

## INTERNATIONALISATION OF INDIAN BANKS AND GLOBAL SCENARIO IN BANKING

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### ABSTRACT

*On one hand, increasing integration of the economies and markets is making global banking a reality while, on the other hand global banks are the drivers behind global trade and corporate globalisation. International banking is a key component of the global economy and it's important in the context of developing economies like India, China, Brazil and other countries. International banking is central to the flow of capital around the world through provision of loans, supply of financial advice and involvement in securities markets.*

*This trend is accepted and endorsed in India Banking Vision 2012 by Indian Banks Association (IBA) which envisions the greater presence of international players in India financial system and some of the Indian banks becoming global players in coming years. Indian banks in pursuit of Internationalisation are better off in adherence to rules and regulations and adapting technology but have to set things right on the front of the Smart banking products and swift execution of financial services and strategic partnerships, as these four factors strengthen Indian banks aspirations to become truly international.*

*Key words: trend, international, pursuit, adapting, aspirations.*

### INTRODUCTION

Our vision is to evolve into a strong, sound and globally competitive financial system, providing integrated services to the customers from all segments leveraging on technology and human resources, adopting the best accounting and ethical practices and fulfilling corporate and social responsibilities towards all stakeholders” *Indian Bankers Association: Vision 2020*

The banking sector in India is in a stage of transition where it is witnessing major changes. It is going through phase of rapid evolution both in terms of size and approach in the last few years. Banks are adopting non-traditional strategies where they are moving towards creating relationship management and brands (Appendix 1). This transformation has been largely been brought about by the large dose of liberalization and economic reforms that allowed banks to explore new business opportunities rather than generating revenues from conventional streams.

However, competition has brought a new set of challenge which unless tackled will stagnate the growth of the banking sector. The key drivers of the banking sector in the future will be Competition, Consolidation and Convergence (3Cs).

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The government of the Reserve Bank of India needs to formulate strategies to make a paradigm shift in the banking industry but these have to be adopted strategically fit to cater to the needs of the Indian consumer.

### **Evolving Financial Architecture of the India banking industry**

The financial architecture of banking industry refers to the structure that is institutions, markets and the practices used in the banking industry. The second generation reforms undertaken in India from 1992 onwards have made the banking industry strong, efficient and competitive

## **REVIEW OF LITERATURE**

The banking industry in India is undergoing a major transformation due to changes in economic conditions and continuous deregulation. These multiple changes happening one after the other has a ripple effect on the banks (Appendix 3) trying to graduate from completely regulated sellers market to completely deregulated customers market. The challenges are:

- **Improving profitability:** Banks need to manage thinning margins due to competition while at the same time working to improve productivity which remains low in relation to global standards.
- **Greater customer orientation:** In today's competitive environment, banks have to strive to attract and retain customers by introducing products, enhancing the quality of customer services and marketing a variety of products targeted at specific customers groups.
- **International standards:** Introducing internationally followed best practices and observing universally acceptable standards and codes is necessary for strengthening domestic financial architecture.
- **Sharpening skills:** The changes in banking in banking and financial sector entail in the set of skills required in banking. Using IT as a competitive tool is a set to go up. Special skills in retail banking, treasury, risk management, foreign exchange, developmental banking, etc. need to be carefully nurtured. The twin pillars of the banking sector i.e., human resources and IT have to be strengthened.

## **MATERIAL AND METHOD**

Financial services are at the centre of the present trend in globalisation. On one hand, increasing integration of the economies and markets is making global banking a reality while, on the other hand global banks are the drivers behind global trade and corporate globalisation. International banking is a key component of the global economy and it's important in the context of developing economies like India, China, Brazil and other countries. International banking is central to the flow of capital around the world through provision of loans, supply of financial advice and involvement in securities markets.

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#### Global scenario in banking

The global scenario shows a clear shift of Tier I capital strength of banks from United States to European Union riding on expansion of EU and impressive return on capital whereas US biggies continue to increase their market share.

