THE IMPACT OF GLOBALIZATION ON INDIAN BANKING OPERATIONS

[1]Harshita Sangwan

[1]Research Scholar in Shri Venkateshwara University, NH-24, Rajabpur, Gajraula, Amroha-244236 (U.P)

[2]Dr. Mukesh Garg

[2]Assistant professor in Maharaja Agrasen Himalayan Garhwal University, Dhaid Gaon, Block pokhra, District Pauri Garhwal, Uttarakhand

ABSTRACT

Globalization is founded on the assumption that the whole world is a single entity that makes choices as a unit, with States playing little or no involvement in the decision-making process. This concept leads to the conclusion that national economies open up to the rest of the globe, allowing free movement of commodities, services, and capital. This hypothesis' socialist outcome would be increasing contact and integration across national systems, resulting in significant social and cultural developments. Globalisation seems to be a very benign and beneficial trend from this perspective. However, there is another point of view that should be considered. From this alternative point of view, globalisation is a drive towards a global economic system by the supranational corporate trade and financial institutions so that they can evade the responsibility that develops due to democratic processes in states. Whatever point of view one takes, the end consequence is the same: change.

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

INTRODUCTION

Globalisation started in the mid- to late-nineteenth century, and it has since resulted in considerable changes in the ideas of countries, civilizations, and families. Major financial changes, the expansion of communication technology, and the introduction of the internet all occurred during this time period. These changes, together with privatization and liberalization, completely transformed the global banking industry, which is one of the most crucial sectors for a country's economic existence. Although banks do not produce new wealth, they do drive an economy's production and distribution processes by enabling borrowing and lending. They mobilize savings even more, resulting in additional investments. A solid financial system is therefore the foundation of a sound economy.

Foreign and private banks began creating technology-based services with the onset of globalisation, forcing Indian banks to follow suit or risk losing their client base. The Indian banking industry was robust even before India's independence in 1947, but it really took off in the 1990s when the first banking reforms were implemented. Bank productivity, profitability, and efficiency all improved as a result of these measures. The Indian banking sector was also helped by the Indian software industry throughout this transformation. New goods and services entered the Indian banking industry quickly, and the Rangarajan Committee Report, which determined to computerize Indian banking offices in a limited way, aided this growth. This move was made not just to boost the Indian banking sector's competitiveness, but also to make oversight of the sector's capabilities simpler. As a result, India became a powerhouse in information technology in only a few years (IT). On light of this, the purpose of this article is to investigate the influence of globalisation in India. Part I examines global banking developments in the context of globalisation and considers the advantages and problems that globalisation has brought to the banking industry. Part II examines the evolution of the Indian banking sector from the 1990s to the present, concluding with recommendations for the future.

LITERATURE REVIEW

Achuthan, Suren. (2018). The growth of an economy in any nation depends entirely on the economy's propensity and invest to enhance production. This makes the financial system of a nation very important in that it facilitates capital formation. Financial systems are made up of three arms which include first the financial intermediaries. This comprise of institutions that link the deficit units to the surplus units in an economy. Financial intermediaries include financial banks, mutual funds, insurance institutions and the non-banking financial organizations. The concept of the financial intermediaries is that they collect deposits from individuals and organization that have surplus funds and lend to individuals and organization that have deficit funds

Ram, Jitendra Kumar. (2012). Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market. Deregulation in the form of elimination of exchange controls and interest rate ceilings have made the market more competitive. The Indian financial sector has undergone a significant structural transformation since the initiation of the financial liberalization in 1990's. It brought significant changes in the Indian economy in general and financial sector in particular. Against this backdrop, the present paper intends to analyze the performance of the Indian banking sector after the initiation of financial liberalization. The study finds, after deregulation, the concentration has declined which resulted in increasing competition. The share of private and foreign banks in banking asset, deposit and credit has gone up. The profitability of all bank groups has gone up, but the foreign banks are more profitable.

