A Study on Universal Banking and its Impact on Indian Financial Market

Dr S.M.Tariq Zafar, M.Com, PGDMM, PhD (Social Sector Investment), Director, Charak Institute of Business Management, GBTU, Lucknow, U.P

ABSTRACT

To maintain equilibrium between demand and supply in present global economic revolution, technological and metamorphic environmental developments within and outside the political boundary there is a need of banking revolution which can efficiently mobilize and productively utilize public savings. However, the Universal Banking (UB) emerged as a new mechanism to perform this function as a financial supermarket with diversified range of financial product under one roof. Corporate can get loans and advances, can deposit fund, can avail other handy services from these multipurpose financial institutions. India being emerging economy has oceanic opportunities which are yet to be explored. Knowing the fact Banks and multipurpose financial institutions have plans to diversify in a big way ignoring profit margin in the short run due to switching costs incurred in moving to a new business. Thus in this paper an attempt is made to explore potential of multipurpose financial institutions / universal banking in respect to Indian market and their future in long run in deregulated and intensified competition among banks and form of non banking financial intermediaries. It is expected that the modern banking concept of financial supermarkets will play effective role in bridging the financial gap and also expected that healthy competition between domestic and international financial giant will be advantageous for customers due to new high breed financial products and specialized services.

Key Words: UB, FI, DFI, Transnational Companies (TC), Financial Supermarket (FS).

JEL: Classifications: G18, G 21, G 23, G24, G29, G32, G38, G39, And G61

INTRODUCTION

It is a well known fact that economic growths implies a long term rise in per capita national output and such increases are very much associated with drastic and extraordinary changes in technology, institutional set up, psychological environment, organizations behavior, socio culture and attitude of common people. For social development economic growth is necessary and for economic growth industrialization is necessary and for industrial growth efforts, capital and knowledge are three important elements and among these element capital is the most crucial component. However, metamorphic environmental developments in and outside the political boundary and the open market policy with the hedges cocooning the economy has been abolished by the computer and telecommunication revolution. The net communications have explored geographical and functional integration of international financial markets. Further, deregulation of financial market and intensified competition among banks and non banking financial intermediaries have minimized the hurdles between money and capital markets and explored more diversified, organized, multipurpose and innovative financial institutions functioning in unprecedented dimensions.

It has been found that a wide spectrum of financial intermediaries in money market and capital markets under the supervision and guidelines of central banks as an apex body has came into existence across the world to fulfill varied requirements of savers and investors. Notable agencies among money market institutions engaged principally in providing term financing to investors and entrepreneurs are commercial banks, discount houses, acceptance houses and indigenous agencies and among capital market institutions, insurance companies, venture capitalists, vulture funds, mutual funds, investment banking, development banking, virtual banking,
merchant banking, mutual banking, and universal banking.

In general perception the term Universal Banking refers to a financial institution offering commercial as well as investment banking services which also include services related to savings, loans and investments. But in real practice, institutions which offer a wide range of financial services, beyond commercial banking and investment and investment banking and various other activities including insurance are regarded as universal banking. It is like a coordinated financial super market supplying innovative and multifarious products under one roof. 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. According to 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 Comparative Governance of the firms that rely on the banks for funding or as insurance underwriters”.

Globally universal banking is functioning in various forms ‘like’ In House fully integrated universal banking which is known as purest form of universal banking. In this form of UB single institution offers a complete range of banking and other products to the customer. Under this form bank’s different departments operate under one roof and perform various activities like, commercial banking, investment banking, insurance, leasing, etc. in order to satisfy the consumer need. Under Universal Banking Subsidiary Structure form of UB, there exists a net work of principal institution and subsidiaries. In general principal institution undertakes both banking and investment activities and for remaining activities subsidiaries are set up by the bank and in Holding Company structure form of UB one financial holding company owns both banking and non banking subsidiaries which are legally separate and individually capitalized and are allowed by the law.

