ECONOMIC POLICY REVIEW 17, 18 (2000).

[14] RAMASHISH PURVEY, INDIAN BANKING: PAST, PRESENT AND FUTURE, 35 (Serial Publications,

are diversifying their products, others are diversifying their market segments. Meanwhile, while the private and foreign banks are racing ahead through adoption of best practices and implementation of latest technologies, public sector banks are finding it difficult to cope with these challenges due to problems like overstaffing and their resistance to adopt new technologies. However, these banks are still taking steps for survival by adopting measures to improve productivity by training and re-training staff and acquiring specialists. They are also increasing their investments in advertising and marketing along with increased emphasis on customer relationship management and diversification of activities.[15]

(B) Low Productivity

Another challenge, especially for the banking sector of low income economies is low productivity in relation to global standards. Productivity is the relation between a given output and the means used to produce it. In a service industry like banking, productivity is affected by the quality of manpower and the mechanisation of systems and procedures, among other things.[16] With the rapid changes in the environment, there has been a fundamental shift in the set of skills required in banking, which are not as readily available. This is coupled with the wasteful expenditure on inappropriate, inconsistent and obsolete technology, and underutilisation of the technology which could actually drive further the efficiency and productivity of the sector. This has become one of the major challenges for the Indian public sector banks as well. Thus, high priority should be given to the development of schemes to ensure efficient use of the acquired technology by placement of the right skill at the right place, to ultimately lead to increased productivity for the sector.[17]

(C) Other challenges

There are various other challenges that might arise due to entry of foreign banks into a nation as a result of globalisation. Firstly, since foreign banks maintain ties with their home countries, financial stresses of the home country might create adverse effects for the host country as well. Similarly, where the host nation is in a crisis, foreign banks cannot be expected to face the brunt of the crisis and are more likely to withdraw from the host country.[18]Secondly, foreign banks further increase the risk for domestic banks as they target

2010).

[15] *Introduction*, SHODHGANGA, https://shodhganga.inflibnet.ac.in/bitstream/10603/143799/10/10_chapter%201.pdf (last accessed April 3,2020).

[16] V.B. Angadi, *Some Issues of productivity of Indian Scheduled Commercial Banks*, 58:4 JOURNAL OF THE INDIAN INSTITUTE OF BANKERS 184, 185 (1984).

[17] VASANT DESAI, BANK MANAGEMENT , 422 (Himalaya Publishing House Pvt. Ltd., 2009).

[18] J. Peek and E. Rosengren, *Collateral Damage: Effects of the Japanese Bank Crisis on Real Activity in the United States*, 90:1 AMERICAN ECONOMIC REVIEW 30, 32 (2000).

the needs of the most lucrative domestic market which leaves only the riskier customers for the domestic banks.[19] Not only this, increased presence of foreign banks increases competition for the domestic banks and ultimately leads to reduced profits for all. Thirdly, the client base becomes more diverse giving rise to a need of increased investment in innovation, while ensuring that the innovations do not hamper customers' data security at the same time becomes a difficult task. Lastly, too much expansion in the global market through various mergers and acquisitions increases the complexities in the structure of the firms and makes them difficult to resolve in times of crisis.

V. Banking Operation In India: The Past

Amidst globalisation, there were two major factors that had a huge impact on the Indian banking industry- the advent of technology and the liberalisation reforms of 1991.

(A) The Advent of Technology

1. Computerisation of Indian Banks

Even though the technological boom could only majorly be felt around the time of globalisation, some transformation towards the computerisation of Indian banks could be seen in the late 1960s itself. Even before the advent of the internet, computerisation of Indian banks occurred for the first time in 1966 when the Indian Bankers Association signed the first wage settlement with the unions, which provided for the use of IBM or ICT accounting machines.[20] However, at that time the banking sector was dealing with other issues like lack of direct involvement of senior management, lack of trained personnel and absence of coordination and resistance from employees. Thus, computerisation and mechanisation took a back-foot. Later, in 1983, RBI appointed a Committee on Computerisation and Mechanisation under Dr. C. Rangarajan to develop a plan for mechanisation of Indian banking trade.[21]The Committee pointed out that the additional manpower that computerisation would create could be used for marketing and other extended services. Based on the report of this Committee, 7827 branches of public sector banks were identified for full branch computerisation up to March 2000, of which around half were computerised by March 1999. Meanwhile the already computerised branches started inter-connecting to provide more comprehensive services to customers, and at the same time allow for centralised control of the scattered branches.

