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EVALUATE THE EFFECT OF GLOBALIZATION ON THE PERFORMANCE OF BANKING IN INDIA

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INTRODUCTION

BACKGROUND OF THE STUDY

Globalization affects virtually all the industries and sectors and the banking industry is no exception. Economists believe that the onset of the global integrationism means the globalisation of financial services. Banks, according to Berger et al (2002, have inherent nationality and reach. Other elements that could contribute to the globalization of the banking industry are the emergence of new business models, the emergence of global challenges to banking, the changing attitude and perspectives of the workforce, the emergence of new competitors and the emergence of strategic offshoring. The most important, however, is the ongoing trend of removing regulatory barriers to international banking.

The Indian banking system is one of the important channels for mobilizing savings in the form of credit or investment tools and working to direct them to more effective and more profitable productive sectors and activities. Added to this is the role which the banking system plays in activating and enhancing privatization and attracting investments to get the financial resources required for developmental needs.

Since the implementation of the Economic Reform Program in India in the early 1990s, India has paid great attention to the reform of the banking system through merging and possession to face banking competition within the framework of financial globalization(Tarek,H.2002),expanding the capital base of corporate banks and restructuring banks to keep up with international developments.

The banking industry of India, for instance, had been revolutionized by globalization. Eighty percent (80%) of the banking business in India are publicly owned, and that globalization advents not only the public banks but the private sector as well. The globalization of Indian banks was facilitated by the advancement in information and communication technology (ICT). Since there are also risks, the Indian government adopted appropriate regulatory, prudential and supervisory framework regarding the banking industry. Some economists assert that this is just one reason why global banks are banking on India. By the end of March 2010, Indian banks increased by 18.8% and the overall growth of the industry was US$ 2172 billion.

The severe competition among commercial banks in the past two decades led to an urgent need to study the impact of the elements of the quality of the banking services provided for the clientele on the competitive position of banks and, therefore, their profitability. (Schwartz, M, 1989) identified four basic dimensions for measuring the quality of banking services. These are: banking service, consumer service, physical and electronic resources and method of providing service to customers. (Bergman and Klefsjo, 1994) noted that quality has become a strategic weapon in the conflict taking place to gain market shares and promote profitability.

PROBLEM OF THE RESEARCH

Despite the measures India took to reform and enhance and restructure the banking system, the profits achieved by banks are still low. Also, the contribution of the financial sector in the gross domestic product remained low (8.9% in 2010). This may be attributed to the increased value of default loans and the slow procedures followed to adjust and handle them, in addition to other factors that clearly affect the efficiency of the banking system(Moustafa, M.,2000).

WITHIN THIS FRAMEWORK, THE PRESENT STUDY ATTEMPTS TO ANSWER THE FOLLOWING QUESTIONS

- What is the Effect of Globalization on the Banking System performance in India?,
- What is the role of banking systems in contributing to financing economic sectors after the implementation of monetary and financial reforms?,
- What is the position of the Indian banking system in the world banking industry circle?

OBJECTIVE OF RESEARCH

The present research aims to explain the Effect of Globalization on the Banking System performance in India and identifying the performance of the Indian banking system and the challenges facing that performance in achieving more effective contribution in moving the economic development wheel . Finally, the research presents the most important results it has reached, making some recommendations and suggestions which will enable Indian banks to play an active and effective role in raising the level of the quality of banking services.

RESEARCH HYPOTHESES

The present Research draws on the following hypotheses:

The implementation of the Economic Reform Program has a positive effect on the performance of the banking system. Banking Mergers leads to the achievement of economies of scale and increases the volume of activity and savings and reduce the costs of the activity. With increasing globalization, banking work became exposed to risks whether external or internal factors.

RESEARCH METHOD

The present research uses the descriptive quantitative analysis method, using data and Informations which are published in the reports of the Central Bank of India, besides the books and scientific periodicals in this field.

THE CONCEPT OF BANKING GLOBALIZATION AND ITS ECONOMIC EFFECTS ON THE BANKING SYSTEM

The concept of banking globalization: The phenomenon of globalization has become one of phenomena that are most associated with economic activity. Globalization is also linked to banking activity as part of economic globalization. Globalization has taken banking dimensions and contents of a new, made the banks tend to the fields and activities unprecedented, and led to the transition from the attitudes and perceptions of activities and extended range, in order to maximize the opportunities and increased gains, and look to the future.

As the banks and banks manufactured identity and personality through orientation, which charted throughout its history, since its inception, the bank has made globalization futuristic vision of a new dimension to enter the new world of cosmic, a world of enormous economic opportunity.

