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## **EMERGING TRENDS OF UNIVERSAL BANKING IN INDIA**

**<sup>1</sup>SUNITA KUMAWAT**

<sup>1</sup>Research Scholar, Department of EAFM, University of Rajasthan

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### **ABSTRACT**

*Universal banking is the fastest growing sector of the banking industry. It, by attending directly the needs of the end customers, is having glorious future in coming years. The term ‘Universal Banks’ refers to those banks that offer a wide range of financial services, beyond commercial banking and investment banking, insurance etc. Universal bank is a place where all financial products are available under one roof. Corporates can get loans and avail of other handy services, while individuals can bank and borrow. In India, universal banking sector as a whole is facing a lot of competition ever since financial sector reforms. Banks therefore, are now competing for increasing their business. The ongoing reforms process, growing use of technology, increased competition and product innovation has all put the banking sector on a high growth trajectory. However, significant challenges lie ahead for the banks in the country as they gear up to embrace international standards. The issue of universal banking resurfaced in India in year 2000, when ICICI gave a presentation to RBI to discuss the time frame and possible options for transforming itself into a universal bank. Indian banking, with the help of Universal Banking has technology edge and better business models, compared to pre-liberalizations era. Today, they are able to attract and gain more volumes simply because they meet their customers' requirements better than anyone else. However, there is a need for constant innovation in universal banking. This requires product development and differentiation, micro-planning, marketing, prudent pricing, customization, technological upgradation, home / electronic / mobile banking, effective risk management and asset liability management techniques.*

**KEYWORDS: - Universal Banking, Banking Industry.**

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### **INTRODUCTION**

The banking industry in India has experienced a rapid transformation. The growing universalisation and internationalization of banking operations have altered the face of banks from one of mere intermediary to one of provider of quick, efficient and consumer centric services. These days, apart from providing the conventional banking services, banks have begun offering a bouquet of financial services to their clients. The ultimate aim is to offer a “one-stop-shop” for meeting varied customers’ financial needs. Today, banks have been expanding their service scope, and hence, “Universal Banks”, which provide a variety of financial products and services in one house, have experienced growing popularity.

### **MEANING**

Universal Banking is a multi-purpose and multi-functional financial supermarket (a company offering a wide range of financial services e.g. stock, insurance and real-estate brokerage) providing both banking and financial services through a single window. As per the World Bank, “In Universal

Banking, large banks operate extensive network of branches, provide many different services, hold several claims on firms (including equity and debt) and participate directly in the Corporate Governance of firms that rely on the banks for funding or as insurance underwriters”.

In a nutshell, the term 'Universal Banking' refers to those banks that offer a wide range of financial services, beyond the commercial banking functions like Mutual Funds, Merchant Banking, Factoring, Credit Cards, Retail loans, Housing Finance, Auto loans, Investment banking, Insurance etc. This is most common in European countries. Consequent to the liberalisation and deregulation of financial sector, there has been blurring of distinction between the commercial banking and investment banking. Universal banking is a combination of Commercial banking, Investment banking, Development banking, Insurance and many other financial activities. It is a place where all financial products are available under one roof. So, a universal bank is a bank which offers commercial bank functions plus other functions such as Merchant Banking, Mutual Funds, Factoring, Credit cards, Housing Finance, Auto loans, Retail loans, Insurance, etc.

### **REVIEW OF LITERATURE**

The Researcher has referred Handbooks on Banking as well as various websites from the internet. There is not enough study material available on this topic. Therefore, the researcher has analysed research papers written by various authors. It is observed that many authors have contributed towards Universal Banking. But still there is scope for study of this concept with reference to India. India is having complex banking structure. Reserve Bank of India has issued guidelines in the year 2001 related to Universal Banking. If banks are performing Universal banking functions then it may help to increase their profitability. Generally speaking, Universal Banking is misinterpreted by the people with international banking, multinational banking or global banking. In reality, the concept of Universal Banking is having wide variety of scope. First time ICICI Bank introduced Universal banking in India.

### **UNIVERSAL BANKING IN INDIA: THE EMERGENCE**

The banking scenario in India has been changing at fast pace from being just the borrowers and lenders traditionally, the focus has shifted to more differentiated and customized product/service provider, from regulation to liberalization in the year 1991, from planned economy to market. Earlier financial institutions (FIs) used to cater to term loan requirements while commercial banks did working capital financing. Consequent to the liberalisation and deregulation of financial sector, there has been blurring of distinction between the commercial banking and investment banking. In India, a Working Group was constituted by Reserve Bank of India on December 8, 1997 under the Chairmanship of Shri S.H. Khan to bring about greater clarity in the respective roles of banks and financial institutions for greater harmonisation of facilities and obligations. S.H Khan Committee Report and also report of the Committee on Banking Sector Reforms or Narasimham Committee Report advised to consolidate the banking industry through mergers and integration of financial activities. That is, they advised a combination of all banking and financial activities. That is, they suggested a Universal banking.

The issue of universal banking resurfaced in Year 2000, when ICICI gave a presentation to RBI to discuss the time frame and possible options for transforming itself into a universal bank. Reserve Bank of India also spelt out to Parliamentary Standing Committee on Finance, its proposed policy for universal banking, including a case-by-case approach towards allowing domestic financial institutions to become universal banks. Now RBI has asked FIs, which are interested to convert itself into a universal bank, to submit their plans for transition to a universal bank for consideration and further discussions. FIs need to formulate a road map for the transition path and strategy for smooth conversion into a universal bank over a specified time frame. The plan should specifically provide for full compliance with prudential norms as applicable to banks over the proposed period.

