



## A STUDY OF ROLE OF INTERNATIONAL BANKS IN INDIA IN ERA OF GLOBALIZATION

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**Abstract-** Despite their growing presence, overseas banks still have a very small market share in the Indian banking industry—6.11% of total deposits and 6.83% of total loan advances. Returns from Indian operations are far elevated than those of their local counterparts. For example, the normal net profit per branch for overseas banks was ₹ 11.99 crore last year in India against ₹ 33 lakh for the public sector banks that account for close to 70% of the trade. The arrival on assets for overseas banks last year was 1.65% and return on equity, 14.02%. The comparable figures for public sector banks were 0.82% and 13.62%. Now you know why overseas banks are ready to walk the extra mile to do trade anywhere in India.

The Reserve Bank of India would like overseas banks to get a flavour of semi-urban India and the rural hinterland. Going by the statistics provided in the RBI's annual report, it appears that overseas banks are being quietly nudged away from big cities, when they pertain for permission to open a new branch.

**Keywords-** overseas banks, economy, globalization, India

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### Introduction

A great number of overseas banks are now keen on opening shop in India to gain a critical mass by April 2009, when private banking space is anticipated to open up for overseas players. Overseas Banks in India always brought an explanation about the prompt services to consumer. After the set up overseas banks in India, the banking sector in India also become competitive and accurate. The share of overseas banks in the trade done in the country (deposits and advances) has been floating between 5 and 7% during the precedent decade. Reserve Bank of India announced new rule for the overseas banks in India in this budget has put up great hopes among overseas banks which allow them to grow unfettered. Now overseas banks in India are permitted to set up local subsidiaries. The policy conveys that overseas banks in India may not acquire Indian ones and their Indian subsidiaries will not be able to open twigs freely.

There are twenty-nine overseas banks are present in India through 273 twigs and 871 offsite ATMs. Besides, there are 34 overseas banks operating through envoy offices.

Overseas banks are those banks whose branch offices are in India but they are incorporated outside India, and have their head office in a overseas country. These banks were permitted to put up their subsidiaries in India from the year 2002. They have to operate their trade by following all the rules and policy laid down by the RBI. They have to pay extra awareness to the priority sector by giving

them a special place in bank lending. These banks are expected to follow all the banking policy, just like any other local banks. Overseas banks should have a sound monetary status to operate in India. They must have at least of 25 million US dollars in least 3 twigs. The first branch and the second branch must have 10 million US dollars each. The third branch should have a least of 5 million US dollars. The overseas banks are allowed to open up more twigs in the country, if the show of the bank is more than appropriate and it matches the criteria laid adopted by the local banks. There are 40 overseas banks from 21 different countries operating in India. The trade is conducted with the help of more than 205 twigs. These twigs are situated in more than 15 states which includes union territories. Apart from these banks there are envoy twigs operating in India from 12 different countries.

Overseas banks who wish to open up twigs in India have to apply to the RBI. These banks should be able to satisfy the RBI system. The banks should also get permission from their home country to set up twigs in India. Other factors that are considered while positive the application of setting up the presence of overseas banks in India are as follows:

- Monetary soundness of the overseas banks
- Economic and political relations between the home country of the overseas banks and India.
- Global ranking of the bank

- Home country ranking of the bank
- Global presence of the bank
- Rating given to the bank by global rating agencies.

International banks have played a significant role in the Indian economy, particularly in the precedence sectors. Globalization has obliged the banking sector to reach out to more consumer in order to increase their trade. This doomed opening banking trades even in the abroad countries. Many of the private banks were attracted in rising their trade all over the world. They opened up twigs across the world to serve large number of consumer, and also develop service to the existing consumer. This change was a blessing for India. At present, the overseas banks are growing enormously in India.

The services provided by these banks are very significant. The existence of these banks in India brought a lot of technical advancement. Banks of all categories, be it a local bank or an international bank, started using the latest technologies to afford better service to the consumer. The technological advancement saved a lot of time of the consumer as well as the bankers. They introduced pioneering and distinctive banking practices in India.

The earlier years witnessed cut throat competition in the banking sector with the existence of international banks. The competition has obliged banks to come up with something new that no other bank can provide to the consumer. Banks are partially a part of the service industry. The main objective of all the banks was to provide a improved service to a large number of consumer and look after their financial requirements. Customer approval was a priority for local banks as well as the overseas banks.

#### List of Main Overseas Banks in India

- ABN-AMRO Bank
- Abu Dhabi Commercial Bank
- Bank of Ceylon
- BNP Paribas Bank
- Citi Bank
- China Trust Commercial Bank
- Deutsche Bank
- HSBC
- JPMorgan Chase Bank
- Standard Chartered Bank
- Scotia Bank
- Taib Bank

By the year 2015, the list of overseas banks in India is going to become more quantitative as numbers of overseas banks are still waiting with baggage to start trade in India

#### Impending Overseas Banks in India

By 2015 few extra names is going to be added in the list of abroad banks in India. This is as an result of the sudden interest shown by RBI concrete roadmap for abroad banks in India greater freedom in India.

