International Journal of Innovative Technologies

WWW.IJITECH.ORG

ISSN 2321-8665
Volume.10, Issue.02,
July-December,2022,
Pages:37-41

A Comparative Study on Universal Banking in India with Respect To Public Vs Private Banks

GODAVARALADEEPIKA[1], DR. CH. RAMESH[2]

[1]PG Scholar, Dept of Management, Teegala Krishna Reddy Engineering College (Autonomous), Medbowli, Meerpet, Hyderabad, Telangana, India.

[2]Associate Professor, Dept of Management, Teegala Krishna Reddy Engineering College (Autonomous), Medbowli, Meerpet, Hyderabad, Telangana, India, Email: drrameshmanagement@gmail.com.

Abstract: Banks are the most important thing for every person for their financial needs or their business. It is also called the life and blood of modern economy. Nowadays banks offer so many different types of Products and services that make people's lives easier and easier when it comes to financial advice and needs. Universal banks are one of those types of financial institutions that almost all types of financial products or services available in the market. In this work we tried to analyze whether People know any service or product that their banks are offering them and they know their own bank is a universal bank. HDFC, ICICI, Canara Bank and SBI banks were taken as two universal banks and the data are collected from fifty customers of each bank using random sampling.

Keywords: Universal Bank, HDFC Bank, ICICI Bank, SBI Bank, Canara Bank, Financial Institution, financial products and services.

I. INTRODUCTION

The financial system enables lenders and borrowers to exchange funds. India has a financial system that is controlled by independent regulators in the sectors of insurance, banking, capital markets and various services sectors. Thus, a financial system can be said to play a significant role in the economic growth of a country by mobilizing the surplus funds and utilizing them effectively for productive purposes. Features of Indian Financial System.

- It plays a vital role in economic development of a country.
- It encourages both savings and investment.
- It links savers and investors.
- It helps in capital formation.
- It helps in allocation of risk.
- It facilitates expansion of financial markets.

Components/ Constituents of Indian Financial System
The following are the four major components that comprise the Indian

Financial System:

- Financial Institutions
- Financial Markets
- Financial Instruments/ Assets/ Securities
- Financial Services.

Introduction To Banking System: The Banking system of a country is an important pillar holding up the financial system of the country‟s economy. The major role of banks in a financial system is the mobilization of deposits and disbursement of credit to various sectors of the economy. The existing, elaborate banking structure of India has evolved over several decades.

II. STRUCTURE OF THE INDIAN BANKING SYSTEM

Reserve Bank of India is the central bank of the country and regulates the banking system of India. The structure of the banking system of India can be broadly divided into scheduled banks, non-scheduled banks and development banks. Banks that are included in the second schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled banks.

All Scheduled Banks Enjoy The Following Facilities:

- Such a bank becomes eligible for debts/loans on bank rate from the RBI Such a bank automatically acquires the membership of a clearing house.
- All banks which are not included in the second section of the Reserve Bank of India Act, 1934 are Non-scheduled Banks.
- They are not eligible to borrow from the RBI for normal banking purposes except for emergencies.
- Scheduled banks are further divided into commercial and cooperative banks.

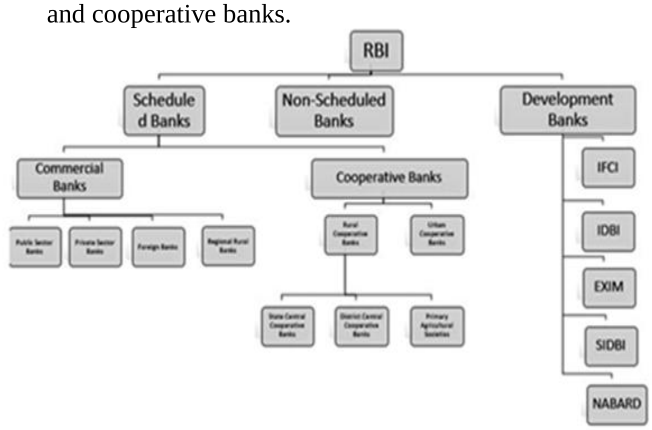

Fig1. Scheduled, Non-Scheduled Banks and Development Banks.

A. Commercial Banks

The institutions that accept deposits from the general public and advance loans with the purpose of earning profits are known as Commercial Banks. Commercial banks can be broadly divided into public sector, private sector, foreign banks and RRBs. In Public Sector Banks the majority stake is held by the government. After the recent amalgamation of smaller banks with larger banks, there are 12 public sector banks in India as of now. An example of Public Sector Bank is State Bank of India. Private Sector Banks are banks where the major stakes in the equity are owned by private stakeholders or business houses. A few major private sector banks in India are HDFC Bank, Kotak Mahindra Bank, ICICI Bank etc. A Foreign Bank is a bank that has its headquarters outside the country but runs its offices as a private entity at any other location outside the country. Such banks are under an obligation to operate under the regulations provided by the central bank of the country as well as the rule prescribed by the parent organization located outside India. An example of Foreign Bank in India is Citi Bank. Regional Rural Banks were established under the Regional Rural Banks Ordinance, 1975 with the aim of ensuring sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area notified by the Government. RRBs are owned jointly by the Government of India, the State Government and Sponsor Banks. An example of RRB in India is Arunachal Pradesh Rural Bank.