### **UNIVERSAL BANKING IN INDIA: CURRENT SCENERIO**

Owing to the recommendations of Narasimham Committee and Khan Committee, in India, all the banking and financial institutions are showing lots of interest in universal banking and marching towards it. In India, Development Financial Institutions (DFIs) and Refinancing Institutions (RFIs)

were meeting specific sectoral needs and also providing long-term resources at concessional terms, while the commercial banks in general, by and large, confined themselves to the core banking functions of accepting deposits and providing working capital finance to industry, trade and agriculture. Now, with DFIs told to move towards universal banking, banks have been allowed to diversify into investment and long term financing, and DFIs will lend for working capital also. DFIs are ultimately converting into either Commercial Banks or Non Banking Financial Companies. This, in a way spelt the beginning of the end of specialized services from DFIs, and the introduction of universal banks. Keeping in view the vast potential available for insurance business, and other allied activities in various financial disciplines, many public and private sector banks have directly entered in insurance business with their own products. ICICI Bank, Kotak Mahindra Bank Ltd, HDFC Bank Ltd and Development Credit Bank Ltd, these banks have made strategic alliances with foreign insurance companies for selling the insurance products both in life and general branches. Besides the insurance business, the banks are engaged in investment, merchant banking and advisory and consultancy services to earn revenue. The latest trend in banks is to have their own call center to save costs of outsourcing their activities. The shift from specialized to universal banking is not restricted to FIs; SBI and LIC can be considered universal banks. SBI deals with Mutual funds and investment banking and its insurance initiative with Cardiff SA brings it closer to the universal banking objectives and LIC's move to acquire to stake in corporation banks.

### **UNIVERSAL BANKING IN INDIA: FUTURE PROSPECTIVE**

A universal bank is a one-stop supplier for all financial products and activities, like deposits, short term and long term loans, insurance, investment banking etc. Universal banking enables banks to exploit economies of scale and scope. A bank has an existing network of branches, which can act as shops for selling the products like insurance. No doubt, universal banking tends to be large, so large that failure of even one such bank could bring the entire system down. In this scenario, universal banking might result in a variety of negative consequences for economy. So, the universal banking may have positive and negative effects on an economy.

### **ACTIVITIES INVOLVED IN UNIVERSAL BANKING**

At present University Banking involves various activities which can be listed as follows:

- Merchant Banking
- Mutual Funds (SIP's)
- Insurance
- Factoring
- Credit Card
- Investment Banking
- Retail Loans
- Auto Loans
- Housing Finance etc.

### **BENEFITS OF UNIVERSAL BANKING**

- Economies of scale from lower operational costs, i.e., larger scale can avoid the wasteful duplication of marketing, research and development and information gathering efforts.
- By offering a broader set of financial products than what a specialized bank provides, a universal bank is able to establish long-term relationship with the customers and provide them with a package of financial services through a single-window.
- Flexibility in adapting to the fast changing environment. Better and innovative products.
- Reduction of risk by diversification.
- Access to international financial markets. Higher output due to specialization
- Diversification of Activities
- Diversification of Risks Economies of Scale
- Adoption of Technology
- Innovative ways to market the product Systematically developed banks

- International Exposure to Banks Generation of Loyal Customers Serving as a Financial Mall
- In tune with Narasimhan Committee Report

### **WEAKNESSES OF UNIVERSAL BANKING**

- The failure of a larger institution could have serious ramifications for the entire system in that if one universal bank were to collapse, it could lead to a systemic financial crisis. Thus, universal banking could subject the economy to the increased systemic risk.
- Universal bankers may be tempted to take excessive risks. In such cases, the government would be forced to step in to save the bank. Vulnerable to high risks due to investment banking activities coupled with focus on commercial banking activities.
- By virtue of their sheer size, universal banks may gain monopoly power in the market, which can have significant undesirable consequences for economic efficiency.
- Universal banks may tend to work primarily with large established customers and ignore or discourage smaller and newly established businesses.
- Universal banks could use such practices as limit pricing or predatory pricing to prevent smaller specialized banks from serving the market. This argument mainly stems from the economies of scale and scope.
- Combining commercial and investment banking gives rise to conflict of interests, as universal banks may not objectively advise their clients on optimal means of financing or they may have an interest in securities because of underwriting activities.
- There may be conflict between the investment banker's promotional role and the commercial banker's obligation to provide disinterested advice. Banks may deploy their own assets in securities with consequent risk to commercial and savings deposits.
- Unsound loans may be made in order to shore up the price of securities or the financial position of companies in which a bank had invested its own assets. A commercial bank's financial interest in the ownership, price, or distribution of securities inevitably may tempt bank officials to press their banking customers into investing in securities which the bank itself was under pressure to sell because of its own pecuniary stake in the transaction.

### **CONCLUSION**

No doubt, universal banking can provide considerable benefits and would pose few problems for the economy. Universal banking is, no doubt, the fastest growing sector of the banking industry with the key success by attending directly the needs of the end customers and is having glorious future in coming years. Universal banking sector as a whole is facing a lot of competition ever since financial sector reforms were started in the country. Walk-in business is a thing of past and banks are now, on their toes, to capture business. Banks therefore, are now competing for increasing their business. There is a need for constant innovation in universal banking. This requires product development and differentiation, micro-planning, marketing, prudent pricing, customization, technological up gradation, home / electronic / mobile banking, effective risk management and asset liability management techniques.

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