Agarwal, P.K. (2011). The world is more interdependent now than ever before. Multinational companies manufacture products across many countries and sell to consumers across the globe. Money, technology and raw materials have broken the International barriers. Not only products and finances, but also ideas and cultures have breached the national boundaries. Even banking sector in India is expanding at an incredibly faster pace, with more and more banks realizing the benefits offered by globalization. Publicly owned banks handle more than 80% of the banking business in India and the rest is in the hands of private sector banks. However, banking in both the government and private sector is being revolutionized by this latest phenomenon called "globalization". For purposes of this research paper, we have ascertained the different changes that

Indian banks have incorporated in their working operations, styles, policies, strategies etc., in the post globalisation era, and have studied the impact of these changes over the economic and social welfare of Indian economy. Indian banking sector now compares favourably with banking sectors all over the World on metrics like growth, profitability and non-performing assets (NPAs). A few banks have established an outstanding track record of innovation, growth and value creation. This is reflected in their market valuation. However, improved regulations, innovation, growth and value creation in the sector remain limited to a small part of it. The paper maps the trend of the banking sector across an expanse stretching from 1985 to 2010, the change in the working of the sector pre- and post events like nationalization and globalization. It also analyses the impact of reform implementation on the sector as well as the challenges faced by the Indian banks.

Krishna, A & Goyal, Krishn & Joshi, Vijay. (2012) The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders.

However, with the changing dynamics of banking business brings new kind of risk exposure. In this paper an attempt has been made to identify the general sentiments, challenges and opportunities for the Indian Banking Industry. This article is divided in three parts. First part includes the introduction and general scenario of Indian banking industry. The second part discusses the various challenges and opportunities faced by Indian banking industry.

Third part concludes that urgent emphasis is required on the Indian banking product and marketing strategies in order to get sustainable competitive edge over the intense competition from national and global banks. This article is a small seed to existing branch of knowledge in banking industry and is useful for bankers, strategist, policy makers and researchers.

Suren Achuthan (2018) Any country's economic progress is fully dependent on its willingness to spend in improving output. As a result, a country's financial system is critical in facilitating capital creation. Financial systems have three limbs, the first of which are financial intermediaries. This category includes institutions that connect a country's deficit and surplus units. Banks, mutual funds, insurance companies, and non-banking financial institutions are examples of financial intermediaries. The financial intermediary's premise is that they take deposits from people and organizations with excess money and lend to individuals and organizations with deficit finances.

GLOBAL TRENDS OF BANKING OPERATION AMIDST GLOBALISATION

The globalisation process, which started in the 1970s and accelerated in the 1990s, had a tremendous impact on the global economy. No country could achieve global sustainable development on its own. Globalization became a requirement, and competition became more intense over time. To survive and attract consumers, banks have to concentrate more on international standards such as the Basel regulations, as well as the growth of customer relations and retail banking. Globalisation, on the other hand, has decreased the room for surprises and highlighted the banking sector's current and future concerns. Taking advantage of this openness, the banking sector throughout the world has seen a variety of trends over the years and has continued to evolve in response to market changes. Marketable instruments, which compete with loans and demand deposits, changed the commercial banking industry. Commercial banks joined the investment banking industry as a result of this rivalry, resulting in yet another major shift in the financial system. Banks began to enter pension and insurance services in the United States, and they began to identify to themselves as financial services businesses. As a result, globalisation altered the essence of banking. Today, banking encompasses not just deposits and loans, but also a wide range of additional value-added services that are used by both the industry and consumers.

The global banking business was further changed by a parallel expansion in the technical sector, with banks offering e-banking and e-finance services. The implementation of IT in the financial industry was a benefit of this growth. IT is described as the current electronic management of information, including its access, storage, processing, transport, and delivery. The banking business compelled the IT sector to discover answers to new issues on a daily basis, and as a result, the IT sector became a vital component of the banking industry. New technologies have been created to help banks deal with rising competition by improving risk management processes. Telebanking and mobile banking are examples of innovations that have revolutionized the banking industry from branch banking to 'anywhere-anytime' banking. Globalisation also resulted in the introduction of goods that swiftly gained traction in the business world. Certificates of deposit, commercial papers, and non-convertible debentures began to be sold in secondary markets, and businesses began to benefit handsomely from these transactions.

