International Journal of Academic Research
ISSN: 2348-7666; Vol.3, Issue-5(1), May, 2016
Impact Factor: 3.075; Email: drtvramana@yahoo.co.in

# Recent trends of the Banking Industry in India

P. Demudubabu, Asst. professor, Indo American Institutions Technical campus, Sankaram, Batlapudi, Anakapalle, Visakhapatnam (Dist), Andhra Pradesh - 531 001

***Abstract***
*Currently there is a tempestuous debate regarding the future of the banking system, already deeply influenced by its historical evolution. A common factor of these discussions is the recognition of a certain decline: an obviously decreasing trend of this industry's market share in the global market. The weakening of the central banks' capacity to control currency demand and reach the macroeconomic targets would prejudice the clients (legal or natural persons), who relied on the banks' support fortheir own businesses, and would increase the cost of accessing the usual banking services. On the premise of the changes that characterized the evolution of Europe's banking systems in the last decades, prospective strategic guidelines can be drawn. These guidelines explain the challenges that the banking system will have to face, starting with these dramatic crisis moments.*
***Keywords:*** *bank; transition, financial system, deregulation, consolidation; globalization*

## Introduction

The important presence of the state in the banking sector comes as a characteristic of Latin countries, whereas practically all banking companies in the United Kingdom belong to the private sector. Even so, it should be mentioned that, due to the 1979 Banking Act, the Bank of England's control over the entire British banking system has been officialised (the Bank of England was nationalized after 1946). Therefore, only thebankingcompanies that have been granted, by the Bank of England, the title of "recognized bank" or"institutionauthorised to receive deposits" may operate as deposit banks and, beginning in 1960, newly created financial brokerage companies are also monitored by the Bank of England. In France and Italy, the situation is different: the state controls the main deposit banks. As a consequence, the role of the state in the banking system is significant, and public authorities are accused of too high a degree of interference, which leads to the diminishing of the regulatory role of competition. One example in support of this can be seen in the debates generated due to the strong support that the state offered to Credit Lyonnais when this bank was faced with important transaction losses in the last decade of the 20th century. Another factor specific to the banking systems of continental Europe's that they undertake activities that are prohibited in other countries, such as investment and the acquisition of stocks on the capital market.

A significant activity that the main European banks undertake is to attract deposits and grant loans. There is a lack of restriction on setting up branches and

subsidiaries, and therefore the major European banking companies maintain vast networks comprised of a great number of units, both on national territory and, more and more, at the level of the European Union. The higher degree of concentration explains the financial stability of thesenetworks, which existed, until not so long ago, only in the United States of America. The banking system in the member states of the European Union show a much lower degree of concentration compared to those in Anglo-Saxon states, especially the United States, Canada, Australia, etc.

The development of a two-tier banking system, central banks and commercial banks, was accompanied by the introduction of a foreign exchange system in all three Baltic countries, characterized by a fixed exchange rate system. This was initially based on the Deutsche Mark and American Dollar, however now the currencies of the three countries are linked to the Euro. Due to the stability of the monetary market and the trust garnered by the Banking system among its depositors, the corresponding liquidity allowed rates of interest low enough to make investments attractive. Furthermore, a characteristic trait of Baltic banking systems is the leading role played by the large Scandinavian banks, which have been considerably implicated in contributing to their establishment and efficiency, as well as to the development of beneficial competition between banking companies. This was because of their help increasing the social capital of Baltic banks, as well as in their own internal banking market. The transition towards a market economy and the impact of the financial crisis of the Russian financial system has resulted in the disappearance of many banking companies from the Baltic Countries.

According to the dimensions of the banks that compose the current EU banking system, the tendencies manifested in their strategies differ. Therefore, while the large banks are not interested in expanding towards central and Eastern Europe, the medium sized banks, among which is Ester Bank, are targeting the expansion of the national market specifically in this zone through the acquisition of small or modestly-sized banks.