Objective of the Study

The core objective of this study is to explore potential of multipurpose financial institutions / universal banking in respect to Indian market and their future in long run in deregulated an intensified competition among banks and form of non banking financial intermediaries. In addition, will analyze the strength, weakness, opportunity and threat of Universal Banking (UB) in Indian context

Research Methodology

The 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 (observational method & case-study method) has been adopted which is based on the secondary data and the secondary sources of data were the various websites, published annual reports and literatures of the banking companies, RBI annual report, IMF annual & periodical reports and academic journals.

Review of Literature

Literature revues are important for the study as they base on past work on present and forecast about the future and give study a direction as a north star. In this study it is authentically undertaken to understand the present status of banking and financial institutions and their overall impact after transforming into universal banking and their survival in global competitions by critically examining and evaluating different theories and empirical studies conducted universally by financial experts and academicians. The Solomon revelations of these studies indicate that they differ in opinion due to many reasons like global economic condition, nature of economy, time period of the study, banks futuristic policies and considerations etc. Therefore, keeping futuristic development in view this study is humble initiative and is designed to investigate Universal Banking minutely which is relevantly required in Indian capital market. The outcome of the study will provide insights regarding operational characteristics and efficiency of banking companies to the end users in the both segments long term and short term and will also explore new dimensions and will set new parameters to be followed by others.

According to the World Bank that universal banking, large banks operate extensive network of branches, provide many different services, and hold several claims on firms (including equity and debt) and participate directly in the corporate Governance of firm that rely on the banks for funding or as insurance underwriters”. Such kinds of banks are very much common in European countries. In Germany there has never been any separation between commercial banks and investment banks and
CB accept time deposits, underwrite corporate stocks, and represent as investment advisors to large corporations. Bank of America CEO Brain T Moynihan thinks the universal model is the most important and crucial for his business. It is because it gives consumers access to global information, capital markets, investment advice and basic banking in one place. To be competitive we have to provide all these services to our customers.

With passing through global recession, universal banking is no longer seems attractive. Its performance is now debatable and there’s been lot of talk in America about the resurrection of Glass Steagall act, a depression-era law that split investment and commercial banking. Many regulators and politicians see scandals such as the LIBOR rate fixing allegations, the volatility of wholesale markets thinks that the recent loss sustained on credit derivative positions by JP Morgan Chase also unnerves people. Investors and analysts are now arguing big banks breaking up. CLSA broker and an analyst Mike Mayo conclude that these companies are worth more dead than alive. Most universal banks with subscale investment-banking arms will neither find buyers nor will they be able to wind down these businesses without incurring big losses. Even the financial economist advocated the modern concept of UB is now having second thoughts. Big banks including BofA, JPM, Morgan Stanley, Citi and Goldman Sachs are facing potential downgrades on their credit rating from Moody’s. Sandy Weill, the man behind the mergers that created Citigroup, the archetypal universal banking giant, surprised pundits by saying that megabanks should break up. Similar kind of suggestions was given by former chairman of Citigroup “John Reed and Richard Parsons and David Komansky a former chief executive of Merrill Lynch”. Mervyn King, the governor of the Bank of England said that he saw real merit in pursuing the separation of this utility-type banking from investment banking. BaFin, Germany’s national watchdog and Deutsche Bank’s home regulators are purposely examining the case for segregating the two types of business as well.

Utility of Universal Banking

Universal banking concept due to its effective features, efficient economic services, high output, lower cost and better products and offerings has gained stupendous success and became popular all over the world in short period of time. In global scenario financial institution have freedom to choose the size and products mix and offering of its operations and activities to optimize the use of their available resources. Its large size and range of operations provide economy of scale and greater scope for better utilization of resources. Universal banking enjoys advantage of avoiding wasteful marketing duplication, cost less marketing research, concentrated customer feedback and development. In addition, large scales of operational activities enable the institution to optimally utilize the modern information technologies which make it more effective and competitive. In comparison to specialized financial institutions UBs are sufficiently equipped to undertake verities of business according to demand by shifting the surplus resources within the organization without substantial cost. It single window offering of financial products and services also consolidate its relation with customers which ultimately result growth in business as customer prefers to do business with universal banks because they gets services at one place.