The issue today is why did the banking industry globalize at such a rapid rate? What prompted banks to establish subsidiaries or branches in other countries? Or use mergers and acquisitions to expand into new markets? According to a research, low-income nations are more vulnerable to international banks taking over their local sectors. Profits and diversity are the two key reasons for this. Low-income countries' market inefficiencies and outdated banking procedures enable multinational banks operating in more efficient markets with modern technology to benefit more from these countries. Furthermore, these nations' larger marketplaces enable international banks to diversify in order to meet the demands of a wide range of consumers. On the other hand, penetration into advanced countries is limited because international banks confront greater local rivalry, not just in banking but also in a variety of non-banking activities.

BENEFITS OF BANKING SECTOR GLOBALISATION

There are many reasons for why a country's financial system should be opened to globalisation. For starters, having a foreign bank enhances capital inflows into a nation, boosting the amount of money available for local initiatives. It also leads to a variety of financing sources, resulting in an increase in total domestic credit supply. Second, the presence of international banks contributes to increased financial service quality and cost. This might be because the foreign bank provides high-quality services at affordable costs, or because the existence of foreign banks fosters competition among local banks, driving them to improve the quality and price of their services.

Finally, the presence of foreign banks helps a country's total financial system infrastructure. It improves accountability and transparency standards, expands the presence of supporting activities like as rating agencies and auditors, and compels regulatory institutions to function more efficiently. Fourth, foreign banks increase the host country's cost efficiency by bringing in new and better talents and management approaches, which are eventually accepted and employed by local banks, resulting in increased productivity and cost efficiency.

Furthermore, since these banks are based in a developed country, they may be regarded safer investment options than the native banks of developing nations. Finally, foreign banks are less vulnerable to political pressures in their home countries, and hence may benefit a country's economy.

CHALLENGES OF GLOBALISATION FOR THE BANKING SECTOR

(A) Competition

Increased competition and continuously changing client expectations are a problem for both private and public sector banks. Competition comes from all across the globe, as well as inside a country's own banking industry. Banks are stepping out of their conventional positions and developing their own individual plans based on their own capabilities in order to win. In order to generate additional revenue, they are diversifying their businesses. Others are expanding their market sectors while others are diversifying their offerings. Meanwhile, while private and foreign banks are gaining ground by adopting best practices and using cutting-edge technology, public sector banks are struggling to meet these difficulties owing to issues such as overstaffing and a reluctance to accept new technology. However, these banks are still taking efforts to ensure their survival by increasing productivity through educating and retraining employees and hiring experts. They're also expanding their advertising and marketing budgets, as well as focusing more on customer relationship management and diversifying their operations.

(B) Low Productivity

(C) Another issue, particularly for low-income countries' banking sectors, is poor productivity in comparison to global norms. The relationship between a specific production and the methods by which it was produced is known as productivity. The quality of labor and the mechanisation of processes and procedures, among other factors, impact productivity in a service business like banking. With the fast changes in the environment, a fundamental shift in the set of abilities necessary in banking has occurred, and these talents are no longer easily accessible.

This is compounded by wasted spending on ineffective, inconsistent, and antiquated technology, as well as underutilization of technologies that may really improve the sector's efficiency and production. This has also become one of the most significant difficulties for Indian public sector banks. As a result, developing plans to guarantee optimal use of acquired technology by placing the correct talent at the right location should be given top attention, eventually leading to higher sector productivity.

(D) Other Challenges

Other issues may occur as a consequence of the admission of foreign banks into a country as a result of globalisation. For starters, since foreign banks have links to their home nations, financial hardship in the home country may have negative consequences for the host country.

Similarly, when the host country is experiencing a crisis, foreign banks are unlikely to bear the weight of the crisis and are more likely to exit from the country. Second, foreign banks raise the risk for local banks by focusing on the most profitable domestic market, leaving domestic banks with just the riskier clients.

