



**TRANSITION OF INDIAN COMMERCIAL BANKS FROM TRADITIONAL
SERVICES TO UNIVERSAL SERVICES**

Divya Bansal

MBA Department, AIMIT

Research Scholar-Jain University, Bangalore, India

divyadogra26@gmail.com

Dr. Chaya Bagrecha

MBA Department, AIMIT, Bangalore, India

chayagandhi@gmail.com

ABSTRACT

The world of Banking and Finance is changing very fast and the banks are transforming and adjusting themselves with the new business challenges being faced by them in the wake of globalization and financial reforms. The traditional banking activities like Corporate Finance and Branch Banking are being replaced by retail banking and technology based delivery channels. The universal banking concept is one of the newest trends in the banking environment where the Indian banks have been rapidly expanding the menu of the financial services they offer to their customers. The purpose of the study is to determine the range of services provided by a universal bank. The present paper focuses on understanding the concept of universal banking in India and attempts to understand and prepare an exhaustive list of services offered by a Universal Bank. The Universal Banking Score has been calculated for ten private and public sector banks.

Key words: Commercial banks, Financial Institutions, Universal Bank, Financial Services



I. INTRODUCTION

Universal Banking, means the financial entities – the commercial banks, Financial Institutions, NBFCs, - undertake multiple financial activities under one roof, thereby creating a financial supermarket. These entities focus on leveraging their large branch network and offer wide range of services under single brand name.(Chaitanya 2005). However in practice the term 'universal banking' refers to those banks that provide a large range of financial services, beyond the commercial banking functions like Mutual Funds, Merchant Banking, Factoring, Credit Cards, Retail loans, Housing Finance, Investment banking, Insurance etc. This is most common in European countries. For example, in Germany commercial banks accept time deposits, lend money, underwrite corporate stocks, and act as investment advisors to large corporations. In Germany, there has never been any separation between commercial banks and investment banks, as there is in the United States.(Dhingra 2015)

A narrow view of Universal banking could be activities pertaining to lending plus investments in bonds and debentures. A broader view could include a basket of all the financial activities including insurance. The characteristics of Universal Banking heavily depend on two most important factors, namely:

- The specific country's diversification rules and regulations.
- The strengths of individual banks in enlarging the scope of the activities in the various segments of financial services industry.

II. RESEARCH METHODOLOGY

The study is carried out to make a qualitative and comprehensive evaluation of emerging services offered under Universal Banking (UB) concept in India. The present paper studies theoretical concepts of Universal Banking and financial services provided by ten private and public sector banks. The secondary data is collected through various websites, published annual reports and literatures of the banking companies, RBI annual report, IMF annual & periodical reports and academic journals



III. LITERATURE REVIEW

Without any doubt, service quality is very important component in any business related activity. This is especially so, to marketer a customer's evaluation of service quality and the resulting level of satisfaction are perceived to affect bottom line measures of business success (Iacobucci et al., 1994). Customer expectations are beliefs about a service that serve as standards against which service performance is judged (Zeithaml et al., 1993);

The adoption and implementation of universal banking system and other reforms that accompany it would herald rapid and sustainable development and economic growth in the country. Universal banking has many prospects as well as challenges confronting it. (Agbo Joel 2013).

Customer expectations are beliefs about a service that serve as standards against which service performance is judged (Zeithaml et al., 1993); which customer thinks a service provider should offer, rather than on what might be on offer (Parasuraman et al., 1988). The common bank customer now-a-days is not fully satisfied with the services rendered by the banks alone. This is because, the human perception changes from time to time and from individual to individual. Hence, this change in perception of a customer of the service he gets makes the job of satisfying him at all point of time more challenging. It is therefore, necessary to for banks to continuously assess and reassess how customers perceive the services, what are the new and emerging customer expectations and how they can be satisfied on an ongoing basis (Nair 2013).

IV. UNIVERSAL BANKING DEFINED

Universal banking refers to the combinations of commercial banking and investment banking including securities business. Universal Banking is defined as:

“the conduct of range of financial services comprising deposit taking and lending, trading of financial instruments and foreign exchange (and their derivatives) underwriting of new debt and equity issues, brokerage investment management and insurance”. (Saunders, Anthony. A and Walter Ingo, 1994)



Universal banking helps service provider to build up long-term relationships with clients by catering to their different needs. The client also benefits as he gets a whole range of services at lower cost and under one roof

Before you begin to format your paper, first write and save the content as a separate text file. Keep your text and graphic files separate until after the text has been formatted and styled. Do not use hard tabs, and limit use of hard returns to only one return at the end of a paragraph. Do not add any kind of pagination anywhere in the paper. Do not number text heads—the template will do that for you.