Global View Regarding Universal Banking

In respect of growing economic liberalization, globalization, financial deregulation and digitalization, competitiveness has increased in almost every sector of the economy including financial sector. Financial institutions in order to protect and consolidate their presence and market share, to ensure future growth, to arrest performance deterioration, to avail the advantage of emerging opportunities, to retain the existing customers and to attract new customers are offering wide array of customized products and services in convenient atmosphere at economical rate under one roof since the beginning of 20th century. Due to Glass-Steagall Act, 1933 it became impossible for the organization to have combined financial activities. The Act prohibited banks for combining investment and commercial banking activities due to serious conflict of interests of commercial and investment banking which ultimately slowed the growth of such banks and financial institutions. But banks in the USA started adopting the system in the late 1990 and Citigroup the financial giant took the lead in this regard under the existing Glass-Steagall Act.

Universal banking in Europe is traditional and principal financial institutions in these countries offer entire range of banking services. Continental European banks are normally engaged in depositing, real estate and other related lending, foreign exchange, trading and underwriting. UB in France, Germany and Switzerland played instrumental role in maintaining the safety of financial system and also
protected Central bank against the excessive demands as the lender of last resort due to their long presence, practices, experience and expertise. In countries like Australia, Austria, Finland, France, Germany, Hong Kong, Denmark, Sweden and Poland banks are permitted to undertake in-house commercial banking and investment banking business. But countries like U.K, Brazil, Mexico, Japan, Canada, Korea, New Zealand, Norway, Netherlands, and Thailand have adopted conglomerate route by setting subsidiaries to perform diversified business activities. Accept Japan and Korea banks in these countries can also promote insurance business through their established subsidiaries. The Anglo- Saxon countries and Japan later adopted Continental European System of UB. In China depositing and lending was the central business activity but big and ambitious commercial lenders are now opting non banking financial business territories of trust companies and equity funds and in coming time UB will become the new hallmark of Chinese financial market. Swiss banking system works as UB system, all the banks provides all kind of banking services like credit / lending business, assets management and investment financial analysis.

Emergence of Universal Banking in India

After adoption of liberalization, privatization and globalization India government adopted new economic policy in order to become competitive and world class global market. Thus, under pressures of international financial liberalization policy correction were made and financial reforms were introduced and adopted to match the pace of growth, to consolidate and improve their competitive position in both domestic and global marketplaces which was herculean task. As Indian commercial banks were mostly government owned and follows British banking norms and operates in protected economy. In highly administrated regime discretion of management was limited due to which risk parameters in general were hazy and not quantifiable. Further, astonishing and stupendous growth of banks and banking operations during post nationalization period created operational inefficiency and irregularities which resulted losses of control over widely spread branches and lead rise in operational cost, accumulation of degraded quality of assets, decline in profitability, high monitoring arrears and reconciliation. Due to all these inefficiency competitive effectiveness of banks was at low ebb. Customer care and services was mirage and they were most dissatisfied relative of administrative banks. During the period Indian financial strength, operational efficiency and effectiveness were not up to international standard and thus it became obvious for policy-makers to introduced intermediaries in order to bring Indian financial market at par with international standard.

To cater the need of growing demand of long term resources at concessional terms Indian financial institutions comprising Development Financial Institutions (DFIs) and Refinancing Institution came into existence and short term business were catered by commercial banks in general. In present highly volatile and competitive domestic & global market, ruled by finicky customers and frequently changing demands has made operation of specialized institutions very difficult. Due to continuous growth in NPAs, drastically declining profitability and dearth of avenues for the financial institutions in the wake of declining market sentiments it became impossible for them to make change in their operation according to the demand without incurring substantial risks of future. Thus, in respect to equate global standard of financial product and services, to improve customer services, to minimize the gap, to improve the performance of both categories of financial institutions, to make them self reliant, to strengthen the banking system and improving their performance parameter and profitability, the RBI, has set a vision and policy. To fulfill the vision and the gap under these prevailing circumstances acquisition of a universal banking (UB) structure was considered an effective and strategic mechanism. Further, danger of administrated banks survival speeded the processes. It has been considered by the policy makers that emergence of universal banks will accelerate economic growth as it assists in strengthening the
alliance between corporate and banks. It has also been considered that a movement into universality is likely to promote consolidation in a healthy manner and hence should be encouraged for the betterment of overall economical growth.