In light of globalization and the restructuring of the banking services industry trend banks and commercial banks in particular, the shift towards universal banks. Are those banking entities that seek always behind the diversification of sources of funding and employment, and mobilization of the greatest possible savings from all sectors, and employ their resources in more than one activity in several diverse areas. It opens and gives credit to all sectors. As well as working to provide all the miscellaneous services and renewable which may not based on the balance of knowledge. In light of globalization become banks innovate and create distinct clients, and provide them with future richer and richer more at the level of banking service .And the future of this innovative technology is owned and used by banks, which are only common denominator in all the work of trying to progress and to the growth and prosperity.

Hence the concept of globalization has been associated with the concept of abundance and availability of the services provided by banks. The accurate view to provide banking services, whether related to deposits, loans, or bonds (as traditional services), or to the contracts of complex derivatives or other innovative advanced services, leads banks to exist effectively in all fields of economic activity.

At the same time, the organic link with banking groupings and blocs is the basis for the bank to reach the large economic size, which allows economies of scale and amplitude banking. This has led to the integration association of the World Bank, which is based on specialization and the division of labor, which maximizes the quality of performance and the ability to upgrade the level of saturation.

It can be argued that the changes reflected in the banking world of globalization on the performance of bank, is the emergence and growth of new banking entities, which are clearly a coup in the world of banks. The giant banking entities, by virtue of the enormous economic power relations and the large economic size, and high economic performance, has become a high capability to influence the form and market trends banking growing global growth and accelerating the proliferation and expanding through a presence in all parts of the world(El-Naggar,F.2000).

Banking globalization never means abandoning what exists and is directed towards the national domestic market, but it means gaining new momentum, and moving to provide banking services from the inside to outside, keeping the national position more effective and more capable and active to ensure banking extension and expansion. Globalization is not a framework for action in so much as it is a motivator of work too. Thus, banking globalization draws on several reasons that must be identified and, at the same time, must be linked with the pillars driving the growth of the bank and its expansion and enhancing its capabilities.

ECONOMIC EFFECTS OF GLOBALIZATION ON THE BANKING SYSTEM

Many changes and developments, studies and events and repercussions of globalization indicate that it has a large-scale impact on the banking system in any country in the world, including the Indian banking system. It must be noted that the economic effects of globalization on the banking system may be positive or negative; the task of those in charge of the management of the Indian banking system is to maximize the positive effects and minimize the negative ones. Therefore, reference may be made to a number of serious economic effects of globalization on the banking system, through the following analysis:

RESTRUCTURING THE BANKING SERVICE INDUSTRY

A significant change occurred in the work of banks and the size and scope of their banking services whether at the local or international level expanded. All banks are going to perform banking and financial services that they have not provided before. This is clearly reflected in the structure of bank budgets. On the other hand, declined relative share of deposits in total liabilities to banks. The liabilities are trading in the share relative to the total liabilities of banks due to the increasing activity of banks in activities other than lending, and led to a decline in the share of loans and increase the relative share of other assets, in particular the issuance of bonds. The effects of globalization on the banking system did not stand on the restructuring of the banking services industry, has been extended in an indirect entry to non-bank financial institutions such as insurance companies and pension funds, a strong rival of the commercial banks in the area of financial services, which led to the retreat of the role of commercial banks especially in the field of financial intermediation.

DIVERSIFICATION OF BANKING ACTIVITY AND THE TENDENCY TOWARDS DEALING IN FINANCIAL DERIVATIVES

This includes the diversification of banking services at the level of funding sources, the issuance of marketable deposit certificates and long-term loans from outside the banking system and at the level of expenditure and banking investments, and then the diversification of loans granted and the establishment of banking and securitizing holding companies. In other words, this means transferring banking debts to contributions in the form of securities and engaging in new investment areas such as attribution and performance of investment banking and the financing of the privatization at the income level to engage in non-banking areas, then the tendency towards leasing and trafficking in currency and deepening the activity of issuing securities, the establishment of investment funds, and insurance activity through sister insurance companies involved in holding companies management of investments for the benefit of customers.

IMPORTANCE AND CHARACTERISTICS OF MODERN BANKING SERVICES

Banking services represent one of the important activities in any country. If we look at the banking services as an economic activity, we find that it has a number of characteristics, the most important of which are the following (World Bank, 2001:). Complexity and multiplicity of banking service and its relation to all other economic and social activities in the country. The demand for banking services is an indication of the degree of the economic progress of the country, since the banking service is a productive activity of a particular nature and is related to different development issues. The supply of banking services is an indication of the level of economic prosperity in the country, as well as the different characteristics of population, in addition to its political and economic ties to other countries of the world. The demand for many banking services is characterized by repetition. Banking services are considered an industry as they have all the requirements and elements of any productive activity.