Not only that, but growing foreign bank presence raises competition for local banks, resulting in lower earnings for everybody. Third, as the client base gets more diversified, increasing investment in innovation is required, yet ensuring that the advances do not jeopardize consumer data security becomes a tough issue. Finally, excessive worldwide market growth via numerous mergers and acquisitions increases the complexity in the structure of organizations, making them harder to resolve in times of crisis.

BANKING OPERATION IN INDIA: THE PAST

The development of technology and the 1991 liberalisation changes had a significant influence on the Indian banking sector as a result of globalization.

(A) THE ADVENT OF TECHNOLOGY

1. COMPUTERISATION OF INDIAN BANKS

Even though the technology boom was most noticeable during the time of globalisation, significant changes in Indian banks' computerization could be detected as early as the late 1960s. Even before the internet, Indian banks were computerized for the first time in 1966, when the Indian Bankers Association signed the first pay agreement with unions, allowing for the use of IBM or ICT accounting equipment. However, the banking industry was struggling with other challenges at the time, such as a lack of direct engagement from top management, a lack of skilled people, a lack of coordination, and employee opposition. As a result, computerization and automation took a second seat. In 1983, the Reserve Bank of India established a Committee on Computerisation and Mechanisation, chaired by Dr. C. Rangarajan, to devise a strategy for the mechanisation of Indian banking activity. The Committee noted that the extra labor created by computerization may be utilised for marketing and other supplementary services. According to this Committee's report, 7827 public sector bank branches were designated for full branch computerization between March 2000 and March 2000, with over half of them completed by March 1999. Meanwhile, the previously computerized branches began to link in order to give more extensive services to consumers while also allowing for centralised management of the dispersed offices.

2. AUTOMATED TELLER MACHINES

The invention of Automated Teller Machines was another breakthrough that transformed the Indian banking system (ATMs). An ATM is a computerized telecommunications equipment that allows any bank to give financial services to any consumer at any time and from any location. This helps customers to avoid carrying cash and saves money for banks. In 1987, the Hong Kong and Shanghai Banking Corporation (HSBC) opened India's first ATM. The Indian Bank and Citibank were the first to use it. However, ATMs did not spread widely in India throughout the 1990s owing to hefty installation costs. ATMs started to appear everywhere with the advent of private sector banks, resulting in a massive expansion in the client base of these private banks.

3. PLASTIC MONEY

Citibank introduced another another technical advancement in the shape of credit cards in the late 1990s, which have now become a major element of the payments system, with practically every bank offering this service. These cards are simple to carry and provide bank customers quick access to their accounts, allowing them to make payments based on their credit limit or withdraw cash.

4. NATIONAL ELECTRONIC FUNDS TRANSFER

NEFT was another technical advancement for the retail banking industry. Depositing money into another person's account took days before NEFT was introduced. However, NEFT enabled for instantaneous electronic money transfers. According to the RBI, NEFT is a nationwide payment system that allows individuals, businesses, and corporations to make one-to-one transactions. As long as both banks participate in the NEFT mechanism, funds may be moved from one account to another. This service has grown in popularity since it enables people without a bank account to deposit cash at NEFT-enabled banks, subject to certain limitations.

5. PHONE AND INTERNET BANKING

The next significant thing was technological advancements like phone and online banking. Customers may now execute a wide range of financial transactions online thanks to Core Banking Solutions. ICICI Bank was one of the first private banks to provide online banking. Its Infinity service gave consumers safe access to their account information, enabling them to request cheque books or halt payments, and even transferred money across ICICI bank accounts. In terms of phone banking, the RBI issued rules in 2008 that restricted mobile banking to Indian banks alone. Indian banks were those that were licensed, supervised, and had a physical presence in India. Even these institutions needed special clearance before they could provide users mobile banking services. This approval was granted based on a set of rules that centered on security systems and inter-bank transfer arrangements through RBI-approved transfer portals. The goal of introducing mobile banking was to make it easier for customers to transfer money from one account to another at the same or another branch in real time, regardless of their mobile network. Indian banks' technology systems are now less sophisticated than those of Singapore, the United Kingdom, and the United States, but they are better than those of China and Russia, and on level with those of Japan.