In order to adopt universal banking as an alternative to administrated Indian banking the problem of rationalizing and harmonizing the relative roles of these existing institutions needed to be strategically defined by the government and RBI which is an uphill task and required perspicacious investigation for better future into (a) how DFI will raise long term resources at reasonable cost in competitive market (b) can short term resources through traditional banking route help the DFIs (c) is conversion of DFIs into universal banking due to existing problem and growing competition faced by them (d) how DFIs will fulfill legal requirement of entry conditions which are applicable to the banks in case of conversion into universal banking (e) minimum and maximum transition time period and approach (f) DFIs if converted then what would be the appropriate regulatory regime for universal banks (g) what kind of product and services DFIs and commercial banks will provide after converting into universal bank (h) up to what extent DFIs and commercial banks are capable to carry on universal banking activities in open competition.

To achieve holistic vision and to evolve an effective, efficient, resilient, and vibrant, customer oriented financial system acquisition of a "universal banking by converting DFIs and commercial banks has been endorsed by the policy makers and for the purpose Reserve Banks of India constituted working committee under Shri Narsimaham and later constituted working group on December 8, 1997 under the chairmanship of Shri S.H. Khan to look into the issue and bring more clarity in the respective roles, structure and operation of DFIs and commercial banks for greater harmonization of facilities and obligation and recommend changes to strengthen the organization, human resources, risk management practice and other relevant issues in the wake of capital account convertibility.

After extensive analyses of the Indian financial market and existing market players under all circumstances and futuristic probabilities recommendation were made and later final policy been drafted and implemented. Both the committee recommended for the betterment that the approach to adopt universal banking should be made keeping domestic and global market; experience and requirement; there should be only two categories of financial institutions in term of institutional structure of the capital market viz., banks and non banking financial intermediaries (NBFCs), in long run depending upon the choice DFIs will have to convert itself into universal banks or NBFCs, in the prevailing institutional infrastructure DFIs will be enjoying the special niche until the long term debt market improved in term of liquidity and depth, the DFIs under the privilege of freedom can remain DFIs and question of their transformation into bank will be time bond and should be transformed within specified period of time of five years after detailed examination by the RBI on case to case basis, permission to set up fully owned subsidiary could also be considered by RBI if in case DFI chose to promote banking services by itself through a wholly owned subsidiary route, DFI would be categorized as a NBFC if it failed to acquire a banking license within stipulated period of time, banks and DFI can go for positive and lucrative mergers. Recognizing the overlapping and undue interference of regulation and regulatory body the Khan committee suggested that to ensure uniformity in regulatory treatment distinct and effective regulations should be established to supervise and coordinate the activities of the multiple regulation.

In the year 2000 the issue of universal banking (UB) resurfaced when ICICI discussed with RBI about the time frame and possible option for transforming itself into a universal bank. RBI also later spelt out to Parliamentary Standing Committee on Finance and its proposed policy for UB in which it allowed domestic financial institutions to become universal bank case by case. Further, RBI asked interested FI’s to convert itself into a universal bank and for the discussion and consideration submit their plan for transition. The submitted plan should be prepared to fully conform to all prudential, regulatory and supervisory norms which are applicable to banks over the proposed period.

