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UNIVERSAL BANKING IN INDIA: FUTURE SCENARIO

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ABSTRACT

Universal Banking is a new concept in Indian banking scenario. It can be said as a supplier for different financial products under single roof. Business sector and households can avail many financial service like loans, insurance, stock market investments etc while doing withdrawal and deposit as a routine banking. In India, too, a lot of opportunities are there to be availed and exploited. In this paper attempt has been made to study the future prospects and impact of Universal Banking in Indian market. India's banking sector follows closely the worldwide global trend of financial developments. It is believed that the concept of global supermarkets could play an important role in future by the opening of Indian Banking sector to foreign players.

Keywords: *Financial Institution, Supermarkets, Universal Banking, Development Financial institutions (DFI's).*

1. INTRODUCTION

Universal Banks provide variety of banking and non-banking services like deposit, withdrawal, providing loans, investment facilities, holding of several claims on firms (including equity and debt), participation directly in the corporate governance of firm that can rely on the banks for funding or as insurance underwriters. Thus, Universal Banking can be defined as a superstore for financial products under one roof. Business houses can get loans, avail other handy services, while can deposit and borrow.

The entry of banking sector into the area of financial services was allowed soon after the emergence of liberalization in the economy. Since the early 1990s many structural changes of great magnitude have been observed in global banking systems like mergers, amalgamations and acquisitions among the banks and financial institutions which results in the growth in size and competitive strengths of the merged entities.

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Thus, in today's scenario, Universal Banking plays a major role in making banks more successful and cost-effective. There are numerous factors that affects Universal banking, be it internal or external resources which could maximize economies of scale and scope by building the production of financial services organization.

1.1 REVIEW OF LITERATURE

Universal Banking can be defined as multi-functional and multi-purpose financial supermarket i.e. an institution which offers a wide range of financial and banking services through single window e.g. stock, insurance and real-estate brokerage. According to the World Bank, In Universal Banking, large banks operates an widespread setup of branches which provides different services, hold several claims on firms (including equity and debt) and sometime also participates in the Corporate Governance of firms.

In a nutshell, *Universal Banking can be said as a superstore for financial products under one shelter.* Corporate can avail loans and other handy services, while doing usual banking functions of deposit and borrow. It includes various services related to savings and loans and investments also.

However in real practice the term 'universal banking' refers to those banks which provides a wide range of financial services, beyond the commercial banking functions like Credit Cards, Housing Finance, Retail loans, Merchant Banking, Factoring, Auto loans, Investment banking, Insurance, Mutual Funds, etc. This concept is most common and popular in European countries. For example, in Germany commercial banks accept time deposits, lend money, act as investment advisors to large corporations and underwrite corporate stocks, As there is in the United States, in Germany, there has never been any distinction between commercial banks and investment banks.

2. THE FUTURE OF UNIVERSAL BANKING :

Since the end of World War II, importance of universal banking was observed in Germany and Switzerland. The German and Swiss economies suggests three factors will determine future growth of universal banking.

First, universal banks enjoys numerous of advantages over specialized institutions, like they are able to exploit economies of scale and huge scope in banking. These economies are of great importance for banks operating on a globalized scale and caters to customers with a need for highly sophisticated financial services.

Second, although universal banks have expanded their range of influence, the smaller institutions which are specialized have also not disappeared. In both Germany and Switzerland, they are successful simultaneous and competing with the big banks. In Switzerland, for example, the specialized institutions are firmly embedded in such areas as real estate lending, securities trading, and portfolio management. However strong performance of various specialized institutions advocates that universalbanks do not enjoy a comparative advantage in all areas of banking.

Third, universality of banking may be achieved in many ways. It is evident that that the German and Swiss universal banking systems differ substantially in this regard. In Germany, universality of banks have been gained without significantly increasing the market shares of the big banks. Instead, the many small organizations have acquired universality through mutual cooperation.These banks have system of central institutions conducting banking activities which are give significant returns to scale and scope. But In Switzerland, the cooperative methodology hasnot worked as well as in Germany.

