

## THE IMPACT OF GLOBALISATION ON THE QUALITY OF THE BANKING SERVICES IN MADURAI DISTRICT

**Dr.M.Santhi**

*Asst. Professor of Commerce, M.K.U College*

The study sought to investigate the impact of globalization on the quality of products in a developing economy banking sector in Madurai city. The objectives of the research were to ascertain whether globalization helps to restore or maintain confidence in the banking sector; ensure a sound financial sector; helps to reduce fraudulent activities and whether the implementation of global measures improves the quality of products in the banking sector.

The present study aims to explain the effects of globalisation on the banking system performance in Madurai.

The following table shows the number of banks functioning in Madurai district for the year 2010-11.

|   |     |
|---|-----|
| Total No of Bank Branches in Madurai District | 278 |
| Rural Branches                                | 85  |
| Semi Urban Branches                           | 38  |
| Urban Branches                                | 155 |
| Total   | 278 |

### **CLASSIFICATION OF BANKS**

|                     |     |
|---------------------|-----|
| SBI (Group)         | 44  |
| Public Sector Bank  | 136 |
| Private Sector Bank | 51  |
| R.R.B.              | 8   |
| Co.op               | 38  |
| (SFC) TIIC          | 1   |
| Total               | 278 |

Source: District industrial center-Madurai.

Before analyzing the studies let us know the concept of globalization and its positive and negative impact in banking generally.

The term globalization connotes enhanced connectivity among people across the national borders. The nature and pace of globalization depends on the combined effect of technology and the public policy both at the national and international levels. Globalization refers to the unifications and integration of global markets for both capital and money markets. Global changes forced banks and other financial institutions to compete with one another. At the same time, large banks appeared to expand the scope of the market, reduce cost and maximize profit through service, speed, innovations and meet the needs of the consumers.

#### **Financial globalization**

The last thirty years witnessed many changes in financial globalization. New technological advances and the liberalization of the domestic financial sector and the capital account have led to new developments. The main agents driving financial globalization are governments, private investors and borrowers, and financial institutions.

#### **Latest developments in financial globalization**

The new nature of capital flows and the increasing use of international financial intermediaries constitute two of the most important developments in financial globalization.

#### **Economic effects of globalization on the banking system**

Banking has gone through many dramatic changes in the last two decades. trade has had a major impact on the need to operate the banking s have been extensive regulatory changes, advances in information and banking technologies, the acceptance of the market economy by former non integration of international financial market. Deregulatory banking acts, combined with increased globalization and the integration of financial institutions and markets, create a more competitive environment that should increase the efficiency of banking operations in general.

#### **Infusion of foreign capital**

India, being one of the signatories of financial services agreement of 1997, is poised to expand the reach of its financial services, including banking, on a reciprocal basis to many countries. The process of globalization will increase the presence of international players in the banking arena in India.

Similarly, some of the Indian banks will become global players. So, the banks will perform spread their net beyond borders in their quest for new markets, customers and profit.

The net capital flows to emerging economies have increased sharply since the 1990s. The composition of capital flows to developing countries changed significantly during this period.

**Banks today in India**

The entire banking sector has undergone a restructuring during recent years as a result of recent developments. New technologies have added to the competition. The I-T revolution has made it possible to provide ease and flexibility in operations to customers thus making life simpler and easier. Rapid strides in information technology have, in fact, redefined the role and structure of banking in India. Further, due to exposure to global trends after Information explosion led by Internet, customers - both Individuals and Corporates - are now demanding better services with more products from their banks. The financial market has turned into a buyer's market. Banks are also coping and adapting with time and are trying to become one-stop financial supermarkets. The market focus is shifting from mass banking products to class banking with the introduction of value added and customized products.

**Advantages for Corporates**

Corporates are also deriving profits from the increased variety of products and competition among the banks. Certificates of deposit, Commercial papers, Non-convertible Debentures (NCDs) that can be traded in the secondary market are gaining popularity. Recently, market has also seen major developments in treasury advisory services. With the introduction of Rupee floating rates for deposits as well as advances, products like interest rate swaps and forward rate agreements for foreign exchange, risk management products like forward contracts, option contracts and currency exchange are offered by almost every authorized dealer bank in the market. This list of services is still growing.