**Present Status of Universal Banking in India**

Keeping the recommendations of Narsimaham committee and of Khan working group (KWG), RBI facilitated DFIs and commercial banks through legislative amendments to undertake the diversified financial activities. To avail the opportunity and to dominate the market position, number of banks set up subsidiaries for merchant banking, mutual fund and leasing along with commencing factoring and securitization. Thus PSBs assumed the character of UB during the post reform period and SBI, Allahabad
Bank, Panjab National Bank, Bank of Broda, Union bank of India, Oriental Bank of Commerce became pioneer under different categories. Among private sector banks during the initial period, the ICICI bank, Development Credit bank Ltd., HDFC bank Ltd., Kotak Mahendra bank have adopted aggressive approach toward universal banking and they transformed themselves from term lending into virtual universal bank in respect to provide corporate and retail financial services like lending activities, life and general insurance, personal fiancé, investment banking, private equity, international banking, mortgages, consumer credit, retail credit, credit cards etc. For the purpose they entered into strategic alliance with several foreign giant insurance companies and banks to sell their products. ICICI and IDBI adopted merger route to convert themselves into universal banks.

The Road Ahead To India

Universal banking is no longer seems attractive. The financial economist advocated the modern concept of UB which offer the benefit of diversification, and enable banks to offer a full range of services to their clients are now having second thoughts. Now the global experience in regard to UB is varying. It has existence in different from in different part of the world. In some countries it prohibited commercial banks from selling insurance products, investment banking activities, taking equity position in borrowing firms etc. The sole idea was to mitigate risky behavior by restricting CB to their traditional activity of accepting deposits and lending. Market research in respect to UB impact has revealed different consequences depending upon nation’s economical circumstances and customer perception. In emerging economy like India some commercial economist argue that approach of adoption UB is very slow and some suggest for steady approach. Some question that, should India can have UB if yes then from when. Some say that when UB are failing in developed economy, can they survive in emerging economy. But apart from all emerging thoughts, in India it still hold high esteem and customers are preferring one stop supplier for all financial products and activities, like deposit, term loans, insurance banking etc. It save transaction and other related costs and comparatively increases the speed of economic activity in general. Through effective, protected, consumer prone and futuristic regulation universal banking can be promoted with the expectation that it will ultimately benefit the entire market participant, including them and will be able to compete in free market. FI’s must be addressed about the salient operational and regulatory issues of RBI of conversion into a universal bank. For better control regulatory body and policy makers have to justify the distinction between maturity and duration. It is important because DFIs are major supplier of term finance which are of longer duration and carry low interest rate with clearly defined maturity period that could be between 3 years to 7 years and banks provide short term finance with variably high interest rate and generally do not have definite maturity dates. It will be wise for India to transform DFIs into commercial banks in phased manner as its transition path contains several operational and regulatory issues.

Strengths, Weaknesses, Opportunities and Threats (SWOT) of Universal Banking:

Strength:

Economies of Scale: the biggest advantage of universal banking is greater economic efficiency which enables them to exploit economies of scale by improving spread, higher output with better and diversified product range and low operating cost.

Diversion of Surplus: Through diversification of activities bank can use its overall potential expertise optimally in providing different kind of services and can reduce cost by performing all functions by one entity rather than under separate bodies.

Optimally Utilization of Resources: Banks operating different function under one roof is advantageous. It can collect information like market trends, risk and return analysis of client’s portfolios etc and this information can be further used to pursue other activities in order to generate additional business with clients through minimum efforts.

Advantage of Brand Name in Marketing: Bank with established brand have wide network of its branches which become active point for promoting products like insurance, Mutual funds etc. as branch will act as a parent company or source and will help bank to reach remotest area without any external support.

One Point Shopping: The idea of one shopping point helps customers as well as banks in saving transaction and other related costs and improves the economic activities to a great extent which ultimately advantageous to all participants.

Pro Investors Environment and Activities: Adopting universal banking will lead to diversification of business activities which is
ultimately related to customers and thus required investor’s friendly environment. Apart from this basic, another manifestation of UB is banks holding stakes in firms. Its equity holding in borrower firms indicate health of the firm to others investors and being a lending bank it have an advantage to monitor the firm’s activities.

Weaknesses:

Regulatory Obstacles: The road of UB is not smooth but has many regulatory obstacles which are the real hurdles and will hamper its growth. The different regulatory requirement of Banks and DFIs, distinction between maturity and duration, their conversion period, funds can be kept as cash reserves by FDI etc., needed careful examination.

