

# LITERATURE SURVEY ON JOURNEY OF BANKING SECTOR TOWARDS UNIVERSAL BANKING

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**Abstract-** Indian banking system has witnessed a history of transformation from traditional to modern services provider; from technology driven to customer service driven; from single product to universal banking models and the journey is still going on. The blurring of boundaries in the functioning of banks and financial institutions led to the emergence of universal banking or umbrella banking in 1999.

An extensive survey of extant literature of related studies is presented in this paper. Many factors and situations leading to the changes towards Universal Banking from around the world have been examined. The paper also tries to explore whether Universal Banking helps in enhancing the profitability of the bank. This study is carried out to make qualitative and comprehensive evaluation of emerging and most preferred Universal Banking (UB) concept in India. For the purpose descriptive research design has been adopted which is based on secondary data.

**Index Terms:** profitability, service quality, technology, Universal Banking.

## 1. INTRODUCTION

Every sector is working towards the expansion and the same is true about the banking sector, which has extended its activities and functions beyond the traditional services. Traditional banking collects deposits from depositors and disburses loan to the needy persons and institutions. Banks are providing multifarious products for their customers under one roof. Universal banking refers to those banks which offer a wide range of financial services like commercial banking, investment banking, insurance etc. A Universal Bank is one that offers not only services related to savings and loans but also investments and insurance.

The universal bank is one of the latest functional banks, where its objectives is to get maximum profit by way of interest; fees based on income and commission through various diversified activities. The suggestions of Narasimhan Committee and Khan Committee for consolidation of banking through mergers and amalgamations, has brought about a change in commercial banks and has made them marching towards universal banking. It is thus, nothing but embracing the completely new objectives through transformation. (Bhole)

Universal Banking is a superstore for financial products under one roof. Corporates can get loans and avail other innovative handy services while accessing the traditional deposit and borrow services. Banks, especially the financial institutions, are aware of it. Some of the banks like ICICI Bank, HDFC Bank, Bandhan Bank and many others have already achieved the status of Universal Bank. Other players have plans to diversify in a big way, even though there might not be profits forthcoming in the short run due to the switching costs incurred in moving to a new business. (Singhal). It is one spot ultimate shopping place for a customer who is willing to deal in several financial products. It combines the complexities of investment banking with simpler commercial banking services for individual and companies. In present global scenario universal banking concept is an innovative high breed banking option and its pronounced business largely emphasizes in terms of products, customer groups and regional activities. 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".(Zafar,2012). In a nutshell, a Universal Banking is a superstore for financial products under one roof. Corporate can get loans and avail of other handy services, while can deposit and borrow. It includes not only services related to savings and loans but also investments.

## 2. UNIVERSAL BANKING IN INDIA

In India Development Finance Institutions (DFIs) and Refinance Institutions were catering to specific sectoral needs and were also providing long term funds at concessional terms .As compared to this the commercial banks confined themselves to the core banking functions of accepting deposits and distributing working capital finance to trade, agriculture and industries. Liberalisation and deregulation of financial sector saw blurring of boundaries of distinction between the commercial banking and investment banking. To bring about a greater clarity and

harmonization in the respective roles played by banks and financial institutions, Reserve Bank of India appointed a working group in 8<sup>th</sup> December 1997 under the chairmanship of Shri. S.H. Khan. In addition to the Khan report, there was another report submitted by Narasimham Committee which had a major bearing on the issue considered by Khan working group. Following this report the ICICI Bank gave a presentation to RBI to discuss the possible options for transforming itself into a Universal Bank.

Following this RBI had asked financial institutions which are interested to convert themselves into universal bank, to submit their plans for transition to a Universal Bank. These financial institutions were required to formulate a roadmap for the transition path and strategy which will help their journey to get converted into a universal bank over a specific period. The activities of the Development Financial institutions (DFIs) like investment banking, advisory services and merchant banking services were extended by the new entities making them universal banks .