B. Cooperative Banks

A Cooperative Bank is a financial entity that belongs to its members, who are also the owners as well as the customers of their bank. They provide their members with numerous banking and financial services. Cooperative banks are the primary supporters of agricultural activities, some small-scale industries and self-employed workers. An example of a Cooperative Bank in India is Mehsana Urban Co-operative Bank. At the ground level, individuals come together to form a Credit Co-operative Society. The individuals in the society include an association of borrowers and non-borrowers residing in a particular locality and taking interest in the business affairs of one another. As membership is practically open to all inhabitants of a locality, people of different status are brought together into the common organization. All the societies in an area come together to form a Central Co-operative Banks. Cooperative banks are further divided into two categories - urban and rural. Rural cooperative Banks are either short-term or long-term. Short-term cooperative banks can be subdivided into State Co-operative Banks, District Central Co-operative Banks, Primary Agricultural Credit Societies. Long-term banks are either State Cooperative Agriculture and Rural Development Banks (SCARDBs) or Primary Cooperative Agriculture and Rural Development Banks (PCARDBs). Urban Co-operative Banks (UCBs) refer to primary cooperative banks located in urban and semi-urban areas.

C. Development Banks

Financial institutions that provide long-term credit in order to support capital-intensive investments spread over a long period and yielding low rates of return with considerable social benefits are known as Development Banks. The major development banks in India are; Industrial Finance Corporation of India (IFCI Ltd), 1948, Industrial Development Bank of India' (IDBI) 1964, Export-Import Banks of India (EXIM) 1982, Small Industries Development Bank Of India (SIDBI) 1989, National Bank for Agriculture and Rural Developmnt (NABARD) 1982. The banking system of a country has the capability to heavily influence the development of a country‟s economy. It is also instrumental in the development of rural and suburban regions of a country as it provides capital for small businesses and helps them to grow their business. The organized financial system comprises Commercial Banks, Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), Primary Agricultural Credit Societies (PACS) etc. caters to the financial service requirement of the people. The initiatives taken by the Reserve Bank and the Government of India in order to promote financial inclusion have considerably improved the access to the formal financial institutions. Thus, the banking system of a country is very significant not only for economic growth but also for promoting economic equality.

D. Universal Banking

Universal banking can be defined as a banking system that offers a wide range of banking and financial services (such as insurance, development banking, investment banking, commercial banking, and other financial services) compared to traditional banking institutions; Put simply, it can also be understood as a combination of all three services, namely retail banking, investment banking and wholesale banking. This system provides services such as asset management, deposits, payment processing, investment advice, underwriting, securities transactions, financial analysis, merchant banking, factoring, mutual funds, credit cards, auto loans, insurance, home finance, personal loans, etc.

E. Universal Banking In India

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. Consequent to the liberalization and deregulation of financial sector, there has been blurring of distinction between the commercial and investment banking. Reserve Bank of India constituted on December 8, 1997, a Working Group under the Chairmanship of Shri S.H. Khan to bring about greater clarity in the respective roles of banks and financial institutions for greater harmonization of facilities and obligations. Also report of the Committee on Banking Sector Reforms or Narasimham Committee (NC) has major bearing on the issues considered by the Khan group. 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 an 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 the 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 an universal bank over a specified time frame.

III. HISTORY OF UNIVERSAL BANKING IN INDIA

Historically, India followed a very compartmentalized financial intermediaries allowed to operate strictly in their own respectively fields. However, in the 1980s banks were allowed to undertake various non- traditional activities through subsidiaries. This trend got momentum in the early 1990s i.e., after initiation of economic reforms with banks allowed undertaking certain activities, such as, hirepurchaseand leasing in – housing. While this in a way represented a gradual move towards universal banking, the current debate about universal banking in India started with the demand from the DFIs that they should be allowed to undertake banking activity in-house. In the wake of this demand, the Reserve Bank of India constituted in December 1997, a working group under the chairmanship of Shri S.H. Khan, the Chairman & the Managing Director of IDBI (hereafter referred to as Khan Working Group-KWG). The KWG, which submitted its report in May 1998, recommended a progressive move towards universal banking. The Second Narsinham Committee appointed by Government in 1998 also echoed the same sentiment. In January 1999, the Reserve Bank issued a Discussion Paper setting out issues arising out of recommendations of the KWG and the Second Narsinham Committee. Since then a debate has been going on about universal banking in general and conversion of DFIs into universal banks in particular. With the opening up of the insurance sector to the private participation, the debate has gone beyond the narrow concept of universal banking.