Complex long term Lending: Converting into Universal Banking will diversify and increase business opportunity but project which have long gestation period like project and infrastructure finance required long term borrowing which requires permission, market standing, expertise to generate and control long run funds.

NPA a perpetual Problem: The most serious problem to all banking and financial institution is controlling the bad loans or non performing assets (NPA). Generally most of the NPAs come out of commodity sector loans and advances, such as textile, steel and chemicals etc. Using technology cannot solve the problem but it required proper appraisal and overall analyses by DFIs and banks before and after lending and proper use of funds and efficient working capital control by the fund users. Universal banking will add fuel in NPA growth due to its expansion and diversification in activities without skilled and efficient manpower.

Opportunities:

Improvise Proficiency and productivity: Liberalization and globalization has led banks to cross the political boundary and become universal. The main focus will be ultimate profit rather than size of balance sheet. To increase the profit margin banks will prefer more of fee based opportunities than mobilizing deposits which will also save cost and paying interest on deposit. Being part of free economy and to survive with surplus banks have to improve their efficiency and productivity, which will ultimately results in new financial products and services.

Global Presence and Market: in comparison to global giant financial institution Indian banks are far behind in terms of total asset and net worth. State bank of India is the only bank which has managed place in the top 100 banks list of ‘Fortune 500’ based on market value, assets, sales and profit. It has also managed II rank in ‘Forbes 2000 list of all Indian companies. Most of the top 10 banks in the world have much larger asset based and capital than entire Indian banking sector. To compare and to secure better position in top 100 banks in the world Indian banks has to multiply their operation volume many fold. Traditional banking operation cannot make any difference to enhance overall profitability universal banking with wide range of financial services clubbed with commercial banking functions like factoring, mutual fund; credit cards, retail, personal loans, merchant banking etc. became essential.

Elimination of Financial Inequality and Apartheid: Revelation of a study conducted by Chennai based association, Scientific Research Association for Economics (SRA) that irrespective of large number of branch network existence in rural and urban areas, still society lowest base like fruits and vegetable vendors, laundry services, provision stores, petty shop and tea stalls etc., are unable to avail advantage of banking services. They become victim of money lenders, pawn brokers etc. This is due to banks policy which is prone toward big entrepreneurs and do not want to lend entrepreneurs of small strata. This discrimination can be easily controlled with the help universal banking retail and personal banking services.

Threats:

King of Financial Ring:

Universal banking is presentation of banking system in modified and different form. It is legitimate marriage of Development Financial Institutions (DFIs) and commercial banks which in relation transformed into universal banking. Mergers and acquisitions play important role in establishing universal banks which is possible only with financial soundness. The biggest problem will be their size which will put the economy in a problem “larger the banks, the greater the effects of their failure on the system. Size wise universal banks will be the largest banks; their assets base, their income level and profitability make them financial empire which ultimately leads to monopoly and price distortion by manipulating interests of the bank for profit motive instead of social motive. With sound financial status universal banks will develop holding in other banks and indirectly will control financial business which will ultimately convert universal banks strength into weakness. Due to their diversified expansion the
economy of scale will become degradation of products quality. If UB did not managed its business prudently then deposit rates could shoot up and thus impact their margin of profits. To increase profit margin bank will switch toward riskier business which will affect assets quality and ultimately result in disintermediation and securitization of banks business.

Salient Operational and Regulatory Issues for FIs to Convert into a Universal Bank

- **Minimum Reserve Requirements:**
  In order to convert into universal banking it is mandatory under Section 42 of RBI Act, 1934, and Section 24 of the banking regulation Act, 1949, respectively for FIs to comply with the cash reserve ratio and statutory liquidity ratio requirements.

- **Permissible Operational Activities:**
  All the activities which are not permissible for a bank under Section 6(1) of the B. R. Act, 1949, have to be stopped or divested by the FIs (if undertaken) after its conversion into universal bank.

- **Disposal of NPA as per Act:**
  After converting into universal bank all the immovable property acquired by the FIs is required to be disposed of within given period of time (of 7 years) from the date of acquisition in term of Section 9 of the B.R Act.