3. RECENT TRENDS IN UNIVERSAL BANKING IN INDIA

The recommendations of the Khan Working Group and Narsimhan Committee- II reports relating to banks and DFIs were seen when huge banking organizations like ICICI, SBI, IDBI, etc. started proposing plansfor taking up the in demand status of universal bank. ICICI. Many public sector banks set up subsidiaries for providing various financial services.

Deregulation process opened up many new and vast opportunities for banks to increase revenues by diversifying their activities into investment banking, insurance, credit cards, depository services, mortgage financing, securitization etc. Interest rates have been relaxed over a period of time, branch licensing procedures have been liberalized and SLR, CRR havebeen reduced.

Financial system has been deregulated and liberalised . Crises in many countries have alerted policy makers and regulators to the possible fragility of financial intermediariesin a deregulated environment like crises in East Asia in 1997, Turky in 2000 and more recently in Argentina.

India's financial system has shown a great amount of flexibility. India appears to be survived from many crisis caused due to external macroeconomic shock of the East Asian countries, because of flexibility in India's exchange rate. In recent years, India has been significantly improving in financial sector regulation. Prudential norms have been tightened.

4. DEBATE OVER UNIVERSAL BANKING IN INDIA:

In India, as per the Banking Regulation Act, 1949 banks are allowed to function as universal banks. Many financial institutions are also permitted to function as universal banks in the international sense but are subject to serve restrictions which are purely Indian in character. Thus debate on universal banking in India can be discussed as follows.

i. **Regulatory burden:** The concept of universal banking in India has raised the question of regulatory burden on financial intermediaries. As DFI's (Development Financial Institutions) are also allowed to act as a universal banks, strict regulations need to be imposed on them as implied on commercial banks. This point is not highlighted in the Khan working group. There is a requirement to reconsider the current SLR and CRR as per the new changing scenarios. In India there is an urgent requirement to lessen the regulatory burden, particularly for banks, mutual funds and insurance companies, if the banksare expected to compete in free market place

ii. **Maturity and duration:** Duration of finance between commercial banks and financial institution is a matter of debate for universal banking concept. Somehow DFIs are the providers of long term finance where as banks are providers of short-term or medium term finance but in reality commercial banks finances in a way which amounts to financing in perpetuity as in general there are no definite maturity dates. The real distinction is the nature of security that is taken by each entity. DFIs take fixed assets as security which is helpful to them when the case goes to court or when it becomes security dependent. On the other hand banks have an advantage because it is a current security as it is working capital.

iii. **Role of RBI:** RBI governs commercial banks in Indian banking regime. The RBI has to decide appropriate regulatory frame work that enables rather than controlling DFIs to operate as universal banks while also ensuring consistency with monetary policy and prudential standards. The shift of DFIs towards universal banking concept will be governed by the consumer demands and the response of the concerned banks of DFIs. There is no time-limit prescribed for a DFI to become universal bank only an individual or ideal time frame has been mentioned in the discussion paper

iv. **Status of DFI:** For the regulation purpose formal clearly defined and legally acceptable regulatory framework of the RBI is available basically for banks and for non-bank finance companies. DFIs as a category are still not clearly defined as indicated in discussion paper. They are still in a way of merger of state or central government level, company or corporate forms with different extents and degrees of public sector ownership and performing refinance, direct finance and other functions.

v. **Optimal Transition path:** The transition path contains several operational and regulatory issues for information and guidance of DFIs. The S H Khan working group also suggests that DFIs should transform themselves into commercial banks but in a phased manner.