(B) GLOBALISATION AND LIBERALISATION

1. THE 1991 ECONOMIC REFORMS

With the formation of the World Trade Organisation, which replaced the General Global commerce became the engine of economic expansion after the General Agreement on Tariffs and Trade. The countries hurried to join this organization. However, rich economies traditionally held the upper hand in talks, therefore India, as a developing nation, had little choice but to cave in to its main trade partners' demands. Permissions for banking subsidiaries and joint ventures, as well as the removal of increased taxes on international banks, were among the requests. Economic changes in India could no longer be postponed after India joined the World Trade Organization. Following the recommendations of the Narasimham Committee Report and many Reserve Bank of India efforts, the liberalisation period of 1991 began. Liberalization entails releasing the economy from a tightly regulated system and allowing market forces to take over.

Despite taking a gradualist approach to liberalisation, India finally created a more competitive environment that was more favourable to innovation and progress. Cross-border flows rose when trade restrictions were reduced. Interest rates were deregulated, private banks began to join the market, and new prudential standards were established. The Indian economy eventually opened up to the rest of the globe, and the Reserve Bank of India began providing licenses to foreign investors. It published the roadmap for foreign bank involvement in India and recommendations on ownership and governance in private sector banks in February 2005. These rules aimed to ensure that private sector banks' ultimate ownership and control were well-diversified in order to reduce the danger of misappropriation or injudicious use of money. This was a significant shift from the pre-liberalisation period, when the financial system suited to the demands of planned growth within a mixed economy framework, most local banks were state-owned, and foreign banks faced tight entrance hurdles.

2. DEVELOPMENT OF PRUDENTIAL NORMS

With globalisation comes the necessity for more stringent prudential standards. Even domestic banks had to adopt a more international approach to compete in both the home and foreign markets, as adherence to international norms became more vital. As a result, micro-prudential measures were mandated in order to align with worldwide best practices, strengthen the banking system, and ensure its safety and soundness in the face of growing global competition. The banking sector became more transparent after the economic changes. The Central Vigilance Commission mandated that banks maintain an open policy and make their operations more transparent and accountable by revealing information on willful defaulters, non-performing assets, and investments, among other things. The Reserve Bank of India has also made it essential to publish the terms and conditions of credit card transactions, as well as interest rates and other fees associated with their usage. All of these steps were done to boost consumer trust in the local market and prevent it from losing customers to international firms who were joining the market.

IMPACT OF GLOBALISAITON ON INDIAN BANKING OPERATION

Countries have begun to take initiatives to improve market access in the financial services sector, especially banking, since globalisation. Asset management, consulting services, securities and underwriting are some of the areas where changes are being made. Countries have also agreed to lowering or eliminating obstacles to foreign ownership and expanding the number of foreign bank branches allowed. Many of these changes were undertaken by India as part of the 1991 reforms, and India's worldwide standing has improved since then. There has been a significant growth in investments in India, which has bolstered domestic sector development and expanded the globalization of Indian banks. Offshore Banking Units have also begun to be established by Indian banks in Special Economic Zones. These are units based in India that serve as international branches of Indian banks. Furthermore, new foreign players are joining the Indian market, and the industry is heading toward a structure that includes cross-border transactions and bank ownership that is globally varied. As a consequence, international transactions are on the rise, including those conducted by parent bank branches and subsidiaries in host country marketplaces. Such transactions have short- and long-term consequences for the host nation market as well as the home countries of these institutions.