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[19] A. Berger, N Miller et al., *Does Function Follow Organisational Form? Evidence from the Lending Practice of Large and Small Banks*, 76:2 JOURNAL OF FINANCIAL ECONOMICS 237, 240 (2005).

[20]*Computerisation in Banks*, BANKERS DAILY, http://bankersdaily.in/computerization-in-banks/ (last accessed April 5, 2020).

[21]Sagar, *supra* note 2.

2. AUTOMATED TELLER MACHINES

Another innovation which changed the face of the Indian banking sector was the development of Automated Teller Machines (ATMs). An ATM is a computerised telecommunications device that provides banking services anytime and anywhere, by any bank to any customer. This allows the customer to avoid carrying hard cash and also leads to cost savings for the banks. The first ATM in India was established by Hong Kong and Shanghai Banking Corporation (HSBC) in 1987.[22] It was subsequently introduced by the Indian Bank and Citibank. However, during the 1990s, due to high installation costs, ATMs did not mushroom much in India. It was with the entry of private sector banks that ATMs began to show up everywhere and lead to an immense increase in the customer base of these private banks.

3. PLASTIC MONEY

Towards the late 1990s, Citibank offered yet another technological innovation in the form of credit cards, which has now become an important part of the payments system, with almost every bank providing this service.[23] These cards are convenient to carry and allow easy access to bank clients to their accounts for making payments on the basis of their credit limit or withdrawing cash.

4. NATIONAL ELECTRONIC FUNDS TRANSFER

Another technological innovation for the retail banking sector came in the form of NEFT. Before the introduction of NEFT depositing money in another person’s account would take days. But NEFT allowed immediate electronic transfer of funds. According to the RBI, NEFT is a nation-wide payments system to facilitate one-to-one transfers by individuals, firms and corporates.[24] Funds can be transferred from any one account to any other account as long as both banks participate in the NEFT scheme. This facility has become all the more popular because it allows even individuals who do not a bank account to deposit cash at NEFT-enabled branches, subject to certain restrictions.

5. PHONE AND INTERNET BANKING

Technological innovations like phone and internet banking were the next big thing.Focus shifted on providing Core Banking Solutions, which enable customers to complete numerous

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[22]*HSBC in India*, HSBC, https://www.about.hsbc.co.in/hsbc-in-india (last accessed April 5, 2020).
[23]Ishwar Singh Darji, *Impact of Globalisation and IT on Banking*, 7:11 INTERNATIONAL RESEARCH JOURNAL OF COMMERCE ARTS AND SCIENCE, 69, 72 (2016).
[24]*NEFT System*, Reserve Bank of India, https://m.rbi.org.in/Scripts/FAQView.aspx?Id=60 (last accessed April 5, 2020).

banking operations online. ICICI was one of the first private banks to introduce net banking services.[25] Its service, called Infinity, provided access to users to their account information over a secure line, allowed them to request cheque books or stop payments, and even transfer funds between ICICI bank accounts. With regards to phone banking, the RBI published guidelines in 2008 limiting the provision of mobile banking to only Indian banks. Indian banks meant banks which had a license, and were supervised in India, and a physical presence in India. Even for these banks, special permission was required before they could provide mobile banking services to customers. This permission was based on certain guidelines that focused on security systems and inter-bank transfer arrangements through RBI authorised transfer portals. The objective behind the introduction of mobile banking was to facilitate funds transfer from one account to another in the same or different branch on a real time basis irrespective of the customer's mobile network.[26]Though the technological systems of Indian banks are currently less advanced than Singapore, UK and USA, it has rated better than China and Russia, and at par with Japan.[27]

(B) Globalisation and Liberalisation

1. The 1991 Economic Reforms

With the formation of the World Trade Organisation, which replaced the General Agreement on Trade and Tariffs, global trade became the driver of economic growth. Countries rushed to become a part of this Organisation. However, developed economies usually had the upper hand in negotiations and so;India being a developing country had to give in to the demands of its major trading partners. These demands included permissions for setting up subsidiaries and joint ventures in the banking sector and removing the higher taxes on foreign banks.[28]Once India became a part of the World Trade Organisation, economic reforms in India could no longer be postponed. Thus came the liberalisation era of 1991 following the recommendations of the Narasimham Committee Report and several Reserve Bank of India's initiatives. Liberalisation means freeing of the economy from the controlled regime and bringing in the market forces.