- **Composition of Expert & Qualified Board:**
  After conversion into a universal bank it will become necessary for some FIs to change the composition of the board of directors in order to ensure the compliance with the provisions of the Section 10 (A) of the B.R Act, which requires that at least 51% directors must have expert knowledge and experience.

- **Prohibition of Floating Charges on Assets:**
  Banking companies are not permitted to create any floating charges on the undertaking or on any property of the company until and unless it is certified by the RBI as required under the Section 14(A) of the B.R Act. Thus any floating charges over its assets after its conversion into a universal bank if created by FIs would require ratification by the RBI under the Section of 14(A) of the B.R. Act.

- **Kind of Subsidiaries:**
  Section 19 of the Act permits a bank to have subsidiaries as permitted under the Section 6(1) of B.R. Act. Thus, if any existing subsidiaries of FIs are indulged in any activity which are not permitted under the Act, then it would become necessary for the FIs to delink itself from such subsidiaries or activities if want to convert itself into universal bank.

- **Statutory Investment Limit:**
  In order to secure compliance FIs have to divest excess holdings of equity investment held by it in accordance to the provisions of Section 19(2) of the B.R Act, which prohibits a banks to hold excess to the limits of 30 percent of the paid up share capital of that company or 30 percent of its own paid up share capital and reserves, whichever is less on its conversion into a universal bank.

- **Coordinated Lending:**
  Section 20 of the B.R Act prohibits grant of loans and advances by a bank on securities of its own shares or grants of loans or advances on behalf of any of its directors or to any firm in which its director or manager or employee or guarantor is interested. The compliance with these provisions would be mandatory after conversion of an FI to a universal bank.

- **Statutory Licensing:**
  To carry any banking business in India after converting into universal bank, it is mandatory of FIs to obtain a banking license from RBI under Section 22 of the B.R. Act.

- **Obligatory Branch Network:**
  An FI, after converting into a universal bank would have to comply with the extant branch licensing policy of RBI under which it is mandatory for a new bank to allot at least 25 percent of their total number of branches in rural and semi urban areas.

- **Assets in India:**
  Under the section 25 of the B.R. Act an FI after its conversion into a universal bank mandatorily require to ensure that at the close of its business on the last Friday of every quarter its total assets held in India are not less than 75 percent of its total demand and time liabilities in India.

- **Annual Reports and its Statuary Format:**
  FI after converting into universal bank have to publish its balance sheet and profit and loss
account in the format as set out in Third Schedule, as prescribed for banking companies under Section 29 and Section 30 of the B.R Act.

- **Chief Executive Officers and their Managerial Remuneration:**
  Appointment and remuneration of Chief Executives Officers have to be done according to the RBI guidelines. In case of conversion into universal bank it requires review and approval of RBI in terms of Section 35 B of the B.R Act. Through this Sections RBI fix remuneration of the Chairman and Managing Director of a Bank considering the profitability, net NPAs and other financial parameters. This Section clearly dictates that prior approval of RBI is must for appointment of Chairmen and Managing Director.

- **Deposit Insurance:**
  It is statutory obligation on an FI, to comply with the requirement of compulsory deposit insurance from DICGC (as applicable to the bank) up to a maximum of Rs. 1 lakh per account on its conversion into a universal bank.

- **Authorized Dealer’s and Required Licence:**
  Some FIs to undertake transactions necessary for or incidental to their prescribed functions have to take or hold restricted AD licence from RBI, Exchange Control Department. On their conversion into a universal bank they become eligible for full fledged authorized dealer licence and would also attract the full rigour of the Exchange Control Regulations Applicable to the banks (subject to amendments time to time) including prohibition on raising resources through external commercial borrowings.

- **Lending to Priority Sector:**
  After converting into Universal banking it will become applicable on FIs to fulfill the obligation of lending to the priority sector up to the prescribed percentage of their net bank credit.

