

*Research Paper - Commerce*

**Globalisation and Indian Banking:  
The Study of A Paradigm Shift**



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**Introduction**

The policy of deregulation has opened up new vistas for banks to augment revenues but it has entail greater competition and greater risk. In order to remain competitive in globalised banking environment, it calls for new products particularly derivatives, to diversify the product-mix, effect rapid changes in banking processes and operation. The global banking is challenge as well as an opportunity in respect to their global reach, skills, technology and products. The globalisation calls for the paradigm shift in Indian banking sector.

**There is urgent need for the changes in Indian banking in respect of the following areas.**

- Adequate capital for growth and minimization of systematic Risks
- Robust processes and system
- Increased competition
- Increased presence of banking
- Pointing pressure in under developed areas
- Incorporation of world class practices

**Objectives of Research Paper**

- To Understand the governments recapitalisation policy for the Indian banks
- Better understanding of Basel-III norms
- Movement of Capital Requirements and Triggers
- To know Emerging Global Issues in Indian Banking sector
- Globalisation and Emerging Issues in Indian Banking Scenario
- Globalisation of Indian banking operation with best world practices.
- Recognition and International status for Indian banks

- Global mergers and acquisitions in Indian banking sector
- Universalisation of Indian banking
- Implementation of Basel-III accord and world banking standards.
- New accounting standards

Recapitalization Policy of government for banks

The government is committed to protect the financial health of public sector banks and financial institutions. The former finance minister Mr. Pranab Mukherjee announced an allocation Rs.15,088 crores for capitalization of public sector banks (PSB's), regional rural banks and other financial institutions in his Budget 2012 speech, delivered in March. This is not the first time tax payer money has been set aside to beef up banks. Ever since the country accepted the Basel norms of capital adequacy successive finance ministers have provided money to capitalize banks in their budgets. The table below shows allocation of money by the government of India towards recapitalization during various periods.

Table.1 Amount spent on recapitalization of banks

Year	Amount (crs)
2008-09	1,900
2009-10	1,200
2010-11	20,157
2011-12	6,000
2012-13*	15,888
Total	45,145

(Source: Economic Times ) \* Budget 2012.

In 2010-11, the government set aside Rs.20,157 crores to help banks maintain their tier I capital at 8% and increase government equity in some banks to 58%. In 2009-10, the amount was less than Rs.6,000 crores - but over the five

Table.2 Movement of Capital Requirements and Triggers  
(Figures represent the minimum regulatory requirements)

Scenario	Core Capital (%)	Capital conservation Buffer (%)	Countercyclical Buffer (%)	Actual Regulatory Core Capital (%)	Triggers	Triggers
Normal	5.5	2.5	-	9	-	-
High credit growth	5.5	2.5	1.0	9	Introduction countercyclical buffer	No restriction on earning distribution
Higher credit growth	5.5	2.5	2.5	9.5	Higher level of countercyclical buffer	Restriction on earning distribution
Stress Situation, higher credit Growth continues	5.5	2.5	1.5	9	Part release of countercyclical buffer	Restriction on earning distribution become lower
	5.5	2.5	-	7	Complete release of countercyclical buffer	Restriction on earning distribution become higher

year period to 2012-13, the government would have spent over Rs.45,000 crores on recapitalization of banks.

**The new global regulatory capital norms**

The new global regulatory capital norms will require banks to raise more funds, which could be tough in the current scenario. While the focus may be on capital now. The table.2 given below show the movement of capital requirements and triggers. For the better understanding of Basel-III norms it need us to know the following terms

**Core capital- Equity component of bank's capital**

Countercyclical buffer- Extra capital to cushion shocks  
Capital conservation buffer- capital set aside for off balance sheet transactions

International capital Norms- The Basel-III norms require more capital for the banks.

According to RBI's report on Trends and Progress of Banking in India for 2011-12, due to enhance Basel- III capital ratios, incremental equity requirement of PSBs expected to be Rs 75,000

crores-80,000 crores end of March 2018. The implementation of international banking standards were agreed upon by the Basel Committee on Banking Supervision in financial year-11, to be introduced in 2013 until 2018.

**Consolidation**

Consolidation alone will give banks the muscle, size, and scale to act like world class banks. Consolidation can help to 'think global and act local.' The finance minister Mr. Chidambaram has emphasised that banks must be open to consolidation so that country has at least 2-3 banks of international size. New business models will inevitably lead to consolidation among top banks, still there remains enough space for local area banks. Rationale for consolidation for:

Too many banks competing for the same share of pie If Indian banks have to arrive on the global map, they have develop size fast.

Merged banking entity will be better placed to meet Basel-III norms

Help to invest in technology and to penetrate on

regional bases.

Lower transaction cost and economies of scale will give better returns benefit to customers.

### **Rural Banking and SME credit**

The RBI has directed the RRBs to open at least 25% of the branches per year in unbanked rural tier-5 (with population 5-10 thousands) & tier-6 (population less than 5 thousand) centres. Banks are directed to double rural credit.

The govt. is now expecting the banks to lend more to the SME. The foreign banks like Citi bank, Standard Chartered and HSBC has already started to implement this policy. The real reason being that India's biggest companies have cut their dependence on bank finance, they use internal cash or borrow from global bonds investors. Even private sector banks like ICICI, HDFC too has agriculture loan exceeding Rs.600 crores.

Banks may become stock exchange member

RBI will now permit SCBs (Scheduled Com-

mmercial Banks) to become member of stock exchange member on the condition that they satisfy membership norms specified by SEBI and concered stock exchanges. The move is aimed at enhancing transparency in the corporate bond market.

Introduction of New Cheque

The new standardised cheques with improved security features will be augmented from coming financial year 2013-14.

### **Conclusion**

- Growth opportunities in future will be due to increased competition.
- Distinction between new and old private & public sector banks foreign banks will soon disappear
- Open up market & cross investments and mergers will also create new opportunities.
- Global banking will be catalyst for growth to come

## **REFERENCE**

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