There is no doubt that the availability of features means the need to keep up with the former banking activity to the requirements of development in all aspects of economic and social activity in any country regardless of the nature of its economic or political philosophy.

In short, the banking services, like other aspects of economic activities, went through several stages of development, with a mere shift of activity from conducting lending and deposit within the borders of the State concerned for the banks to enter into the fields of investment and owned for many industrial projects, service trade, as well as exporting services outside the State border and the spread of the branches of many banks in most countries around the world and the emergence of multinational banks ... Etc.. There is no doubt that this major transformation in the remarkable diversity of banking services in the industry or banks in general was a necessity imposed by the reality of evolution and rapid growth in various economic activities in the various countries of the world. This is what makes many of the writers and practitioners in the industry believe banks that the real problem facing men banks lies in the face of how to manage change and the rapid growth in economic and social areas successfully, in addition to the change and evolution in the market for the banking industry, which has become characterized by severe competition.

THE CONCEPT AND MOTIVES OF BANKING MERGERS

The Concept of Banking Mergers: One of the economic impacts of globalization is what happened in the present time of the wave & Majat bank between big banks and small banks and large and each other. The process of integration of numerous banking and speed become a global phenomenon affected by all the banks in the world. Mergers and banking in general is the Union Bank in more than one bank or melting bankers or more entities into one entity, and the most important of many mergers motives(Robert,A.&Manmoban,S.1995): to achieve economies of scale and defended expansion and improve profitability in the context of Liberation of banking services. The banking mergers is the process whereby financial cornering bank or more by other banking institution where the bank abandon integrated usually give up on the smaller bank license and take a new name on behalf of the institution.

MOTIVES OF MERGING AND ACQUISITION NOT RELATED TO THE MAXIMIZATION OF THE VALUE OF THE BANK

These are the motives related to the achievement of the objectives of the bank that the decisions of the bank may not always aim to maximize the value especially when there is a separation between management and ownership, the management has taken some decisions for personal goals and not to serve The owners who run banks, large companies or large rate a high degree of conviction and complacency result of the increase in the degree of safety in their jobs and their income and thus distinguished may resort to mergers to increase the size of the bank, even if it did not lead to the maximization of the value of the bank accounts of any other institution to fear the establishment of an institution to greater absorption institution which defines possession defensive As mergers and acquisition may build on factors are not intended to maximize the value of the bank and it does not lead to the hoped-for results of the integration process and therefore been many studies to determine the best methods for reducing the degree of probability that managers merger-related operations to maximize the value of the bank and that are incompatible with the interests of shareholders. Among the most important suggestions in this regard are the following:

Managers should own an acceptable percentage of the bank's capital, which makes their work to increase the value of the bank and not to resort to mergers inconsistent with that. The need to focus property owners so that the bank can effectively influence the actions of managers in the opposite case when there is a break in the property in this case managers the opportunity to be more of the movement and decision-making. The need for independent external members of the Board of directors, which makes it easy to control the behavior of managers.

MOTIVES AND EXTERNAL FACTORS OF MERGING AND ACQUISITION

There are many external factors that led to the proliferation of mergers and acquisition between both banks or companies and institutions - for the banks there are certain circumstances led to the adoption of banks to mergers and acquisition as one of the methods of restructuring after his many banks to financial crises and there are many obvious international experience of the phenomenon during the nineties, where the Japanese monetary authorities and possession of integrating operations of financial institutions in the framework of the program of restructuring and capitalization of financial institutions and banks faltering. The motives and external factors of merging and acquisition is not linked to a certain period of time such as times of financial crises. The factors which have contributed to widening the spread of the phenomenon of merging and acquisition since the early 1990s include (El-Said, H., 2004): technological development, getting rid of restrictions, and globalization of financial markets. Banking services witnessed tremendous development and radical changes as a result of technological progress which changed job competitiveness both for the production, distribution and marketing methods and then create new products and thus the process of restructuring aimed at increasing competitiveness of the banking system has led to the creation of the appropriate environment for the process of merging and acquisition.

THE CHALLENGES FACING BANKING SYSTEM UNDER FINANCIAL GLOBALIZATION

It is expected during the next few years that banks will face significant changes, as well as a number of strategic issues as a result of the increasing influence of the following main strong forces(Ibrahim M.,1999):

Tendency for internationalization: Internationalization mean increased cooperation among nations and different institutions located those States in the economic sphere, and notes that the internationalization has three important implications in a number of states, and those three effects led to the following.