The following are the list of abroad banks going to set up trade in India

- Royal Bank of Scotland

- Switzerland's UBS
- US-based GE Capital
- Credit Suisse Group
- Industrial and Commercial Bank of China

#### Reasons for Abroad Bank Enter in India

- India's GDP is seen mounting at a healthy pace of around 7% over the next few years, throwing up opportunities for the banking area to profit from.
- The credit of banks has risen by over 25% in 2004-05 and the increase momentum is predictable to continue over the next four to five years.
- Participation in the expansion curve of the Indian economy in the next four years will offer abroad banks a launch pad for better trade growth when they get more freedom after April 2009.
- RBI is following a moderate branch licensing rule for those abroad banks who want to go to the unbanked pockets. They have started sensing huge trade opportunities in financing trade and small and medium sectors in small towns in the globe's second fastest growing economy.

The current principles of (i) Reciprocity and (ii) Single form of occurrence should continue to guide the framework of upcoming policy on existence of abroad banks in India.

#### Entry Norms for New Players

Following group of banks can undertake banking operations only by way of surroundings up a Wholly Owned Subsidiary (WOS):

- Banks coming from jurisdictions where deposits enjoy a favored claim in a winding up situation.
- Banks which do not provide sufficient disclosure in the home country.
- Banks with intricate structures.
- Banks which are not widely held, and
- RBI may require banks to include locally, if the former is not pleased with the degree of direction in the home country. RBI at its judgment, may require banks to include locally, it has any reason to do so. Other overseas banks can determined whether to opt for a branch or WOS form of presence. However it would be obligatory for them to exchange themselves into a WOS if:
  - (a) Any of the circumstances mentioned above should turn up
  - (b) They become methodically significant in India by virtue of their balance sheet size.

A bank would be deemed to be thoroughly important if its assets (on balance sheet and credit equivalent of off-balance sheet items) become 0.25% of all total assets (inclusive of credit equivalent of off-balance sheet items) of all scheduled commercial banks in India as on 31 March of the preceding year.

#### Anticipation from Existing Overseas Bank Twigs

As regards existing abroad banks that already have a branch form of existence, RBI's anticipation is that where the parameters laid down in above are triggered, such banks should willingly convert themselves into WOS. It needs to be mentioned that considering WTO commitments, it would not be likely for RBI to order conversion of on hand twigs into subsidiaries.

### Key Policy Considerations for a WOS

RBI is anxious about according full national conduct (as regards branch growth, raising of capital etc.) to a WOS since it may result in abroad banks dominating the Indian banking system. Further the WOSs of overseas banks would be treated as "worldwide banks" under the overseas Direct Investment strategy. In view of these considerations, RBI does not aim to give the WOSs of overseas banks a level playing field with Indian bank corporates on all parameters. However, RBI intends to lay down a more constructive policy structure for a WOS of overseas banks vis-à-vis a branch of a overseas bank. Such an emerald branch, RBI hopes, would result in important incentives for the WOS mode of occurrence of abroad banks in India.

### Smaller Cities

Hong Kong and Shanghai Banking Corporation (HSBC) received approvals for three twigs in Raipur, Jodhpur and Lucknow. ABN Amro got approvals for twigs in Kolhapur, Salem, Udaipur and Ahmedabad. Barclays Bank received authorization for twigs in Kanchipuram and Bangalore. Most overseas banks follow a policy of first setting up base in metros- Mumbai, New Delhi, Kolkata and Chennai. Then, in the next stage, they move to the mini-metros such as Bangalore, Hyderabad, Pune and Ahmedabad. Over the last few years, some banks have talked about increasing their reach beyond the usual circuits of these eight places. abroad banks in India have got approval from the Reserve Bank of India to open 10 twigs and seven representative offices during the July 2006- June 2007 period. In the calendar year 2006, the RBI issued approvals for opening 13 twigs of overseas banks in India. Under the WTO agreements, India is obligatory to allow the opening of 12overseastwigs every year.