Financial Institutions saw large potential in insurance business and hence public sector and private sector banks in India were permitted to participate in insurance business via mergers and acquisitions . Most of the banks chose to become either corporate agents or subagents to sell insurance products , while some banks directly entered this business with their own products. The bank assurance also became a major source of earning revenue in form of commission. Considering all these advantages, banks in India have started marching their activities towards universal banking. Some advantages of Universal Banking are:

- One stop Shopping
- Earning Revenue with less Risk
- Full exploitation of Technology
- Less Regulatory restrictions from Government
- Reduced corporate financing costs
- Expansion in Client base
- Acquisition in expertise in diversified activities in financial services
- Accessing clients placed in remote areas

### 3. REVIEW OF LITERATURE

A thorough literature survey has been done between the year 2013-2016 using Google scholar, ProQuest and Ebsco database of e-journals to understand about the universalisation of banks .An extensive review of research articles of various eminent researchers from around the world and India have been presented.

#### 3.1 International Scenario

George Benston's (1994) research is amongst one of the initial work done in the field of Universal Banking. The author had brought about a comparative analysis of European and United States Scenario. Germany has been mentioned as one of the best examples of Universal Banking in the world. Since there is a permission granted by European economic unification to all banks to operate in all European Community (EC) countries, it is likely that all countries in EC will be served by Universal Banks. In contrast to this, United States is only served by specialized Banking . This is because of the primary laws laid by 1933 Glass-Steagall Act that prohibit Universal Banking in United States. Both theory and evidence support the expectation that risks are more likely to be reduced than increased , if banks are permitted to engage in securities, insurance and other products and services. The author had concluded by saying that universal banking would create significant advanced over the present system of specialized banking in United States.

Gorton (2000) had pursued an empirical study where he investigated the influence of banks on the performance of German firms taking account of German's equity holdings. The objective was to test for conflict-of-interest in bank's behavior and ask whether the relationship between firms and banks has changed between 1970s and 1980s.

Calomiris (1995) had addressed three questions in his working paper: What is universal banking, why might it be defined to be an effective organisational structure for banking system and evidence supporting or contradicting the view that universal banking reduces corporate financing costs for a newly industrializing economy. Universal banking is defined as a banking system which is made up of large scale banks that operate extensive networks branches, provide many services holding several claims on other firms and participate directly in corporate governance of the firms that rely on banks as a source of funding or securities underwriters.

Burghof (2000) had achieved some empirical insight into the internal aspects of bank lending, information production and interaction between debtor and bank lending officers by analyzing the credit files of six lending relationships between a German Universal Bank and medium sized firms .The author viewed the results that banks used much information that is not available to the general public. In bank lending the information on which the financing of firm is based differed considerably from security market

Salami (2006) mentioned that the movement of banks from compartmentalization to one stop shop banking had taken a center stage. Nigeria being a member of the world comity of nations , is also not left behind and had adapted to that change .The study examined the performance and implications of Universal Banking in Nigeria .The banks adopted new product development and number of branches of banks drastically increased.

Christopher 2007, had analysed the debates whether Universal Banks are able to reduce the information asymmetries and internalize risk or their mixed asset structure arguable decreases versatility during an economic downturn and may create a "dual market for lemons " in which information asymmetries cause financially sounds clients and banks to exit the market, leaving only the riskier crisis -prone ones behind. A case study of Netherlands of 1920s had been used to analyses these debates.

Aguirre (2008) had empirically investigated and critically reexamined the 'Structure Conduct Performance Hypothesis ' for individual banks of various sizes that operate within the limits of universal banking regimes. The author concluded by saying that in a rapidly growing interdependent financial system, banks derive significant economic benefits when operating within the limits of universal banking framework.

Saudners & Walter, 2012, a quarter century ago had formed a small group of financial economists to reexamine the relative merits of specialized versus Universal Banking considering efficiency and innovation as well as safety and soundness in financial intermediation. The survey carried out considers the sources of systematic gains , losses and risks associated with systematically important financial institutions (SIFIs) in historical, theoretical and emphirical way.

Christopher (2013) had assessed the impact of Universal Banking on the banking sector in Nigeria. This is done for the period 2001-10, wherein the population size consists of 24 banks via a survey method. The author concluded that Universal Banking which is considered to be a global system of banking is a major revolution in Nigeria. The scheme was introduced by CBN in Nigeria. This scheme was designed to ensure a diversified, strong and reliable banking that would stimulate the economic growth of the nation. Though the experience with universal banking in Nigeria has not been beneficial, efforts should be made to maximize the prospects and minimize the challenges.