Customers are seeking better services and products from their banks as a result of internationalization and more information sharing. As a result, the financial industry has switched from a seller's market to a buyer's market. The emphasis has shifted to boosting the availability of customized goods and value-added services. Direct Selling Agents are increasingly being used by banks to promote and sell their goods. Home banking has becoming more popular. This is a tendency that has begun to emerge not just in the private and commercial banking sectors, but also in public sector institutions such as the State Bank of India. The State of India, together with its allies, controls a substantial portion of India's banking sector, therefore keeping up with market developments is critical. It made significant measures to enhance the usage of credit cards, ATMs, and virtual banking as a result. However, owing to their huge network of branches and the structure of their ownership, public sector banks face a more challenging transition. Furthermore, the Reserve Bank of India has aided this transformation by a number of initiatives, including the Credit Policy 2000, which permitted banks to enter the insurance market, and the establishment of the Insurance Regulatory and Development Authority in 1999. Commercial banks who sought to expand into the insurance industry were allowed to do so by acting as insurance agents, forming joint ventures with core insurance firms, and participating in capital markets up to 5% of total outsourced advances.

As global financial integration grows, Indian banks will need to expand quickly, both organically and via consolidation, to keep up with economic development.

According to popular opinion, India needs to build at least five to six large banks via financial sector consolidation in order to compete in the global market. Though the idea of consolidation was raised in the Narsimham Committee Report, it was never really pursued, and the process was restricted to a few tiny mergers in the private sector. Because consolidation cannot be forced from the outside, this was the case. It can only take place if the merging entities recognize the necessity and advantages. However, there are external forces that might influence how these merging creatures think. To begin, a clear and succinct legal and regulatory structure to oversee consolidation is required; second, an enabling policy framework is required, particularly because many banks are still controlled by the government; and third, market circumstances must favor such consolidation.

To meet the needs of a globalized world, Indian banks are already branching out into new areas such as investment counseling, tax consulting, and private banking services for high-net-worth clients. However, as the Indian economy continues to develop, the banking industry faces increasing pressures. On the consuming side, more sustained growth has pushed a huge number of families into higher income and hence higher spending categories. As a result, the need for financial savings possibilities has skyrocketed. On the production side, the need for infrastructure investment has grown as a result of fast industrial development and strong merchandise trade growth. As a result, some sort of consolidation is required to allow Indian banks to climb to the global level and internationalize their operations while retaining the quality of services supplied.

CONCLUSION

The Indian banking sector faced several obstacles as well as numerous possibilities as a result of globalization. There was increasing foreign and local competition, as well as poor production and profitability. However, the banking industry has seen a significant transformation since then. The Indian banking industry has done a good job of overcoming these globalisation problems and is continually adjusting to the changing environment. Economic liberalisation was critical in allowing the Indian banking industry to diversify both locally and internationally. Improved risk management methods and better technology also contributed to the Indian banking sector's survival. If the banking sector's efforts are matched with appropriate macroeconomic policies, India will be able to overtake some of the world's biggest countries.

REFERENCE

1. Author is a student at University Of Petroleum And Energy Studies, Dehradun, India.
2. E. ezike, international business finance and management 197 (concept publications limited, 2009).
3. Ram, Jitendra Kumar. (2012). Globalisation Of Indian Economy: An Evaluation Of Performance Of Indian Banking Sector.

4. 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).

6. 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).

7. Achuthan, Suren. (2018). Globalization of Financial Institutions in India. International Journal of Economics & Management Sciences. 07. 10.4172/2162-6359.1000551.

8. KR Ramamoorthy, Globalisation and Competitiveness: Emerging Challenges in N. Jadhav, Challenges To Indian Banking 196 (Macmillan India, 1996).

9. 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).

10. 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).

11. Suren Achuthan “Globalization of Financial Institutions in India” DOI:10.4172/2162-6359.1000551

12. Pal, Rajesh. (2009). Indian banking and Globalisation.

13. Tripathi, Dr & Reshtya, Mr. (2017). Globalisation Impact on Indian Banking Services. IOSR Journal of Business and Management. 19. 01-04. 10.9790/487X-1903010104.

14. Krishna, A & Goyal, Krishn & Joshi, Vijay. (2012). Indian Banking Industry: Challenges And Opportunities. International Journal of Business Research and Management. 3. 18-28.

15. Agarwal, P.K.. (2011). “Transformation of Banking Sector after Globalization in India” in National Seminar on “Impact of Globalization on Indian Economy”.