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Corporate Banking in India - Emerging Scenarios

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Abstract

The financial banking industry is changing rapidly. The industry is welcoming the emerging technologies to build a secure and cost-effective environment for everyone. The corporate banking also known as business banking or wholesale banking offers the services and products to medium and large-sized businesses for its efficient functioning. Today corporate banking is becoming an important part of the banking system in India. The reasons are many like the globalization and liberalization of the economy, competition with foreign banks, many internal and external factors, issues related to size and scale of business units, advancement in technology, different nature of financial services required and last but not the least dynamic global environment. The corporate banking offers to the corporates several fund based services including credit, cash and asset management, trade finance, loans and many non-fund services also. Therefore, it is the key profit centre for the banks. The corporate Banking is undergoing a series of changes, which in turn are creating new opportunities and areas of concern also for banks operating in this sector. The present research paper will discuss the concept and functions, fund and non-fund based as well as other services offered by banks to corporate customers. The paper also examines the state of corporate banking in India and emerging scenario.

Keywords: Corporate, Banking, Services, India.

Introduction

The corporate banking is a type of banking service that caters to the financial needs of businesses. The objective of corporate banking is to support profitable investments of companies like, installation, modernization, expansion and diversification in the corporate commercial and industrial sectors for national economic development. Corporate banking is regarded as a specialized banking service also. It ensures the price stability, maintain the value of the currency and promote the growth of financial institutions. The corporate banking offers to the corporates several fund based services including credit, cash and asset management, trade finance, loans and many non-fund services also. Therefore, it is the key profit centre for the banks. Today corporate banking is becoming an important part of banking system in India. The reasons are many like the globalization and liberalization of the economy, competition with foreign banks, many internal and external factors, issues related to size and scale of business units, advancement in technology, different nature of financial services required and last but not the least dynamic global environment. Hence, banks have been emerging as a facilitator in relation to their corporate clients to help them in maintaining and enhancing their profits and market share globally.

With this changing environment, the nature, concept and the contents of corporate banking is changing. Now, apart from the methods of tapping the surplus funds of corporates, it includes the different techniques of lending money / support to corporates, providing documentations facilities and many other services also. Corporate banking has been changing into non-fund based, service based and technology based. It includes wide range of banking and financial services to help the local corporates in domestic and international operations and also local operations of multinational corporations. Corporate Banking offers various banking solutions such as credit management and underwriting to large corporations and small and medium-sized businesses. The banking system in India provides corporates a variety of products and services to assist them in managing their finances on both sides of the balance sheet i.e. assets and liabilities sides and also in off balance sheet items. The services by banks are broadly classified as fund based and non- fund based products. The difference between them lies mainly in the cash outflow. In fund based services by banks, immediate cash outflow happens while in non-fund services the cash outflow may or may not happen. The cash management / fund based facilities by banks include access to working capital facilities, bills receivables discounting, channel financing, cash credits/ overdrafts, term loans, domestic and international payments and commercial banking products. From the balance sheet point of view, the banks offer many types of deposit accounts of different maturities to suit the cash flow requirements, cash management product for managing the cash inflows and outflows of the corporates globally, on the asset side of the balance sheet. On the liabilities side, banks offer many services like discounting of bills, export finance, structured finance, term loans, short-term finance and working capital needs. In off balance sheet services, banks give non-fund services such as bank guarantees and collection of documents, derivatives, co- acceptance of bills, letter of credit, etc.

Today, banks are providing value added services also to the corporates. The information technology enabled services known as core banking solutions, are offered to the corporates such as Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), Immediate Payment System (IMPS), assistance in rights/ public issues, corporate salary accounts, corporate internet banking, forex help, money-market help, employees' trusts etc. The business model of corporate banking is based on a close and strategic relationship with clients, providing them with global solutions adapted to their requirements, taking into account the particularities of their sector of economic activity as well as the markets in which it operates.