**Global Economic Crisis - Impact on Indian Banking**

The Indian banking sector, backbone of the financial system had no impact of sub-prime markets of US economy. Indian banks global exposure is small with international assets of 6% of total assets. Investment exposure of banks to financial institutions is also less. So the attainment of losses has been comparatively low. The Indian financial system owes much to the wise and judicious policies of our Central government and reserve bank of India.

**Positive Impact of Globalisation**

Globalization has increased its importance in banks. Banks have been finding ways through which they would serve their clients more cost effectively as well as increase the utility to their clientele. Their main concern has been to serve clients more conveniently as there are still queues appearing in banking halls and as this found out that there are still many frequent visits by individuals to their banks that can be reduced by use of technology. Electronic and communications technologies brought about by globalization have been used extensively in banking for many years to make transactions or business easier, faster, more competitive and convenient. Advancements in computer technology in globalization saw the banks networking their branches and operations thereby making the one-branch philosophy a reality.

**ATM (Automated teller machine)**

Arguably the most revolutionary global electronic innovation in India and the world over was the Automated Teller Machine (ATM). HSBC -- the Hong Kong and Shanghai Banking Corporation -- was the first bank to introduce the ATM concept in India way back in 1987. Other major banks followed after it and increased the networking for a greater satisfaction to the customers. The ATM has been the most successful delivery medium for consumer banking. Customers considered these devices as very important in their choice of banks and those banks that delayed suffered a slow pace in business. ATMs have been able to entrench the one-branch philosophy in the country by being networked, so people do not necessarily have to go to their branch to do some banking

**Electronic Cards**

Another global innovation was the various types of electronic cards which have been developed over the year. Many cards developed are online so anytime a client uses the card, or changes occur in their account balance, their card automatically reflects the change.

**Telephone Banking**

Telephone banking provides increased convenience, expanded access and significant time saving. Electronic Funds Transfer as Point of Sale (EFTPoS). It is an online system that has allowed customers to transfer funds instantaneously from their bank accounts to merchant accounts when making purchases (purchase points). This has contributed to an increased banking productivity as it has become very popular with many merchants in our country.

**RTGS (Real Time Gross Settlement)**

RTGS is a facility that is used to transfer funds from one bank to another. Each transaction is settled individually as soon as it is received from the remitting bank and, hence, done in real time. The RTGS system is primarily meant for large value transactions. The minimum amount that can be remitted is Rs 2 lakh, while there is no maximum limit NEFT.

National Electronic Funds Transfer (NEFT) NEFT is electronic funds transfer system, which facilitates transfer of funds to other bank accounts in over 63000 bank branches across the country. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances. Commodity and money markets can have a very significant impact upon people's lives hesitated information systems have made globalization possible.

**Mobile banking**

Mobile banking is a method of using one's mobile phone to conduct simple banking transactions by remotely linking into a banking network.

**Video banking**

Video banking as that used for performing banking transactions or professional banking consultations via a remote video and audio connection. Video banking can be performed via purpose built banking transaction machines (similar to an Automated Teller Machine), or via videoconference enabled bank branches.

**Cheque Truncation**

Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point with the presenting bank en-route to the drawer bank branch. In its place an electronic image of the cheque is transmitted to the drawer branch by the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc.

As explained above, Cheque Truncation speeds up the process of collection of cheques resulting in better service to customers, reduces the scope for clearing-related frauds or loss of instruments in transit, lowers the cost of collection of cheque, and removes reconciliation-related and logistics-related problems, thus benefitting the system as a whole.

**Negative impact of globalization in banking sectors**

The effect of globalization has possible risks of negative shocks which may cause instability in the domestic market, increased competition which can result in weakening of the local banking sector, possibility of the foreign banks fleeing in times of trouble and also can result in inability of regulations to control the foreign banks in the host country. Besides there is also a problem of inability of regulations of the host country to control bank behavior and increased foreign deficits emanating from profit transfers. Globalization and deregulation would affect small banks. because the larger banking entities, by virtue of their economic power, economic size and high economic performance, have a high capability to influence the market trends.

**Financial exclusion**

Although the issues of accessibility and availability of financial services in rural and urban areas are hugely different, unfortunately, the scenario of financial exclusion, more or less, remains the same. While in remote areas, banking services are neither adequately available nor accessible. More over private banks are not ready to open their branches in rural areas.

**Money laundering and Cyber-crimes**

They are the other bad effects of the globalization. These are all the negative impact of the globalization.