5. CHALLENGES IN UNIVERSAL BANKING:

There are certain challenges which need to be effectively met by the Universal Banks:

i. DFIs opting for conversion into Universal Banks by following merger routes may have to face certain difficult situations on many grounds like on account of Asset Liability Mismatches, burden of high NPAs and differences in regulatory prescriptions applicable to Financial Institution and banks such as CRR and SLR requirement and priority sector lending.

ii. The regulatory norms for DFI's in India has been historically less as compared with the banking system norms because DFIs do not form part of the monetary system and partly because they do not have deposits like liabilities.

iii. In case of DFIs are converted into banks they would also be subject to the reserve requirement like banks. This would mean that all liabilities issued by the DFIs in the past would also be subject to the reserve requirement and since the assets structure of DFIs are largely of long term nature. It would be very difficult for them to maintain the required level of SLR and CRR.

iv. For the sensitive customer a wide range of services is not enough but they also wants efficiency in terms of cost, time and convenience.

v. For universal banks, Risk Management of priority sector lending might also create difficult situations. It is one of the major challenge where in the financial activity carries with it various risks which would need to be identified, measured monitored and controlled by Universal Banks.

vi. Different techniques has to be adopted for various financial products, because the nature of risks will be different and thus Universal Banks requires to develop comprehensive system for each product and each kind of risk. It is not feasible for any institution to rely only on short term funds or on long term funds. To diversify risks and uncertainity it is necessary that the liabilities of a bank or a DFI has an appropriate mixture of short-and long-term securities.

vii. To meet increased competition and manage risk the demand for specialized banking functions using IT as a competitive tool has to go up. Special skills in retail banking, treasury, risk management, foreign exchange etc. will need to be cautiously encouraged and built. Thus the twin's pillars of the banking sector i.e. human resources and IT will have to be strengthened.

6. UNIVERSAL BANKING - THE ROAD AHEAD TO INDIA:

The commercial banking sector in India is going through interesting phase not just economically, but on the policy front as well. Narasimham committee's recommendation indicated major policy shift by that development finance institutions (DFIs) ultimately convert into either commercial banks or non-banking finance companies. This, in a way, indicated the new beginning of the end of specialized services from DFIs, and the introduction of universal banks.

In India, commercial banks have traditionally been prime lenders for working capital loans and DFIs financed term loans. Now, DFIs will be moving towards universal banking, banks have been allowed to diversify into investments and long-term financing, and DFIs will lend for working capital.

In Indian context, universal bank will become a one-stop provider for all financial products and activities, like deposits, short-term and long-term loans, insurance, investment banking etc. Global experience with universal banking has been varied. The concept of universal banking has been prevailing in many European countries. This sometimes prohibited commercial banks from investment banking activities, taking equity positions in borrowing firms, selling insurance products etc. The main purpose was to reduce the risky behavior by checking commercial banks to their traditional activity of accepting deposits and lending. Research on the effects of universal banking has been inconclusive as there is no clear-cut evidence in favors of or against it anywhere.

The idea of one-stop-shopping solution saves a lot of transaction costs and increases the speed of economic activity. For this, appropriate regulation can be followed, which will ultimately benefit all the participants in the market, including the banks themselves. Though many associated problems are there in universal banking concept, but lot of interest expressed by banks and financial institutions in universal banking.

In India, also, many opportunities are there to be explored. Banks, especially the financial institutions, are conscious of it. And many organisations plans to diversifyin a big manner.

7. CONCLUSION

Finance is a main source in all business as it has very close ties with all the activities. Various financial products and services offered by banks and financial institutions have penetrated our lives. The world is ever-changing and financial products and services have to updated and keep up with the pace of new demand of society, business sector. Banks have to be organized for meeting the growing need of their clients. In many countries, universal banks, which offers large wide variety of financial services, are more responsive to customer needs and helpful in facilitating economic developments.

Financial sector in India is quite bank-oriented, and banks are the primary supplier of financial and banking services. With the liberalization and regulatory requirement for universal banking, Indian banks continue to enlarge its scope of financial services as per customer demand and profitability concerns. India’s banking sector follows diligently the financial developments trends globally.

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