A. The Need behind The Advent Of Universal Banking

Liberalization and the banking reforms have given new avenues to Development Finance Institutions (DFIs) to meet the broader market. They can avail the options to involve in deposit banking and short term lending as well. DFIs were set up with the objective of taking care of the investment needs of industries. They have build up expertise in Merchant Banking and Project Evaluation. So, saddled with obligations to fund long gestation projects, the DFIs have been burdened with serious mismatches between their assets and liabilities of the balance sheet. In this context, the Narsimham Committee II had suggested DFIs should convert into banks or Non-Banking Finance Companies. Converting of these DFIs into Universal Banks will grant them ready access to cheap retail deposits and increase the coverage of the advances to include short term working capital loans to Corporates with greater operational flexibility. At that time DFIs were in the need to acquire a lot of mass in their volume of operations to solve the problem of total asset base and net worth. So, the emergence of Universal Banking was the solution for the problem of the banking sector.

B. Review of Literature

Kammath, K.V (2012) He says ICICI envisages a timeframe of 12 to 18 months in converting itself into a Universal Bank. ICICI has received favourable response from Indian investors and FIIs on its move to merge with ICICI Bank and become a universal bank. ICICI was the first one to propagate universal banking as an ideal concept.

Sengla, Renu (2013) She claims 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.

Benston, George J. (1994) He finds that universal banking can provide considerable benefits and would pose few problems for the economy. Experience and logic indicate that these companies can do many things better than can universal banks. In particular, specialized firms are more likely to handle many important aspects of investment banking.

Khan,S. H.(1998) He claims Commercial banks were already permitted to enter diversified areas of financial businesses. Therefore, diversification in the Banking sector and the acceptance of Universal Banking concept, as different from narrow banking came to the forefront in the Indian context with the second Narsimham Committee (1998) and later the Khan Committee (1998) reports.

Sensarma (2001), He suspects that the Universal banking leads to a loss in economies of specialisation, Again diversifications of banking activities need not always result in economies of scale and scope especially if banks were not of appropriate size.

IV. RESEARCH METHODOLOGY

A. Scope of the Study

This research highlights the comparative position of two universal banking with the selected private sector banks and public sector banks – HDFC, ICICI, CANARA BANK and STATE BANK OF INDIA. To understand the difference between both the working of universal banking and its concept. The research would bring light in the perception of customers towards the awareness about all kinds of products and services which are available in their respective banks. The study of customer perception was done through primary data by providing questionnaire. The study included 50 customers of the private sector bank (HDFC, ICICI) and 50 customers of public sector bank (CANARA BANK, SBI). The samples collected for the study was conducted in Hyderabad city only.

B. Research Objectives

- To study the potential of universal banking in India through selected public sector and private sector banks.
- To study the difference between a universal private sector bank and public sector bank in India.
- To examine the risk exposure of banks.
- To critically examine the existing debate on Universal banking in the context of the samples studied.
- To position a bank in terms of the progress made by it in the direction of Universal Banking.

C. Methodology of the Study

Research Design: Exploratory research design is used.

Sampling Method: Convenience sampling method was used to select the respondents. 100 respondents from various regions in Hyderabad having sound banking knowledge were interviewed. The questionnaire includes various dimensions related to attractiveness of universal banking, its influence on customer‟s product choice behavior, advantages of universal banking, the most suitable model and service provider in India which can readily be converted into Universal Bank.

D. Data Collection:

Primary Data: Primary Data were collected using questionnaires and through personal interviews.

Secondary Data: Secondary data is collected from websites, magazines, journals and news paper.

Statistical Tools

- Tabulation
- Percentage charts
- Pie charts
- Likertscal

E. Data Analysis & Interpretation

Private Sector: HDFC&ICICI Bank

Table-1. Analysis On The Basis Of The Banking And Financial Services Available Table For Hdfc&Icici Bank

BANKING AND FINANCIAL SERVICES	HDFC			ICICI			TOTAL
	YES	NO	CAN'T SAY	YES	NO	CAN'T SAY	
Education loans	32	8	6	28	12	14	100
Pension payments	12	24	5	16	32	11	100
Locker facility	48	0	5	44	0	3	100
Agriculture and Rural Credit	5	45	6	0	42	2	100
Loan against gold	24	15	10	32	12	7	100
Housing loans	38	12	0	42	5	3	100
Loan against shares/debentures	21	18	10	26	11	14	100
Any NRI services	43	0	7	42	8	0	100
Wholesale banking services	32	11	4	36	9	8	100
Tax payment	26	5	16	38	6	9	100
Project finance	39	4	15	38	4	0	100
Telephone & Electricity bills payment	14	6	26	18	12	24	100
Internet banking	50	0	0	50	0	0	100
Gold banking services	26	16	10	32	9	7	100
Letter of Credit Pre-paid cards for payment	9	32	12	12	28	7	100
disbursements (Smart Card)	12	28	15	8	32	5	100
Microfinance	27	15	14	29	15	0	100
Credit card	25	18	7	32	12	6	100
ATM card	50	0	0	50	0	0	100
Investment banking	38	15	7	24	16	0	100
Mobile banking	32	12	8	28	8	12	100
Insurance (Life & General)	14	25	10	16	32	3	100
Mutual funds	18	22	16	21	19	4	100