Finally, complete content and organizational editing before formatting. Please take note of the following items when proofreading spelling and grammar.

V. COMMERCIAL BANKS

Traditionally, the commercial banks in India were largely into the core banking business of accepting deposits and providing working capital funds to agriculture and allied, trade and industry sectors. In early 90's the financial sector in India was crying out for reforms. Things started changing ever since the process of liberalization hit the Indian shores, the banking sector saw the emergence of new generation private sector banks. Public sector banks which played a useful role earlier on are now facing deterioration in their performance. For very long, the banks in India were not allowed to have access to stock markets. So their dealing in other securities were minimal. But the financial sector reforms changed it all, Indian banks started to deal on the stock market but their bitter experience with scams, they became averse to deal in equities and debentures. Off late, commercial banks in India have been permitted to undertake a range of in-house financial services. Some banks have even setup their own subsidiaries for their investment activities. Subsidiaries include in the area of merchant banking, factoring, credit cards, housing finance etc.



At present, Indian banks are engaged in credit, consumer finance, savings, money and capital, advisory services and recently insurance market. Therefore, the Indian banks are already moving in the direction of Universal banking, undertaking all the financial services under one cover.



1. ICICI BANK ENJOYING THE STATUS OF A UNIVERSAL BANK

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. ICICI's shareholding in ICICI Bank was reduced to 46% through a public offering of shares in India in fiscal 1998, an equity offering in the form of ADRs listed on the NYSE in fiscal 2000, ICICI Bank's acquisition of Bank of Madura Limited in an all-stock amalgamation in fiscal 2001, and secondary market sales by ICICI to institutional investors in fiscal 2001 and fiscal 2002. ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses.

In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI become the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE.

After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI



Bank would be the optimal strategic alternative for both entities, and would create the optimal legal structure for the ICICI group's universal banking strategy

The ICICI's decision to turn itself into a universal bank ushered a new era in the banking scenario. The second Narasimham Committee noted that the global trends in banking industry towards consolidation and convergence led to the dismantling of boundaries among suppliers of various financial products. The Khan Working Group also recommended a progressive move towards universal banking and development of enabling regulatory framework. It is contended that universal banking will result in greater economic efficiency in the form of lower cost, higher output, and better products and therefore is believed to be the panacea for beleaguered development financial institutions.(Dhingra 2015)



2. HDFC Bank Limited is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. Incorporated in 1994, it is the fifth largest bank in India as measured by assets. It is the largest private sector bank in India by market capitalization as of February 2014. The bank was promoted by the Housing Development Finance Corporation, a premier housing finance company (set up in 1977) of India. According to the Brand Trust Report 2014, HDFC was ranked 32nd among India's most trusted brands. HDFC Bank provides a range of commercial and transactional banking services, including working capital finance, trade services, transactional services, cash management, etc. to large, small and mid-sized corporates and agriculture-based businesses in India. The bank is also a leading provider of these services to its corporate customers, mutual funds, stock exchange members and banks (.wikipedia.org)



3. IDBI BANK is an Indian government-owned financial service company, formerly known as Industrial Development Bank of India, headquartered in Mumbai, India. IDBI is one of the leading government banks in India. It is currently 10th largest development bank in the world in terms of reach, with 3000 ATMs, 1746 branches, including one overseas branch at Dubai, and 1285 centers, including two overseas centers at Singapore & Beijing. IDBI Bank is on a par with nationalized banks and the SBI Group as far as government ownership is concerned. (.wikipedia.org)



4. AXIS BANK LIMITED (formerly UTI Bank) is the third largest private sector bank in India. It offers financial services to customer segments covering Large and Mid-Sized Corporates, MSME, Agriculture and Retail Businesses. Axis Bank has its registered office at Ahmedabad. (.wikipedia.org)



5. ING VYSYA BANK was a privately owned Indian multinational bank based in Bangalore, with retail, wholesale, and private banking platforms formed from the 2002 purchase of an equity stake in Vysya Bank by the Dutch ING Group. This merger marks the first between an Indian bank and a foreign bank. Prior to this transaction, Vysya Bank had a seven-year-old strategic alliance with erstwhile Belgian bank Banque Bruxelles Lambert, which was also acquired by ING Group in 1998. (.wikipedia.org)