### 3.2 Indian Scenario

Vasudeva (2002) mentioned that universal banking seeks to address the issues of harmonizing the roles of Discount and Financial Institutions (DFIs) and Banks. It carries somewhat different and larger connotation, where it refers to a combination of commercial banking and investment. The author who was recently secretary, DEA, GOI, viewed that harmonization of Banks and DFIS will enable them to reduce the cost of funds, spread risks and improve asset liability management. It will also help in providing different categories of loans to borrowers under one roof, thereby improving efficiency and resource use and further optimizing the cost of funds . And by doing all this, efficiency of financial system will be improved.

Vij (2003) attempted to present the changing profile of the Indian Banks and also showed how economic functions of the banks are directly related to their inherent vulnerability. ICICI, HDFC and IDBI banks were taken up for the current study and profitability ratios, risk management, asset quality ratios were calculated. After doing a comparative analysis of the three banks, the author concluded by saying that HDFC Bank stands out as a clear winner with ICICI Bank on second position.

Chaitanya (2005) focused on understanding the concept of universal banking in India and attempted to explain the regulatory role, regulatory requirements, key duration and maturity distinction and lastly the optimal transition path. The author highlighted that characteristics of universal banking depend on two major factors which were, a specific country's diversification rules and regulations and strength of individual banks in enlarging the scope of the activities in the various segment of financial service industry.

More (2009) had done a conceptual study where he concluded by saying that Indian commercial banks were facing many globalization and liberalization challenges. Some of these challenges were regulatory restrictions, mounting NPAs and environmental factors, which has made it difficult for the traditional banks to supply profit margin to banks. These were various reasons why banks were forced to innovate themselves and new private sector banks had opted to expand their activities through universal banking .

Goswami & Deb (2011) tried to trace the path of transition of Indian banks towards Universal Banking. It mentioned the various opportunities available for the Indian banks along with the challenge which needs to be faced by them. She mentions that ICICI Bank has been officially designated as a Universal Bank. Simultaneously it is seen that most of the other banks operating in India are also offering all the services which qualify under the Universal Banking Concept. Although Universal Banking has several benefits, but these benefits have to be weighted out

against the problems. The authors also do not fail to mention that if the banks start participating in the untested activities, they may lose the sight of their core competencies.

Singh & Kaur (2011) intended to determine the factors that have an impact on the customer satisfaction in selected Universal Banks. A survey of 456 respondents was done. The authors had drawn a conclusion by finding out that customer satisfaction is influenced by seven factors: employee responsiveness, appearance of tangibles, service innovation, social responsibility, competence, reliability and positive word-of-mouth. Multiple regressions showed that the level of customer satisfaction was influenced by the following three factors: positive word-of-mouth, reliability and social responsibility.

Zafar (2012) expected that modern banking concept of financial supermarkets played an effective role in bridging the financial gap and also expects a healthy competition between domestic and international financial giant. The author suggested by mentioning that it has been found that in many developed economies, universal banking is able to prove its importance and respond efficiently to customer demand. Universal Banking also plays a vital role in economic development as being an important source of finance. Zafar also suggested the public sector banks to explore the potential of trust and transform themselves into efficient universal banks.

Singhal (2012) studied the potential of Universal Banking for the Indian Market and also the prospects of Universal Banking in India. The author had done a primary study by taking 100 respondents as sample size and concluded that financial products services have to keep a pace with the ever changing globe. Financial systems have to cater to the growing needs of the customers. The author mentions of the banks in foreign countries of being responsive enough towards the customer demands and helpful in facilitating economic development. The author also believes that the concept of financial supermarkets could play a significant role in future.

Bahl (2012) has tried to enumerate and rank the opportunities in Universal Banking in India in financial and marketing sphere. Further the author has tried to highlight and rank the challenges of Universal Bank in India. A conclusion is drawn that by acquisition of the Universal Bank structure can lead to consolidation and improvement in the competitive position of banks in both domestic and global marketplaces. Volatility is large in an emerging economy like India and so Universal Bank can contribute in faster economic growth as it can assist in strengthening the alliance between companies and banks.