Though India pursued a gradualist approach to liberalisation, it eventually led to the creation

[25] T.Y. Chang, *Dynamics of Banking Technology Adoption: An Application to Internet Banking*, 205 (University of Warwick, Working Paper No.664, 2003).
[26]Ms.Gagan Deep Chadha, Dr.RitikaMoolchandani et al., *Impact of Globalisation on Retail Banking Services*, 2:4 INTERNATIONAL JOURNAL OF TREND IN SCIENTIFIC RESEARCH AND DEVELOPMENT 1289, 1294 (2018).
[27]Amitabh Verma, *The Impact of Technology on Productivity and Profitability of Indian Banks in Post Liberalisation Period*, ABHIGYAAN, https://www.abhigyaan.in/ (last accessed April 3, 2020).
[28]Mathew Joseph and RupaRegeNitsure, *WTO and Indian Banking Sector: The Road Ahead*, 37:24 ECONOMIC AND POLITICAL WEEKLY 2315, 2316 (2002).

of a more competitive environment which was more conducive to innovation and growth. Trade barriers were lowered which increased cross-border flows. Interest rates were deregulated, private sector banks started entering the market, and new prudential norms came up. Ultimately the Indian economy opened up to the world, and the Reserve Bank of India started issuing licenses to foreign players. In February 2005, it released the roadmap for presence of foreign banks in India and guidelines on ownership and governance in private sector banks. These guidelines focused on ensuring that ultimate ownership and control of private sector banks was well-diversified to minimise the risk of misuse or imprudent use of funds. This was a major change from the pre-liberalisation era the financial system catered to the needs of a planned development in a mixed economy framework, and most domestic banks were State-owned, and there were strict entry barriers for foreign banks.[29]

2. Development of Prudential norms

With globalisation, also came the need for better prudential norms. Even the domestic banks had to adopt a more international strategy because adherence to international standards became important to compete in the domestic as well as the international market. Thus, micro-prudential measures were stipulated to converge with the international best practices and to impart strength to the banking system and ensuring its safety and soundness in the wake of the continuously increasing global competition. Post the economic reforms, the banking industry became more transparent. The Central Vigilance Commission made it mandatory for banks to follow open policy and make their businesses more transparent and accountable by disclosing details of wilful defaulters, non-performing assets and investments among other things.[30] Further, the Reserve Bank of India made it mandatory to disclose terms and conditions of credit card transactions and also the interest rates and other charges on the use of the cards. All these measures were taken with a view to increasing customer confidence in the domestic market, so that it did not lose its customer base to the foreign players that were entering the market.

VI. Impact Of Globalisaiton On Indian Banking Operation

Since globalisation, countries have started taking steps to enhance market access in the area of financial services, including banking. Some of these steps include improvements in sectors like asset management, advisory services and securities and underwriting. Countries have

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[29]LairenlakpamMangal, *Globalisation and its Impact on Financial Services*, SLIDE SHARE, https://www.slideshare.net/mangal182/globalisation-and-its-impact-on-financial-services (last accessed April 4, 2020).
[30]CENTRAL VIGILANCE COMISSION, VIGILANCE MANUAL (7th ed. 2017).

also committed to reducing or removing barriers on the level of foreign equity and increasing the number of foreign bank branches permitted. Many of these reforms were also adopted by India by way of the 1991 reforms, and since then India's global position has improved. There has been a substantial increase in investments in India, which has boosted the development of the domestic sector as well as increased the globalisation of Indian banks. Indian banks have also started setting up their operations in Special Economic Zones as Offshore Banking Units. These are Units which are located in India, but function like foreign branches of Indian banks.[31] Further, new foreign players are entering the Indian market and the market is moving towards a system with cross border transactions and internationally diverse ownership of banks. As a result, international transactions are increasing, including the transactions extended by the branches and subsidiaries of parent banks that are located in the host country markets. Such transactions have both short-term and long-term implications for the host country market and also for the parent countries of these banks.