As of March 2013 ,ING Vysya is the seventh largest private sector bank in India with assets totaling ₹54836 crore (US\$8.3 billion) and operating a pan-India network of over 1,000 outlets, including 527 branches, which service over two million customers. ING Group, the



highest-ranking institutional shareholder, currently holds a 44% equity stake in ING Vysya Bank, followed by Aberdeen Asset Management, private equity firm Chrys Capital, Morgan Stanley, and Citigroup, respectively. ING Vysya has been ranked the "Safest Banker" by the *New Indian Express* and among "Top 5 Most Trusted Private Sector Banks." On 20 November 2014, in an all stock amalgamation, ING Vysya Bank decided to merge with Kotak Mahindra Bank, creating the fourth largest private sector bank in India.



6. SBI : State Bank of India is an Indian multinational, Public Sector banking and financial services company. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra and also its corporate office in Mumbai, Maharashtra. As of December 2013, it had assets of US\$388 billion and 17,000 branches, including 190 foreign offices, making it the largest banking and financial services company in India by assets. State Bank of India is one of the *Big Four banks* of India, along with Bank of Baroda, Punjab National Bank and ICICI Bank. (.wikipedia.org)



7. ALLAHABAD Allahabad Bank is a nationalized bank with its headquarters in Kolkata, India. It is the oldest joint stock bank in India. On 24 April 2014, the bank entered into its 150th year of establishment. It was founded in Allahabad in 1865. As of 31 March 2012, Allahabad Bank had over 2,500 branches across India. The bank did a total business of INR 3.1 trillion during the FY 2012-13. The bank has a branch in Hong Kong and a representative office in Shenzen. (.wikipedia.org)



8. CANARA BANK is an Indian state-owned bank headquartered in Bangalore, in Karnataka. It was established at Mangalore in 1906, making it one of the oldest banks in the country. The government nationalized the bank in 1969. As of March 2015, the bank had a network of 5705 branches and more than 9039 ATMs spread across India.



9. ANDHRA BANK: Andhra Bank is a medium-sized public sector bank (PSB), with a network of 2507 branches, 15 extension counters, 38 satellite offices and 2232 automated teller machines (ATMs) as on 31 Mar 2015 and planning to open 300+ branches by 31 March 2016. During 2011–12, the bank entered the states of Tripura and Himachal Pradesh. The bank now operates in 25 states and three Union Territories. Andhra Bank has its Headquarters in Hyderabad, India. (.wikipedia.org)



10. BANK OF INDIA : Bank of India is commercial bank with headquarters in Mumbai, Maharashtra, India. Founded in 1906, it has been government-owned since nationalization in 1969. Bank of India has 4545 branches as on 31 December 2013, including 56 offices outside India, including five subsidiaries, five representative offices, and one joint venture. Bank of India is a founder member of SWIFT (Society for Worldwide Inter Bank Financial Telecommunications), which facilitates provision of cost-effective financial processing and communication services. (.wikipedia.org)



VI. AN EXHAUSTIVE LIST OF SERVICES OFFERED BY A UNIVERSAL BANK

RBI does not mention an exhaustive list of services provided by a Universal Bank, but since ICICI Bank has been declared a Universal Bank, so all the services provided by ICICI has been assumed to be the services which should be offered by a Universal Bank.

TABLE 1 : Exhaustive List of Banking Services

PERSONAL BANKING Savings Account FD/RD iWish Flexible RD Demat Pension Salary Pocket Wallet	LOANS Home Loan Personal Loan Car Loan Gold Loan Loan Against FD Commercial Vehicle Loan	CARDS Credit Card PL on Credit Card Debit Card Travel Card	INSURANCE Life insurance Car Insurance Health Insurance General insurance Card Protection Insurance
FIXED INCOME PDT Fixed Deposit Bonds PPF Sr. Citizen Saving Scheme	INVESTMENTS Mutual Funds Gold/Silver Tax Solutions Student Solutions Forex IPO thru ASBA	AGRI & RURAL Insta Gold Loan Farmer Finance Agri Traders & Corp Tractor Loan Micro Banking Agri Corporates	NRI SERVICES Rupee Accounts Foreign Currency A/c Fixed Rupee A/c Priority A/c Recurring Deposit Rs A/c NRI Insurance Loan for NRI
CORPORATE	BUSINESS		BANK REFERRAL



BANKING Commercial Banking Global Markets Investment Banking Custodial Services Project finance TFG	BANKING Current Account Business Loan		PROGRAMME MY MONEY POCKET WALLER
--	---	--	--

Source : www.ICICI.com

VII. UNIVERSAL BANKING SCORE CARD FOR EACH BANK

After taking into consideration all the services offered by the banks, a universal banking score is calculated for all the 10 banks. ICICI Bank is considered as a benchmark for the exhaustive list and total number of services being provided.