**Analysis of the studies**

The study was conducted in Madurai city. There are 155 public sector banks (including SBI) and 51 private sector banks are functioning. Out of which Ten public sector banks and five private sector banks have been chosen for study purpose. Fifty

customers from public and private sector banks have been interviewed. To elicit information's from the customers about the banking service fifty account holders have been chosen on random sampling and fifteen questions have been asked in the form of questionnaires.

#### **Methodology**

Questionnaires and interviews were used to collect data on the current state of the banking sector in terms of globalization and quality of services provided in Madurai city. Personal interviews then followed to get greater understanding and analysis of the perceptions on the effect of global information technology (IT) innovations or electronic delivery channels on the banking services in Madurai city. 30 banks employees have been interviewed to collect information's about their satisfaction in service after globalization.

#### **RESULT OF THE ANALYSIS**

##### ***From the perception of customers***

About 89% of the respondents expressed that ATM is the most widely used electronic device. Cash withdrawals, getting mini statements,, checking bank account balance could be effectively done through ATM.

##### ***Usage of ATM***

76% of the respondents told that they used to visit ATM points minimum 5 or more times in a month. 30% of the respondents used to visit the ATM once or twice every month. 11% of the respondents were not using ATM as they did not know its operations.

##### ***Internet banking***

On the usage of internet banking only 5% of the respondents used it effectively for the fund transfers like RTGS and NEFT transactions. This transaction had been carried out mostly by educated people. None of these respondents have been using mobile banking for transferring funds.

##### ***Truncated cheque***

60% of the respondents felt that collection of money through truncated cheque was quick and easy after globalization. They also felt that money transfer from abroad was also quick and easy after globalization.

##### ***Branch expansion***

80% of the respondents said that easy accessibility of banks was now possible, because of the opening of number of branches everywhere.

##### ***Negative impact***

20% of the respondents expressed their dissatisfaction about their ATM usage as there were frequent repairs like failure of satellite link and out of order of machines. 70% of the respondents felt that service charges on credit card were high and maintenance of high minimum balance particularly at private sector banks irked the customers.

##### ***Responses from bank employees***

80% of the bank employees interviewed were expressed their satisfaction over globalization. They felt that technology innovations reduces their work considerably and saves time and energy. About 76% of the bank executives agreed that IT innovations ensure efficient service delivery. It was found that IT innovation enables banks to deliver efficient services to their customers. IT innovation was said to have improved the quality of products and services of banks. In terms of transaction costs the majority agreed that IT innovation

has resulted in increased bank charges. On productivity 13 out of 16 respondents agreed that IT innovation increases bank productivity, and productivity increases with the introduction of new global innovation in the banking sector. The majority of the respondents agreed that IT innovation has made positive impact on the growth of their banks. All bank executives believe that IT innovation attracts customers to their banks. Most respondent customers appear to be content with the services and products offered by their respective banks and so will continue to deal with their respective banks. IT innovation has been characterized by a number of fraudulent activities in the banking sector with half of the respondents agreeing that IT innovation has led to an increase in bank fraud cases. 75% of the bank employees welcomed the introduction of IBPS instead of BSRB for the recruitment of staffs in banks.

80% of the employees were dissatisfied with new amendment bill which was introduced on 20th December 2012. The reason stated by them is that this bill enables the corporate houses to enter the banking sectors. Priority sector lending, branch expansion in rural area would be neglected by these corporates. They also worried about the increasing voting rights of minority investors in private sector banks to 26 percent from 10 percent and in public sector banks to 10 percent from 1 percent. This would pave the way to divert the public deposits to their corporate business.

### Conclusion

The health of the banking sector is vital for enhancing the competitiveness of an economy. A weak banking sector jeopardizes the socioeconomic development of a nation. Globalization has played a major role in enhancing productivity and efficiency in the banking sector. Furthermore this has led to financial institutions being unable to realize high return on investment on their infrastructure. Governments have a role to play in supporting infrastructural development of the banking sector and this can be achieved through placing various incentives to encourage people. Globalization brought a number of changes in the banking service sectors in many economies. To accomplish total globalization, a common currency must be established which will ease the entry of foreign banks into through increased competition. Commercial banks must work to know all details about the market needs, but ensure that they do not conflict with the goals of their bank. They must also know the nature of their competition. Banking in India has immense potential given the population figures in our country. With a little effort, careful planning and timely legislation this industry can be brought on par with the best banks in the world.

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