Coupled with increase in information sharing, this internationalisation is leading to customers demanding better services and products from their banks. The financial market has thus shifted from being a seller's market to being a buyer's market. Customer satisfaction has become the goal and focus is shifting to increasing the availability of customised products and value added services. Banks have also increasingly started using Direct Selling Agents to market and sell their products. Home banking has become a common feature. And this is the trend not only in the private and commercial banking sector, but even public sector banks like the State Bank of India have started investing in this area. The State of India along with its associates holds a significant share of the banking industry in India and thus it is important for it to keep up with the changes in the market. It thus took major steps to increase its use of credit cards, ATMs and also virtual banking. However, this transition is comparatively difficult for the public sector banks due to the nature of their ownership and their large network of branches. Further, even the Reserve Bank of India has supported this transition through various policies, like its Credit Policy 2000, which allowed the entry of banks in the insurance sector, followed by the creation of the Insurance Regulatory and Development Authority in 1999. Commercial banks that wanted to diversify into the insurance sector were permitted to undertake insurance business as agents of insurance, setting up joint ventures with core insurance companies and taking part in capital markets with a ceiling of 5% of the total outsourcing advances.[32]

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[31] LB Singhal, *Offshore Banking Units in SEZs?*, ECONOMIC TIMES, Sep. 10, 2006.

[32] *Impact of Globalisation and Liberalisation on Banking in India*, SHODHGANGA,

Thus, as global financial integration increases, Indians banks will need to expand fast, both through organic growth and consolidation, to be able to fuel the economic growth.[33] It is the prevailing view that India needs to develop at least five to six big banks in the country through consolidation in the financial sector for it to be able to face the global competition. Though this issue of consolidation was discussed way back in the Narsimham Committee Report, it was never pursued vigorously, and the process remained limited to few small mergers in the private sector segment. This was so because consolidation cannot be imposed from outside. It is only if the merging entities recognise its need and benefits, that it can take place. There are however external factors, which may determine the thinking process of these merging entities. Firstly, there must be a clear and concise legal and regulatory regime to govern consolidation; secondly, there must be an enabling policy framework especially since many banks are still owned by the Government; and lastly, market conditions must facilitate such consolidation.

Thus, to cope with the demands of a globalised world, banks in India are already stepping into newer avenues like investment advisory, tax advisory and are also providing private banking services to high net worth individuals. However, with the rapid growth of the Indian economy, challenges for the banking sector are continue to increase. On the consumption side, due to higher sustained growth, large number of households are moving into the high income categories, and hence the high consumption categories. This has increased the demand for financial savings opportunities. On the production side, with rapid industrial expansion and high merchandise trade growth, the demand for infrastructure investment has increased. Thus, to enable Indian banks to rise to the global level and be able to internationalise their operations, some form of consolidation needs to take place, while at the same time maintaining the quality of services provided.[34]

VII. India's Attitude For The Future

The Indian banking sector is strong, and its position is different from its global counterparts because of the massive growth opportunities that India still possesses. If these opportunities are tapped at the right time, India can leave behind some of the major banking sectors of the world.[35]To achieve this goal, India needs to develop a framework to derive the maximum

https://shodhganga.inflibnet.ac.in/bitstream/10603/35172/8/08_chapter2.pdf (last accessed April 4, 2020).

[33]DATTA & SUNDARAM, INDIAN ECONOMY, 11 (S. Chand Publication, 2008).

[34]G.A. Tadas, *Indian Banking- Challenges of Globalisation* (Centre for Multi-Disciplinary Development Research, Monograph Series No. 55, 2010).

[35]PROF. PRAKASH SINGH, GLOBAL COMPETITIVENESS OF INDIAN BANKS: A STUDY OF SELECT BANKING INDICATORS, ISSUES OF CONCERN AND OPPORTUNITIES 205-06 (IIM Lucknow Publications, 2007).

benefits out of the international investments it is receiving.

(A) Improving Growth via Monetary Policy

Monetary policy in India has the twin objective of maintaining price stability and growth, which it does by adopting various measures like controlling inflation, tightening of policy rates or an increase in cash reserve ratios. Which measure will be adopted depends on the prevailing macroeconomic and monetary conditions. Over the past years, we have seen developments like market related flexible interest rates and a more open foreign exchange market. A capital market for equities has also developed. All these developments show the active role being played by the monetary and financial policies to promote economic growth and maintain financial stability.

With the increase in globalisation, the role of monetary policy also increases. It needs to play a more active role in controlling inflation and maintaining financial stability now more than ever. This is required to maintain confidence in the market which is necessary to foster innovation and growth. To encourage entrepreneurs to take the risk of financial innovation, other macro-economic risks like inflation, volatility and high interest rates need to be managed. These kinds of pro-cyclical macro-economic policies coupled with adequate prudential regulation of the financial sector will increase growth and consumption volatility, especially in a developing country like India.