TABLE : 2: Calculation of Universal Score

	Bank Name	Bank's Universal Score	Maximum Universal Score
1	ICICI BANK	62	62
2	HDFC BANK	48	62
3	IDBI BANK	47	62
4	AXIS	45	62
5	ING VYSYA	44	62
6	SBI BANK	46	62
7	ALLAHABAD	44	62



8	CANARA BANK	48	62
9	ANDHRA BANK	45	62
10	BANK OF INDIA	46	62

Through the above table we get to derive that public sector banks are also gearing up and have started offering most of the services which are being supplied by Universal Bank. But still they lack behind and have to pull up. Providing tax solutions, Career guidance for students, Forex and derivative options for agriculturists and NRI insurance are some of the services which are not provided by most of the public and private sector banks

VIII. CONCLUSION AND RECOMMENDATION

Undoubtedly, no business can exist without customers. In the philosophical words of Peppers and Rogers “The only value your company will ever create is the value that comes from customers—the ones you have now and the ones you will have in the future. This is absolutely true. Customer value is an asset to the organization. Hence, in order to maintain the customer, the banks needs to ensure that good amount of services, supported by the right promotion is made available at the right time for the customers. Therefore the banks must innovate and start providing more and sector banks have selected the ways to expand their services through universal banking.

Public sector banks and are matching with the private banks and going ahead to the way of universal banking We see that still some public sector and private sector banks are lacking behind and have to provide lot of more services as provided by a Universal Bank.

REFERENCES

- CHAITANYA, Krishna, Universal Banking: The Indian Perspective, Regional and Sectoral Economic Studies. AEEADE. Vol. 5-1 (2005)



- Dhingra, Lalitha. (2015). Analysis Of Investors Behavior Regarding Universal Banking In India Pezzottaite Journals Volume 4, Number 1, January – March’ 2015
- L. L. Berry, V. A. Zeithaml and A. Parasuramsan. Quality counts in services too. Business Horizons. 1985, 31 (5): 46
- More, J.B., Impact of Universal Banking International Referred Research Journal ISSN- 0975-3486 VOL,I *ISSUE-9,
- Tariq Zafar, S.M., Journal of Business Management & Social Sciences Research (JBM&SSR) ISSN No: 2319-5614 Volume 1, No.2, November 2012
- Munusamy, Jayaraman (2010). Service Quality Delivery and Its Impact on Customer Satisfaction in the Banking Sector in Malaysia. International Journal of Innovation, Management and Technology, Vol. 1, No. 4, October 2010
- Christopher Onu, Agbo Joel (2013). Assessment of the Impact of Universal Banking on Bank Performance in Nigeria. European Journal of Business and Management www.iiste.org ISSN 2222-1905 (Paper)
- Nair Girish K.; Nair Harisk K. (2013). A Study On Customer Perception On Service Quality In Commercial Banks: An Empirical Study. ZENITH International Journal of Multidisciplinary Research. Vol.3 (7), July (2013).
- <http://www.icicibank.com/aboutus/history.page>
- https://en.wikipedia.org/wiki/HDFC_Bank
- https://en.wikipedia.org/wiki/HDFC_Bank
- https://en.wikipedia.org/wiki/IDBI_Bank
- https://en.wikipedia.org/wiki/Axis_Bank
- https://en.wikipedia.org/wiki/ING_Vysya_Bank
- https://en.wikipedia.org/wiki/State_Bank_of_India
- https://en.wikipedia.org/wiki/Allahabad_Bank
- https://en.wikipedia.org/wiki/Canara_Bank
- <https://en.wikipedia.org/wiki/Andhra>
- https://en.wikipedia.org/wiki/Bank_of_India



International Journal of Business Quantitative Economics and Applied Management Research

ISSN: 2349-5677

Volume 2, Issue 6, November 2015

- www.icicibank.com
- www.hdfcbank.com
- www.idbi.com
- www.axis.com
- www.ingvysya.kotak.com
- <https://www.sbi.co.in/>
- <https://www.allahabadbank.in/>
- <https://www.canarabank.in/>
- www.andhrabank.in/
- www.bankofindia.com/