Increased importance of assets and liabilities in foreign and domestic banks.
Increased number of banks and financial institutions operating in foreign markets, banking locally.

INCREASED ASSETS OF FOREIGN BANKS OPERATING IN THE LOCAL BANKING MARKETS

At present, there are a number of indications that foreign banks will pose a threat to local banking markets, in Europe, for example, in the next few years, it is expected that large foreign banks will only constitute the main threat competitive in the market for retail banking (Retail Banking Market) as long as the opportunity is available, and the foreign banks have the ability to monopolize (Acquire) for financial institutions with large clients (Large Customers Bases). internationalization: This is a major banking development that emerged in Europe, then in many countries of the world during the past two decades, since banks in those countries started to keep away from specialization in banking and reduce the emphasis on traditional forms of lending and investment. Thus the bank came to provide a comprehensive mix of financial services (Abdel-Hafez, M.,2001). Accordingly, in all parts of Europe now, banks are moving towards global banking systems, which enable them to exercise their activity in the markets had previously been prohibited, as the pace of erosion commas between traditional banking work and other services is a reflection of the erosion that coincided commas in the international capital markets, particularly markets banking and finance markets financing through bonds, in addition to the phenomenon of securitization will continuously feed the decay and collapse of the demarcation lines between banking and capital markets and exchange markets(Abdel-Hafez,M., 2001).

SECURITIZATION

This phenomenon emerged in the seventies and eighties, and now constitutes one of the most important features of international capital markets, and that the term "securitization" mainly refers to the transfer of assets or change the format to the external financial assets and so can be re-sold to investors in the money markets(Rady, A., 2003), and this has created the phenomenon of "securitization" in the banks that have lost their comparative advantage compared with the stock markets, in the area of financial intermediation in the international credits also bore "securitization" with a meaningful change in the role played by Bankers since profitability is now transformed from being dependent on the conduct of studies and research regarding the interest rate margin, to focus towards income from commissions on activities for the provision of debt instruments) to investors.

GLOBALIZATION

Globalization refers to the unification and integration of global markets for both capital and money markets, i.e., unification and integration of financial markets globally, through the swaps mechanism and arbitraging accompanying for differences in international prices that have led globalization the possibility that banks and other financial institutions management Governor international investments (Global Investment Portfolios), as well as the full and comprehensive series of products and new methods become available now, so that the main players in the market (international financial institutions) carry out their activities in the various financial markets throughout the world, at the same time, i.e., simultaneously(world bank,2001).

CONGLOMERATION

Due to a number of factors and variables in each of the market of financial services as well as global economic environment, it is expected in the future that provide financial services through four major types of institutions: the groupings (conglomerates), and specialists, and agents (Agents), and institutions that operate under the umbrella of privilege from another institution (Franchisers)(world bank, 2001). Conglomeration is perhaps the most important trend appropriate for banking work in many countries around the world and probably the "assembly and integration features identified and acquired the distinctive characteristics and attributes through the desire of banks, which operate on a large scale to maintain its presence globally. It is noted that a large number of mergers (Mergers), as well as operations control (Takeovers) in the European financial services market was in 1986, and this can be said that most of the main reasons that explain the occurrence of mergers and control, due to the motives Strategy (Strategic Motives), and associated with diversification (Diversification), as well as economic motives related to synergy and growth.

CONCENTRATION

Concentration in banking markets is also one of the important features of the structural changes in the world of banks, and concentration is not in any way a recent phenomenon, since the banking systems in many countries in the world, dominated and controlled by a few big banks, since at least half a century. Banking systems differ in competitive degree of concentration (El-Naggar, F. 2000).

As for the most common way to measure the concentration banking is dependent on the calculation of the proportion of assets or deposits in the banking sector and State-controlled and managed by the three largest banks, or five, but it should be noted that there is difficulty in accurately assess both the effectiveness and extent of concentration within systems bank alone, and it also became difficult to measure the concentration significantly banking contemporary measures, because of lack of clear lines between labor markets banking and financial markets other, and yet it is clear that there is a tendency to prefer the large size of many banks a large number of the world's countries.

GLOBAL CHANGES

Global changes occurred successively in the form of shocks that had a significant impact on banks and other institutions. Among the most important of these changes are the electronics revolution, and economic blocs, and the emergence of the new world order, and control of the market economy, the information revolution, and the Liberation of world trade, and increased competition, and the spread of the phenomenon of privatization, mergers between banks and the Basel agreement issued in 1988 on the banks.