Corporate Banking –Functions

Corporate banking focuses on responding to the day-to-day operational needs of companies, corporations, and institutions and their treasury management. Banks offer corporates a wide range of products and services, the technologies to leverage them anytime, anywhere and the expertise to customize them to client-specific requirements. From cash management to corporate finance, from forex to acquisition financing, they provide end-to-end services for all the banking needs of the corporates. The result is an overall financial solution for the corporates that help them accomplish their objectives. Among the fund based services offered by corporate banking, the following should be highlighted:

1. Cash Management Services: The banks offer cash management services to the corporates / customers. The objective of cash management is to optimize the liquidity to improve the flow of funds. Good cash management is important for the businesses due to competitive environment and the complex financial processes. The cash management services are related to collections services, disbursement services, global trade services and investment services. Now not only the public sector banks but other banks too are providing cash management services to the corporates.

2. Debt Management Services: The financial requirements of the corporates are of two types i.e. long term funds and short term funds. Long term funds are required for purchase of land, plant, machinery, utilities and construction of factory and office building etc. This requirement is met through term loans from banks. While, short term funds are required to finance working capital requirement like inventory, receivables, advances to suppliers of raw materials and other short term needs. Therefore, this working capital requirement is met partly by the client and remaining requirement is met by the banks under fund based services.

3. Forex Services

With globalization and deregulation, corporate sector has exposed to many types of risks too, like risk of fluctuations in the foreign exchange rate. Fluctuating exchange rates affect not only import/ export values of corporates but also their balance sheet values depending on their external borrowings and investment abroad. Therefore, to help corporates, banks have set up foreign exchange advisory services. Here, banks advice the corporates to cover their exports/imports, the time of foreign currency borrowings, the currency of borrowings and to acquaint them with the techniques of covering forex risks, eg. Swaps, forward rate agreements, cross currency options and derivatives. For the banks, this service is an important source of fee based income.

The non-fund based services are also required by a corporate / customer like, letters of credit or bank guarantees or bank's co-acceptance of bills. There is no outlay of funds by the banks. Only in case of any default from the customer, the bank has to fulfill its obligation and get the reimbursement from the business on whose behalf this obligation was taken.

1. Guarantees: The bank guarantee is a non-funds based working capital financing. It is acquired by the client to reduce the risk of loss to the opposite party due to non-performance of the agreed task. It may be required by the corporates on regular or ad-hoc basis. Banks issue guarantees on behalf of their customers for working capital requirements. The agreement is prepared between bank and its client keeping in mind, the purpose, security and maturity issues etc.

2. Co-Acceptance of Bills: Banks co- accept the bills of suppliers. The bill of exchange drawn by a supplier and accepted by the purchaser (bank's customer) and is also co- accepted by the bank. This co- acceptance by bank is like a guarantee for supplier against the non- payment by the purchaser. The need of customer for working capital finance by the bank would reduce due to credit provided by the supplier.

3. Letter of Credit (LC): At the request of the buyer, Letters of Credit is an undertaking by the bank to seller, to pay him the contracted amount if he supplies the goods as per the terms specified and submits the required documents, including the documents of title. So a buyer would buy a letter of credit and send it to the seller. As per the agreement, when seller sends the goods to the buyer, the bank would pay the seller and collects the money from the buyer (client).

4. Derivatives: A derivative is a financial contract whose value is derived from the performance of underlying market factors, interest rate, foreign exchange rate, and commodities, credit and equity prices. The most common are options, swaps, futures etc. Banks can use derivatives to offset, or at least limit, such risks and protect their incomes from the effects of volatility in financial markets. Banks also use derivative products to provide risk management services to their clients.