- Decreasing US dominance: The aggregate banking profits declined to \$151.5 billion in 2005 from \$153.7 billion the previous year due to reduced earnings in fiscal 2004 of Citigroup, JP Morgan Chase and Washington mutual etc., but US banks remain extremely profitable and the aggregate return on (Tier 1) capital of the US banks remains high of 26.3%, well above the global average. Out of the top 5 banks in the world in 2004 three banks are from the USA. (Graph 1)

TOP 25 BY TIER 1 CAPITAL (\$M)				TOP 25 BY TOTAL ASSETS (\$M)			
Position	Bank	Country	\$m	Position	Bank name	Country	Assets
1	Citigroup	USA	74,415	1	UBS	Switzerland	1,533,036
2	JPMorgan Chase & Co	USA	68,621	2	Citigroup	USA	1,484,101
3	HSBC Holdings	UK	67,259	3	Mizuho Financial Group	Japan	1,295,942
4	Bank of America Corp	USA	64,281	4	HSBC Holdings	UK	1,276,778
5	Crédit Agricole Groupe	France	63,422	5	Crédit Agricole Groupe	France	1,243,047
6	Royal Bank of Scotland	UK	43,828	6	BNP Paribas	France	1,233,912
7	Mitsubishi Tokyo Financial Group	Japan	39,932	7	JPMorgan Chase & Co	USA	1,157,248
8	Mizuho Financial Group	Japan	38,864	8	Deutsche Bank	Germany	1,144,195
9	HBOS	UK	36,587	9	Royal Bank of Scotland	UK	1,119,480
10	BNP Paribas	France	35,685	10	Bank of America Corp	USA	1,110,457
11	Bank of China	China	34,851	11	Barclays Bank	UK	992,103
12	Santander Central Hispano	Spain	33,250	12	Mitsubishi Tokyo Financial Group	Japan	980,285
13	Barclays Bank	UK	32,178	13	Credit Suisse Group	Switzerland	962,783
14	Rabobank Group	Netherlands	30,810	14	Sumitomo Mitsui Financial Group	Japan	896,909
15	Sumitomo Mitsui Financial Group	Japan	30,389	15	ING Bank	Netherlands	839,654
16	Wells Fargo & Co	USA	29,060	16	ABN AMRO Bank	Netherlands	828,961
17	ING Bank	Netherlands	28,792	17	Société Générale	France	818,699
18	Wachovia Corporation	USA	28,583	18	Santander Central Hispano	Spain	783,707
19	UBS	Switzerland	27,440	19	HBOS	UK	759,594
20	ABN AMRO Bank	Netherlands	26,993	20	Groupe Caisse d'Épargne	France	740,821
21	Deutsche Bank	Germany	25,907	21	UFJ Holdings	Japan	730,394
22	Groupe Caisse d'Épargne	France	25,056	22	Dresdner Bank	Germany	713,688
23	Société Générale	France	25,008	23	Indust. & Commercial Bank of China	China	685,135
24	Crédit Mutuel	France	24,773	24	Fortis Bank	Belgium	659,437
25	China Construction Bank	China	23,530	25	Rabobank Group	Netherlands	647,084

(Figure 1)

- German and Japanese recovery: Signs of recovery in the German and Japanese market helped boosted global aggregates. In Japan, the banking sector is recovering their losses as non-performing loans of the major banks have fallen 1.2% in March 2005 showing the signs of improvement. Similar trend is observed in German banking sector too.
- European Union expansion: The combined share of 25 states in European Union now contribute about 43.1% of the aggregate Tier-I capital, 50% of total assets and 39.6% of total profits. With profits reaching \$215.3 billion in 2004. EU is the largest source of banking profits in the world, ahead of the US.
- Big players increase their market share: The big banks continue to increase their market share as the economies of scale take hold the centre stage. Citigroup with a Tier I capital of \$74.4 billion is having largest pre-tax profits in the world at

\$24.2 billion and achieved 34.2% and with market capitalization listing at \$248 billion in 2004.

- Impressive return on capital: All the major banks around the world had impressive return on capital assets led by American express in US (117%). Highest return on capital achieved by banks in Japan (201.3%), Middle East (80.7%) Central and Eastern Europe (76.1%), Latin America (72.4%) Western Europe (61.5%) and Asia (58.4%).

## CONCLUSION

Considering the fast changing global banking scenario I put forth the point that although size of the bank in terms of capital and assets does matter in creating the credibility and diversifying risk across the borders there are issues which are critical for Indian banking. Indian banks clearly lack the size and there is a need for the domestic consolidation of the banks to gain the central mass to compete internationally. SBI the top player in India is about 9.4% of the size of Citibank.

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(IJTBM) 2013, Vol. No. 3, Issue No. 2, Apr-Jun

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