This table shows whether people are aware of the banking and financial products and services that the bank offers. while HDFC & ICICI Bank provides both services.

Table-2. Analysis on the basis of the BANKING AND FINANCIAL services available Table for SBI & CANARA BANK

BANKING AND FINANCIAL SERVICES	SBI			CANARA			TOTAL
	YES	NO	CAN'T SAY	YES	NO	CAN'T SAY	
Education loans	42	5	3	32	15	3	100
Pension payments	50	0	0	46	4	0	100
Locker facility	48	5	4	39	0	4	100
Agriculture and Rural Credit	42	5	0	41	4	8	100
Loan against gold	46	0	6	43	0	5	100
Housing loans	28	12	15	26	15	4	100
Loan against shares/debentures	12	29	15	11	33	0	100
Any NRI services	18	14	22	19	21	6	100
Wholesale banking services	24	19	20	16	19	2	100
Tax payment	15	19	22	20	18	6	100
Project finance	18	24	6	22	19	11	100
Telephone & Electricity bills payment	9	32	15	8	26	10	100
Internet banking	42	5	3	35	15	0	100
Gold banking services	50	0	0	50	0	0	100
Letter of Credit Pre-paid cards for payment	8	32	15	5	32	8	100
disbursements (Smart Card)	15	29	8	11	35	2	100
Microfinance	15	21	14	11	32	7	100
Credit card	15	26	10	14	25	10	100
ATM card	50	0	0	50	0	0	100
Investment banking	12	22	16	15	28	7	100
Mobile banking	38	12	0	29	15	6	100
Insurance (Life & General)	16	26	10	14	34	0	100
Mutual funds	19	31	0	15	35	0	100

From the table above it is clear (since the selected clients were mostly less educated compared to the clients of HDFC & ICICI BANK) that even though clients are clients of one of India's most popular banks, they are still unaware of the services and products the bank.

F. Findings

This descriptive analysis shows that public sector banks are less aware of the concept of universal banking. It may be possible that people know about the bank's products and services but do not know that the term universal bank exists. Then the concept of offering all services and products "under one roof" is not applicable if the bank has different subsidiaries for this depending on the customer. Customer satisfaction was also seen more in the private bank, as it is more customer-oriented and more trained and more polite.

V. CONCLUSION

In this study, it is found that because of the lack of knowledge about the term "universal banking", people do not even know their own bank's products and services. Because of this negligence, banks can lose customers in this regard as well. Therefore, emphasis should not only be placed on profit orientation, but also to provide better services to customers. The hypothesis was also proven, but the only difference was customer satisfaction, which can be used for further studies. The private banks are more customer-oriented and advertise their products and services well compared to the public banks. Regardless of the type of client, the bank should prove useful for all types of client needs, which is the main objective of the universal bank label.

Suggestions: First, not much importance is attached to the concept of the universal bank, but each bank is now trying to copy the universal banks, which actually makes their name worse. Such a concept should be made known to customers. Second, customer satisfaction always has a different concept, especially when it comes to universal banks. Statistical analysis should be done once and for all to improve customer satisfaction. Third, a universal bank that has all sorts of products under one roof is seen as just a joke. The institute should work hard towards this goal, because since the universal bank concept would be properly implemented, not only can the institute benefit the customer, but such a bank can also be helpful in taking the economic status of the country to the next level.

VI. REFERENCES

[1] Adalat, Muge (2002), „Were Universal Banks More Vulnerable to Banking Failures? Evidence from the 1931 German Banking Crises" University of California, Berkely, November 19.

[2] Approach to Universal banking (2007), www. Bank net india.com

[3] Benston, George J (1994), Universal Banking", Journal of Economic Perspectives, Vol.8, No. 3

[4] Berger, Allen N(1999), The Consolidation of the Financial Servises Industry: Causes, Consiquences, and Implications for the Future", Journal of Banking and Finance, Vol. 23.

[5] Bhole, L.M (2004), Financial Institutions and Markets, Tata McGraw Hill Company, N.Delhi, B.N.V. Parthasarathi, Consolidation of Indian Banks Challenges,The ICFI University Press.