Other Financial Services Offered by Banks: Corporate banks are primary source of finance for entrepreneurial and industrial work. They provide a wide range of other financial services to businesses. Hence, they're crucial for domestic and international trade and commerce. The following are the other services offered by banks:

1. Import Finance: Import finance is a range of financial products to import good, tailored specifically for corporates and covers services like invoice financing, import loans. Therefore, when an Indian importer needs to raise trade credit (buyers' credit/suppliers' credit) from overseas suppliers, for import of capital / non- capital goods into India, the resident importer can raise trade credit in Rupees within the given framework, after entering into loan agreement with the overseas lender, to provide more flexibility for structuring trade credit arrangements.

2. Export Finance: Banks offer trade finance and other services to facilitate the domestic companies for international exports. As exports are important for earning the foreign exchange income, so special facilities have been provided for extending finance to the export sector. RBI introduced the scheme Export Financing in 1967, to make available short term working capital finance to exporters at internationally comparable interest rates.

3. International payments: International payments consist of outgoing and incoming payments in that currency out of and into that country, as well as offshore payments in that currency, between two parties outside that country. They process payments, from the tiniest of personal checks to large-value electronic payments between banks. The payments system is a complex network of local, national and international banks and often involves government central banks and private clearing facilities that match up what banks owe each other. The banks help diminishes the risks and allow transactions to go smoothly for buyers and sellers worldwide.

4. External Commercial Borrowing (ECB): External Commercial Borrowing refers to the borrowing of funds by Indian companies from foreign sources in the form of loans, bonds, or other financial instruments. ECB can be used to finance a variety of purposes, including the expansion of business, the acquisition of assets, and the repayment of existing debt. This can be used to bring in fresh investments. External commercial borrowing (ECBs) are loans in India made by non-resident lenders in foreign currency to Indian borrowers. They are used widely in India to facilitate access to foreign money by Indian corporations and public sector undertakings.

5. Syndication of Loan: Syndicated loan is a form of loan business in which two or more lenders jointly provide loans for one or more borrowers on the same loan terms and with different duties and sign the same loan agreement. Usually, one bank is appointed as the agency bank to manage the loan business on behalf of the syndicate members. Loan syndications are generally reserved for loans involving international transactions, different currencies, and necessary banking cooperation. A consortium is usually governed by a legal contract that delegates responsibilities among its members.

6. Corporate Internet Banking: Corporate Internet Banking is issued to corporates that are non-individuals like Proprietorship, Private limited company, Public Limited Company, Trusts, HUF etc. Corporate banking works directly with businesses to provide them credit, savings accounts, and checking accounts which are specifically designed for them rather than for individuals. It offers the facility of linked accounts like channel partner, vendor and dealer accounts, Intra and Inter Bank fund transfer using NEFT and RTGS. Bulk payments, online tax payment. Also working capital finance, corporate loans, term loans, cash management, doorstep banking, current account, salary/payroll account, trade finance etc.

7. Salary Payment Service: It is a value added service offered by banks to corporates. Corporate Salary Payment Service is very important service. They offer payroll solutions in a 24*7 environment. In offering this facility, banks leverage their extensive network of distribution channels spread across many centers through a network of branches and ATMs. The corporate client disburses the salary of his employees by a single instruction to bank together with a list of employees' names, account numbers and amount payable to each employee.

8. **Business Advisory**

It is a specialized service by banks to assist the local / multinational clients in planning for growth and consolidation. Banks helps them to introduce to new business approaches and operational practices as well as strategies for business processes restructuring, revival, market diversification, product planning, financial management etc.

Apart from the above mentioned services, banks help the corporates by many other ways, like extending the service of a personal financial advisor for managing their issues and communication between the client and the bank. Banks offer services in collecting Public & Private Placement/ Mutual Funds/ Capital Gains Bonds issues. Besides, some banks have products specially designed for the financial intermediaries to meet their unique requirements. Therefore, bank has the expertise and the solutions to partner the corporates all the way, whatever is the industry or size or their financial requirements.