The strategic objective generally followed by the European banking system is the drastic reduction of costs byreorganising activities that would lead to the reworking of efficiency indicators. The most frequently applied measures referred to are: the externalization of support activities (call centers, computer management and support); the perpetuation of multiple distribution channels; and the perfecting of risk management techniques by aligning to the demands of the Basel I and II Accords. To this end, the preoccupations of banking management are present in the constituting of databases regarding credit losses, as well as in the improvement of functional structure so that, while respecting internal and external regulation, operational risk is to be defined and quantified and reputational risk is to be reduced. The consolidation process has particularly attracted the small and medium-sized banks from European countries. By their level of internal consolidation, one may

distinguish the following groups of countries:

**A** –small countries, such as Belgium, Austria, the Netherlands, Greece, Sweden and Finland where internal consolidation is almost at an end;

**B** – Large countries, such as Spain, France, Great Britain and Portugal where internal consolidation is accelerated but not over;

**C** – Countries such as Germany and Italy, which are qualified as being "over-banked", with a low degree of concentration but with an accentuated intensification of the consolidation process. The effects of internal consolidation are found in the numerical reduction of credit institutions and the elimination of less efficient players from the market Because several market studies have proven a lower productivity of mergers and acquisitions within the EU,the cross-border consolidations of banks have been focused outside of the union, also being more attractive in terms of cost. To this end, other contributing factors were cultural differences, organizational complexity, as well as the disharmonious legislation with regard to acquisitions, mergers or other adjacent questions. Furthermore, as a catalyst l for their integration into the EU, central and eastern European countries was the object of a crossborderconsolidation process adopted by several European banks; the first stage was represented by theprivatisation of targeted financial systems. Within groups, as a main goal, restructuring has several aspects, such as: the replacement of a multiple structure with a single one and the creation of common decision-making bodies; and the creation of global risk committees (which ensure integrated risk management) or the transfer of services from individual entities to a holding company and the introduction of a single brand. With a view to streamlining corporate governance, within which an important role is played by external auditors, increasing the efficiency of decision processes is intended, with the primary measures regulated by High Level Group Company Experts (HLGCE), a structure of experts subordinate to the European Commission. Although the interests of any bank are focused as much on business as on risks, an efficient management implies the separation of business management from risk management. Limiting the risks specific to banking activity is a preoccupation, but also a result of banking management. One of the most important aspects taken into consideration is the development of integrated risk management techniques, made up of risk quantification and prevention methods. Scoring techniques, internal ratings and capital allocation models may also be added.

### 3. Substance and form transformations

Many of the current analyses regarding the banking sector classify the substance and form transformations that it goes through as a true revolution, considering that banking and non-banking operators of the future will beware of a previous reality that will be difficult to anticipate and recognize by the then-present patterns. For the reconfiguring of this field, which actually conditions the functioning of all structures that compose

the social economic life of the world, the influence of the actions of numerous factors and elements that are part of day-today life must be taken into account. The proliferation and diversification of banking products and services has intensified in the last decades, thereby also intensifying the competition between operators who are vying for an increasingly demanding and informed clientele. As the global market becomes deeper, and IT generalizes its presence with increasingly laborious and expensive products, the operating costs have increased risks are amplified and diversified, and the diversification of risk requires permanently-efficient management. The good part of these aspects is the emergence of new income sources at the banks' disposal, different from traditional credit interest rates, namely "fee income": sums coming from the variety of commissions that banks impose for a Variety of new operations.

In parallel with the growth of banking services there has been intensification in the competition between financial operators, banking or non-banking, which is manifested and crystallized in the increase of the volume and catalogue of banking services. One tendency that has had some extremely controversial effects during the previous decades is tied to the governments' interference by deregulating this complicated sector through the Increasing dilution of control of the financial and banking services. From its inception in the North American markets, the practice has spread all over the world. The deregulation of the banking system began by raising the ceiling imposed by the monetary authority on the interest for population deposits with the intention, however admirable it may have been, to ensure a better remuneration of these deposits. Concurrently, saving and functioning through methods other than classic bank deposits was legalized, which in reality allowed many nonbanking operators to compete with banks. States with developed economies such as Great Britain, Japan, Australia and Canada have joined the deregulation movement, increasing the legal operating area of banks other institutions with similar profiles and activities. However, at the same time this is fuelling the vulnerability of the whole system, and even of the whole world, by exposing it to new and unknown risks on an ever-increasing and libertine market.

The initial deregulation by the authorities, especially in the field of savings institutions, has allowed the client to dispute considerable income to their deposit accounts. However, only the public could have put into action this new opportunity created by deregulation. They did just that: billions of dollars, which before would be "snoozing" in deposit accounts with low interest rates, or even in zero interest accounts, have gone the way of new savings instruments, remunerated with very high interest rates in accounts that could be sold freely under market conditions. Banks have thus discovered that they are confronted with a much better informed and exigent clientele, but whose loyalty could be easily broken by the competition. The challenges were tied to larger incomes from deposits, so classic banking operators found them forced to direct

their efforts to the preference of the clientele: assured earnings. Technological transformations have resulted in a considerable increase in running costs: electronic currency is replacing antiquated technical instruments with huge servers andprogrammes continually adapted to global monetary acceleration.