Information and Communications Technology: Computers have become available and their speed and potential increased, and they entered into networks that can connect with one another in audio, image and movement. The use of computer systems to summon immediate decisions and upgrade management skills with the availability of information. The computer systems are also used in external oversight of performance in different locations.

Through modern communication technology traders and staff in the banks could work through their e-mail and thus can be contacted and complete the work without the personal presence at the headquarters of the bank. Become driven by the banks to go global because of the serious financial accumulation negotiable move from one State to another as soon as the light effective global communications technology that allows the transfer of funds and investment anywhere in the world in minutes.

COMPETITION AND THE GLOBAL MARKET

Global changes forced banks and other institutions to compete with one another. At the same time, large blocks appeared to expand the scope of the market before and reduce cost and maximize profit through service, speed, innovation and meet the needs of the consumer. In order to achieve these objectives, the value of knowledge as an important factor of production . In order to be competitive and put in a data base available for use in banks and institutions in the light of fierce competition require conversion strategies to expand geographically and to open new markets and the challenge of competitors.

THE CHANGE IN THE OPERATING STYLE

Now banks look at the human element on the basis of providing self-commitment and the alleviation of restrictions and a regulation imposed on workers and has become a focus on self-directed work teams in achieving goals. It was necessary to have leadership that rely on human allow shared vision among all workers, believes decentralization to achieve accomplishments and drive material and intended merit systems through the development of operating systems quick and disciplined(Hefny,A.,&Abu-Qahf, A.2000).

THE STRATEGY FOR FACING CHALLENGES IS BASED ON THE FOLLOWING

Providing minimum capital of the bank in accordance with the criteria set. Restructuring public sector banks, Adjusting bad loans, Merging small banks in strong banks, Disseminating the culture of risk management developed between banks, and expanding and deepening banking and financing services (comprehensive banks , Contributing to the development of the financial market ,and Support control systems and procedures for monitoring and evaluation of performance.

RESULTS AND RECOMMENDATIONS

In the light of the foregoing, the researcher can conclude some results, the most important of which are the following:

The banking sector is one of the most important economic sectors and the most influential and responsive to changes, whether international or domestic, those changes include technological developments, the internationality of money markets, and freedom from the constraints that hinder all banking activities.

And attracting investments to get the financial resources required for developmental needs. India has paid great attention to the reform of the banking system through merging and possession to face banking competition within the framework of financial globalization, expanding the capital base of corporate banks and restructuring banks to keep up with international developments. Despite the measures India took to reform and enhance and restructure the banking system, the profits achieved by banks are still low. Also, the contribution of the financial sector in the gross domestic product remained low (8.9% in 2010). With increasing globalization, banking work became exposed to risks whether external or internal factors and banks had to be causation about risks using several means, the most significant of which is strengthening

Merging leads to the achievement of economies of scale and increases the volume of activity and savings and reduce the costs of the activity and mergers and acquisition leads to a change in bank management and the selection of leaders to pursue more efficient and modern management methods which leads to lower costs and increase profits. The success of governance in the banking system does not only depend on setting regulatory rule, but it also needs to be applied correctly and this depends on the Central Bank and control on the one hand and on the bank and its management on the other. It is expected during the next few years that banks will face significant changes, as well as a number of strategic issues as a result of the increasing influence of the different strong forces under financial globalization. In the light of the above results, the study recommends the following:

Benefiting by the models of central banks which are highly autonomous through information communication, on-going training, participation in international banking conferences, and increasing overseas missions and scholarships to get acquainted with new developments in banking systems.

Developing the skills of those in charge of credit and selecting the best of them from among those who are efficient, well-reputed and highly experienced in the field of banking, and stopping political appointments in the banking sector, taking into consideration on-going training of banking cadres to get acquainted with the latest developments in banking work, especially in the field of credit, through seeking the assistance of specialized experts whether from India or abroad, and activating the overseas training scholarship system to benefit by international experiences.

To face international competition, commercial banks in India must work to know all details about the banking market needs in such a way as to not to conflict with the goals of the banks. They must also know the nature of competition which banks face. Reinforcing the financial resources of Indian commercial banks through increasing capital and merging small and weak banks to form more effective units in order to achieve the required reduction in costs and benefit by larger economies. Working to develop human resources through rehabilitation and training in such a way as to fit with the developmental process and the requirements of modern banking technology. Implementing a modern banking technology and introducing modern services and products to deliver those services to clients in the local markets

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