Issues related to Corporate Banking in India

According to a study by Boston Consultancy Group with SWIFT India, in May, 2018, it is observed "that corporate banking is going through a turbulent phase globally. Corporate lending margins are reducing, borrowing is shifting towards capital markets, corporate clients are demanding greater digital experience, fintechs are posing as formidable alternatives and frauds are becoming commonplace. The Indian corporate banking industry is currently operating in a high pressure environment. On one hand, banks are facing mounting challenges from growing corporate NPAs, bans on MOUs and increasing cyber and fraud risks while on the other hand, increasingly sophisticated customers are demanding digital and customized experiences at every point of the journey. Corporate clients in India are not satisfied with the current offerings from their bankers. This calls for an immediate and urgent action by banks.

Therefore, the study suggested some remedies also for Indian banks.

The Indian banks need to work towards plugging the pricing leakages by moving to a market based target pricing model and setting up a centralized pricing team backed by analytics. Banks should change or reboot corporate Relationship Manager mind set to think flows & cross sell, and digital enablement to improve collaboration, transparency and insight. Use of high technology from end-to-end for corporate customer profiles using AI, to lower costs and improve operational risks. Usage of analytics is recommended across the entire value chain of wholesale banking, e.g. cross-sell, smart pricing and credit underwriting and early warning systems for better experience. Enforcement of fraud detection and mitigation policies along with people enablement, in order to reduce cyber-crimes."

According to an article in ET, Kotak, 2018, 'Restructuring Corporate Banking in India- Shifting Regulations, Markets and Technologies are Transforming the Industry', It is noted the same "that few areas need significant introspection. Risk, capital and pricing must be central to decisions. Banks must focus on improving non-risk-based revenue to improve return on equity (ROE) and Risk-adjusted return on capital (RARO. Equally important, they need to get far more institutionalised and business-process driven. They will need to move up the curve on digital and technology capabilities and must reinvent their payment products to meet changing paradigms."

According to IMF Working Paper Asia and Pacific Department 'Corporate Sector Resilience in India in the Wake of the COVID-19 Shock' in Nov. 2021, the effect of covid-19 on the corporate banking sector in India is researched statistically. "In this paper, it is observed that on corporate sector policies, targeted support to viable corporate sectors should continue, particularly with the heightened uncertainty regarding the future course of the pandemic. To ensure lenders follow appropriate standards when assessing borrowers' viability, supervisors should apply enhanced monitoring, including collection of more granular data and analyses of a broad range of corporate performance indicators. At the same time, policies facilitating the exit of non-viable firms are also warranted. The authorities should work proactively in developing a contingency plan to address a potential increase in insolvency cases. Reforms in the existing framework are needed to reduce costs and the time of exit for non-viable firms. For example, introducing hybrid restructuring.:

The year 2021 tested the strength of economies and businesses across the world. The businesses have been recovering from the impact of the pandemic. And it was very challenging especially for the banking and financial services industry. The sector witnessed significant movement in retention of customer trust. The pandemic did force the banks to rethink their technology strategies and strengthen digital banking, offer improved services to the customers and redefine customer relationships. But the biggest factor which underlined the performance of banks in 2021 and defined the industry's growth in 2022 is the ability to capitalize on technology investments and create value.

Conclusion

The corporate Banking is undergoing a series of changes, which in turn are creating new opportunities and areas of concern also for banks operating in this sector. Some of these changes are driven by new technologies. However, such changes are driven by changes in expectations from the corporate sector. Banks need to focus significantly to include more agile cross-products with integrated credit management, market driven pricing policies, risk and capital to make informed decisions. Reforms in the existing framework are needed to reduce costs and the time of exit for non-viable firms. For example, introducing hybrid restructuring. The previous years posed threats to banking sector due to covid-19 pandemic. The banking sector has been recovering and banks need to focus on digital banking and re-evaluate the customer relationship aspects urgently. According to the studies also the important factor that will define the industry's growth in future is the ability to capitalize on technology investments and create value.

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