The most visible proofs of banking technology innovation are in automated teller machines (ATMs) and point of sale (POS) devices: terminals with an assured24 hours a day functionality, anywhere on the globe and in any currency. These terminals process tens of thousands of transactions every day with great accuracy, anywhere on earth. For these reasons, the banking industry is based more and more on new methods of electronic communication with their clients: the traditional face-to-face counters will become relics of the past. The automation of services, associated with reduction inunitary costs, tends to depersonalize banking activity; the disappearance of some sacrosanct professions wills Be the effect of replacing work with capital. However, analysts in the field consider that complete automation is still some time away, considering that there are still enough clients who prefer personal and direct discourse with their credit or fiscal counselor on a variety of financial or collateral matters. Efficiency and automation, extended through modern technological innovations, require a large sales volume. This means that banks and similar Institutions are increasing their clientele by accessing markets located a great distance away and delivering larger number of product units, which they sell in an increasing number of offices and counters. Consolidation is still a characteristic of this sector, signifying the emergence and development of large financial complexes in Which companies specializing in all services and products of a financial nature are brought together. The expanding technological base has meant the replacement of the human workforce with the acquisition of computers and other complicated operating devices.

The proliferation of services, and the increasingly extreme competition between banks and financial firms, hasled to the emergence of a phenomenon known as convergence, especially with regards to large financial institutions. This goes past the line of division of the previously-offered specializations and products, and follows different production and marketing coordinates a fact that expands their own sales base. This is a phenomenon specially encountered in the case of large banking, insurance or brokerage companies, which have intersected each other's operating areas, and in the end offer the same services but on a larger scale. One may conclude that in reality, convergence, which is now irreversible, has made entry into the financial industry less discouraging for newcomers as the array of products and services offered are continuously increasing.

## 4. Conclusion

Geographic expansion and consolidation in the banking and financial sectors contributes to what we understand to be *globalization*, a key word of current reality. Globalization occurs by crossing

the geo-political frontiers so that the largest companies are competing with any other in the world for any kind of business, on any continent. Regardless of their different sizes, these competitors are fighting for increasingly attractive and efficient financial-banking services, and deregulation favors their access to increasingly larger segments on the global financial market. Perhaps many traditional banks have low chances of survival, but even so, banks must be given freedom and increased powers in order to be able to adapt to the demands of the market. The selection should be made by the clients themselves as they are the most entitled to determine the viability or classification of the bank, and not the strikes allowed through the weaknesses of the official legal framework and inflicted bynon-banking financial firms, but also competitive and copiously encouraged by the lack of regulation and explicit control.

## 5. References

Artigas, C. T. (2004). *A review of Credit Registers and their use for Basel II, Financial Stability Institute*,http://www.bis.org/fsi/awp2004.pdf. Retrived July 2011.

Bonin, J. P., Mizsei, K., Szekely, I., Wachtel, P. (1998). *Banking in transition economies: Developing market oriented banking sectors in eastern Europe*. Cheltenham: Edward Elgar Publishing Limited.

Chorafas, D. N. (2007). *Stress Testing for Risk Control under Basel II*. Oxford: Elsevier Ltd.

Duffie, D., & Singleton, K. J. (2003). *Credit Risk: Pricing, Measurement, and Management*. Princeton: Princeton University Press.

Hurduc, N. (2005). *Procese structurale în lumea bancară*, Expert Publishing House, Bucharest.

Medena, L., Koning, R. H. & Lensink, R. (2009). A practical approach to validating a PD model. *Journal of Banking & Finance*, Vol. 33, No. 4, (April 2009), pp. 701-708.

Pastre, O., Jeffers, E., Blommestein, H. & de Pontbriand, G. (2007). *The new banking economic*. Cheltenham: Edward Elgar.

Rădoi, M.A. (2009). *Gestiune bancară*, Economica Publishing House, Bucharest

Stoica, O. (2003). *Integrare financiar-monetară europeană*, Junimea Publishing House, Iasi

Stoica, O., Căpraru, B., Filipescu, D. (2005). *Efecte ale integrării europene asupra sistemului bancar românesc,* "Al.I.Cuza" University