(B) Improved Foreign Investment Regime

Foreign direct investment is the international flow of raw materials, skills, ideas, technology and goodwill across borders for the purpose of improved profitability.[36]The foreign investment regime of India should be made more liberal and transparent where foreign direct investment via automatic route is opened to a large number of activities, without any cap on the extent of investment. Some sectors have already opened up, for instance, insurance and defence industries, where up to 26% foreign direct investment is allowed, and tea plantation where up to 100% foreign direct investment is allowed. Other initiatives in this area include opening up of B2B e-commerce, Internet Service Providers (ISP) without Gateways and electronic and voice mails to a 100% foreign direct investment subject to 26% disinvestment within five years. Foreign Investment Implementation Authority has also been set-up to strengthen investment facilitation measures.[37] However, it has also been argued that foreign

[36]A. Jerome and J. Ogunkola, *Foreign Direct Investment in Nigeria, Magnitude, Direction and Prospects* (Paper presented at the Africa Economic Research Consortium Special Seminar Series, 2004).
[37]S.N. Selvaraj and V. Ramadevi, *Impact of Globalisation on Financial Service Sector*, 1:1 GLOBAL BUSINESS ENVIRONMENT AND ITS IMPACT ON MANAGEMENT EDUCATION 419, 420 (2011).

direct investment does not guarantee economic growth because of various other factors like Gross Domestic Product (GDP) and income per capita that come into play.[38]

(C) FINTECH AND BIGTECHS

Although it may seem that we have come a long way from globalisation, one thing still remains- the impact of technology. The technological development of that era that led to the development of mobile and internet banking, has now led to the development of Fintech and Big Data. Though many fear that these developments will overtake traditional banking, RBI Governor Shaktikanta Das is of the view that "banks would continue to be in a position of primacy in finance with them adopting evolving technologies."[39] According to him technology will continue to provide tools for reaching customers, but they would still act only as agents of banks. Indian banking sector would soon be divided into four categories- big banks with domestic and global presence, mid-sized banks, small finance banks, and digital players who will act as service providers to customers as agents of banks. Thus, the banking system in future would comprise of both the traditional banks and technology led players, the latter of which would support the former.

Fintech firms in India are continuously growing and are contributing to ease of doing transactions. However, due to its complexity and challenges they pose, both the customers and the regulators prefer the traditional banks over these new firms. Another technological competition that is developing for the banks is in the form of large technology companies (BigTechs) which are rapidly entering the financial services industry. Though these firms will not replace the traditional banking service, they can spread their arms to the unbanked population by providing them with other basic financial services like investments. Thus, even though the threat from these developments is not imminent, this is not to say that this will be the position for many years to come and that traditional banks can ignore this latest development. It is only if the traditional banks modify their business models accordingly, will they be able to maintain an edge over these new firms.

As Shri C K Prahalad said "Creating market abroad is not different from defending markets in India."[40] Therefore, Indian banking industry has two major challenges- be able to effectively compete with foreign banks in India, and secondly to become internationally

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[38] N.L. Arodoye and M.A. Iyoda, *Foreign Trade, Economic Growth Nexus: Evidence from Nigeria*, 5:1 CBN JOURNAL OF APPLIED STATISTICS 193, 194 (2014).
[39]AshwinManikandan, *We Would See a Very Different Banking Sector in Years to Come: RBI Governor Shaktikanta Das*, ECONOMIC TIMES, Feb. 25, 2020.
[40] KR Ramamoorthy, *Globalisation and Competitiveness: Emerging Challenges* in N. Jadhav, CHALLENGES TO INDIAN BANKING 196 (Macmillan India, 1996).

available themselves. To overcome these challenges, the Indian banking sector still needs to continuously develop measures to modernize itself and strengthen its global position. It will need to develop strategic focus on factors like costs and risks, quality customer service, and compete with the technological advancements. If the banking sector is successful, the future of this industry, in terms of structure and business model will be very different from what it is now.

VIII. CONCLUSION

Globalisation posed many challenges as well as provided many opportunities to the Indian banking system. There was increased competition, both international and domestic, low productivity and low profitability. However, since then, there has been a paradigm shift in the way the banking sector operates. The Indian banking sector has been quite successful in overcoming these challenges of globalisation and is constantly adapting itself to the changing environment. Economic liberalisation played an important role in enabling the Indian banking sector to diversify domestically and also enter the world market. Along with this improved risk management practices and advanced technology helped the Indian Banking sector to survive. If the efforts of the banking sector are combined with adequate macro-economic policies, India will be able to leave behind some of the major economies of the world.

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