Jain Renu (2013) in her study outlined the importance of Universal Banking in the Indian Scenario. The authors mentioned that the concept of Universal Banking resurfaced in the year 2000, when ICICI Bank gave a presentation to RBI discussing the time frame it required and possible options for transforming itself into a Universal Bank. The various advantages and weaknesses of Universal Banking is mentioned. Some of the advantages mentioned are economies of scale, better and innovative products, reduction in risk by diversification and higher output due to specialization. The author concluded by mentioning that Universal Bank is the fastest growing sector of the banking industry with its key success by directly attending to the needs of the end customers. There is also a need for constant innovation in universal banking, which requires product development and differentiation, micro planning, prudent pricing, customization, technological upgradation, effective risk management and asset liability management techniques.

Dhingra (2015) opined that concept of all the products under one roof can enhance the awareness of customer regarding product its attributes and various other products offered by the service providers. The author has also analyzed the strength, weakness, opportunity and threat of universal banking. The author concluded by saying that India has changed due to globalization and strategy of Universal Banking had become a dominant practice. The Indian Banking Industry has adopted the philosophy of "big size fits well".

Bandhan Bank, started as an NGO in 2001 and later it turned into a microfinance institute. Today it is the first MFI to become a universal bank. Its operations will be divided into two sectors, micro- banking and general banking, offering complete retail financial solutions with different types of savings and loan products. Chandra Shekhar Ghosh of, founder- MD and CEO of Bandhan Bank said that their business philosophy is 'customer first'. They are a universal bank and will have equal respect for all the customers-big or small. Bandhan has opened 60,000 accounts after it started its operations. On the first day of the banking operations, the bank received about 80 crore deposits. (TOI).

Bhole (2007) has made an attempt to measure the extent of universalization adopted in Indian Banking Sector. Simultaneously evaluation of efficiency and productivity gains have been calculated as compared against specialized banking. The different sections start with information on data and the models used for calculation, efficiency and productivity scores, followed by major findings. According to the DEA efficiency results and regression analysis, the author found out that universalization contributes to the efficiency of the bank but not a significant one. One of

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the factors for such results can be the transition phase of universal banking. The study revealed that the foreign banks performed well during the study period. The reason for this can be because of small scale operations in major urban locations which reduces the default risks.

Popli (2013), in the current working paper, tried to make an effort, to explore whether the current practices and structure of the local financial environment contribute to the lengthy transformation from narrow to universal banking. 70 respondents have been selected from the Delhi state and a questionnaire was presented to them in order to know the various dimensions related to attractiveness of universal banking. He concluded by saying that Universal Banking is the fastest growing sector of the banking industry. Banks are now on their toes to capture more business and competing tooth and nail to increase their business. There seems to be a need for constant innovation in banking sector through universal banking.

Tiwari examined the pros and cons of universal banking and analyze the impact of technology on next generation. An effort is also taken to identify the sectors where all differential banking is needed and to highlight regulatory, technological and demographic and other issues and challenges. A conclusion was drawn where the author suggests that differential banking seems to be a good idea in a country like India, where there exists differentiated markets and consumer groups of each category. (Tiwari)

(Royal Projects) The authors had conducted an exploratory study through a survey method. The authors try to find out answers to some questions like attractiveness and popularity of universal banking, one stop shopping concept, increased acceptance of endorsed products, increase in awareness of available products and many more. The researcher concludes by saying that India's financial sector is relatively bank oriented and banks are the primary supplier of financial services. With the regulatory allowance for universal banking, Indian banks continue to expand its coverage of financial service in response to consumer demand and profitability concerns.

### CONCLUSION

It implies that universal banking has significant impact on bank performance. It also shows that universal banking offers a variety of services to customers; improves service delivery; enhances real sector funding; increases banking scope and reduction in bank failure. This is in agreement with Jimoh (2010) and Anonymous (2010) who stated that universal banking contributed to the rapid deepening of the financial system, created more job opportunities in the economy, increased financial innovations and financial products, and led to the expansion in the size of the average Nigerian bank.

As banks are doing all kinds of financial business by implications, then there is a potential to develop more financial products.

One of the important benefits of Universal Banking also seen is that there is reduction in unemployment because of increase in the number of branches of banks and venturing into insurance and capital market activities.

An important conclusion can also be drawn after going through the awareness and need of financial services statistics is that banks still need to generate a lot of awareness among the customers. This will help the Universal Banks to increase their business since the customers will become aware about all the new innovative products and services being offered by the banks.

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