- **Prudential Norms:**
  The RBI prudential norms applicable to all the financial institutions in India would be no longer be applicable on FI after their conversion into Universal Banking but the norms which are applicable to banks would become applicable on FI and it will be fully complied with.

**Conclusion**

Finance and society are two side of a survival coin. Under the growing commercialization, universalization and globalization numerous financial products and services have emerged and developed perpetual relation in all sphere of life. With fast moving economies and growing economic appetite it became paramount for banks to adopt matching pace in order to fulfill the global social and economical needs. It has been found that in many developed economies universal banking have proved their importance and responded efficiently to the customer demand and played vital role in economic development and served as an importance source of external fiancé for enterprises. Indian financial sector is orthodox and very much influenced by the British rules and is relatively banking oriented and are been the primary supplier of financial services. But now banking scenario in India has changed due to globalization and strategy of universal banking became dominant practice. To meet the economical obligation in changing and diversifying universal financial galaxy, the Indian banking industry adopted the philosophy of ‘big size fits well’ and thus financial conglomerates through mergers and strategic acquisitions among bank and non banks have emerged and implicitly conveys the futuristic fact. In this paper, an attempt has been made to explore potential of multipurpose financial institutions / universal banking in respect to Indian market and their future in long run in deregulated an intensified competition among banks and form of non banking financial intermediaries and in addition, have analyzed the strength, weakness, opportunity and threat of Universal Banking (UB) in Indian context.

The study found that universalisation contributes to efficiency save cost but not significantly. The study found that universally very few universal banks have investment banking arms with enough strength to stand on their own. After financial crises the investment banking arms of large size international commercial banks dominated the key market such as bonds, currencies and commodities due to decline in pure wholesale banks. It is found that private universal banks have higher efficiency and productivity in urban area due to providing large number of diversified services and financial products under one roof but have limited penetration in semi urban and remote area and paying high cost which has adversely effected their growth. Social sector banks on other hand have better penetration and advantage of geographical spread but with high cost.
and NPA which impacted its margin and growth. It is found that private, foreign and public sector banks have conflict of interest. Private and foreign banks have profit motive and public sector banks have social motives and thus have distinct approach and consequences. It is found that most of the universal banks with subscale investment banking arms will not be in position to find buyers nor they will be in position to wind down their business without incurring losses due to the contract in which they have entered that produce risk to the banks such as swaps or other derivatives which can last 20 years or more. Such positions and situations are not easily managed and their creators are forced to maintain hedging or managing the risks. It is also found that at a time of winding down the business it is harder to attract and retain investors and employees. Such kinds of problems suggest regulators ought to look for more subtle interventions than simply carving banks up. Further regulators have to specify how big investment banks can be compared with commercial banks.

Apart from all regulatory shortcomings and odds, Indian financial market have untapped potential and have space for all competitive banks to grow. Indian banking sector day by day becoming more competitive, efficient and innovative in comparison to multinational giants. The study concludes with the fact that concept of supermarkets / multipurpose financial institutions / universal banking is progressive and competitive. UBs have played, are playing and could play a significant role in nation’s economic and social development and their competition will be advantageous to the end users. Future of such banks in long run deregulated and in intensified competition is expected to be safe.

**Recommendations**

Generally it is found that society trust public sector banks in comparison to private or foreign banks. Thus public sector banks have to explore the potential of the trust and have to transform themselves into efficient universal banks. Social sector and private UB must launch attractive and protective financial product, services and financial schemes which may be flaky and tax saving. They also motivate and properly guide society to invest their ideal money for better growth and return in future. They must develop protective ring fence in which they have to maintain enough capital and liquidity in order to support each business without any discrimination. All the UBs have to be transparent and loyal to the customer and have to develop confidence in society in order to attract investment in their banks. Regulators and Regulatory bodies have to be effective and efficient in implementing the policies, rules and regulation time to time in order to control the financial crimes.

**References**


[16] RBI (1999), Discussion Paper on Universal Banking, January
[29] Web Site: Universal Banking in India
[31] www.hss.caltech.edu/~fohlin/bookout-ger-nov00.pdf

http://www.managementor.com