### More Overseas Banks Rush to India

A large number of abroad banks are now keen on opening branches in India to gain a significant mass by April 2015, when private banking space is expected to open up for abroad players. The latest addition to the list of abroad banks wishing to set foot in India is the Royal Bank of Scotland, which has total assets of over \$806 billion. The sudden attention in India follows the Reserve Bank of India's roadmap for according abroad banks greater liberty in India. Switzerland's UBS, ranked the world's best private bank by Euro Money magazine, has been preparing itself for India launch. Merrill Lynch and Goldman Sachs too are supposed to be showing interest. It is not known whether they will go alone or partner with an Indian body in the new venture. Some of the new players are target setting the derivatives market to grow in India. The huge retail space is also an enticing factor. Merrill Lynch has a joint venture in Indian investment banking space DSP Merrill Lynch. Goldman Sachs holds stakes in Kotak Mahindra arms. US-based GE Capital last week announced its intention to set up a bank last week soon after the banking sector roadmap was unveiled. It already has wide presence in consumer finance through GE Capital India. The [Table-1] which implies that income of overseas bank increased of 41.03%, while the expenditure of the overseas banks has increased nearly by 11%. The operating profit amounting ₹ 2941.37 i.e. 44.18% and there is an increase in net profit amounting to ₹ 1516.56 i.e. 49.42%. There also increase in total asset. It may be concluded that there is a sufficient progress in the overseas banks and the overall profitability of overseas banks is good.

[Table-2] Listing Overseas Banks having representative offices in India as on November 30, 2007.

Table 1- Monetary Performance of Overseas Banks in India

Item	2005-06	2006-07	Variation	
			Absolute	percentage
<b>A. Income (i + ii)</b>	17,662.07	24,959.06	7293.99	41.03
	12,290.82	18,018.92	5728.09	46.60
i) Interest Income of which : Interest on Advance Income on Investment	7379.75	10,941.49	3,561.74	48.26
ii) Other Income of which : Commission & Brokerage	3,950.57	5,432.04	1,481.46	37.50
	5,371.25	6,937.14	1,565.90	29.15
	2,872.39	3,789.29	916.89	31.92
<b>B. Expenditure (i+ii+iii)</b>	14,593.47	20,370.90	5,777.43	39.59
	5,149.50	7,615.02	2,465.53	47.88
i) Interest Expended of which :Interest on Deposits	3,161.17	4,758.24	1,597.07	50.52
ii) Provisions and Contingencies of which : Provision for NPAs	3,589.84	5,014.65	1,424.81	39.69
iii) Operating Expenses of which : Wage Bill	96.43	332.48	236.06	244.81
	5,854.13	7,741.22	1,887.09	32.24
	2,005.17	3,081.11	1,075.94	53.66
<b>C. Profit</b>				
i) Operating Profit	6,658.44	9,599.81	2,941.37	44.18
ii) Net Profit	3,068.60	4,585.16	1,516.56	49.42
<b>D. Net Interest Income/Margin</b>	7,141.33	10,403.89	3,262.57	45.69
<b>E. Total Assets</b>	1,99,358.03	2,78,016.49	78,658.46	39.46
	3,161.17	4,758.24	1,597.07	50.52
i) Interest Expended of which :Interest on Deposits	3,589.84	5,014.65	1,424.81	39.69
ii) Provisions and Contingencies of which : Provision for NPAs	96.43	332.48	236.06	244.81
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	2,005.17	3,081.11	1,075.94	53.66

Source: RBI & Balance Sheets of Respective Banks

Table 2- List of Overseas Banks having representative offices in India as on November 30, 2007

S. No	Name and address of the representative office	Country of Incorporation	Centre	Date of Opening
1	Commonwealth Bank	Australia	Bangalore	7.11.2005
2	National Bank Australia Ltd	Australia	Mumbai	3.11.2006
3	Raiffeisen Zentral Bank Osterreich AG	Austria	Mumbai	1.11.1992
4	Fortis Bank	Belgium	Mumbai	6.10.1987
5	KB.C. Bank N.V.	Belgium	Mumbai	1.02.2003
6	Emirates Bank Global	Dubai	Mumbai	16.06.2000
7	Credit Industriel et Commercial	France	New Delhi	1.04.1997
8	Natixis	France	Mumbai	4.01.1999
9	Bayerische Hypo - und Vereinsbank	Germany	Mumbai	12.07.1995
10	DZ Bank AG Deutsche Zentral	Germany	Mumbai	22.02.1996
11	Landesbank Baden - Wurttemberg	Germany	Mumbai	1.11.1999
12	Presdner Bank AG	Germany	Mumbai	6.09.2002
13	Commerzbank	Germany	Mumbai	23.12.2002
14	DEPFABank	Ireland	Mumbai	9.2.2007
15	Intesa San paolo Spa	Intesa Sanpaolo Spa	Intesa San paolo Spa	20.01.1991
16	Uni Credito Italiano	Italy	Mumbai	1.08.1998
17	Banca Popolare Di Verona E Novara	Italy	Mumbai	18.06.2001
18	BPU Banca -Banche Popolari Unite	Italy	Mumbai	16.01.2006
19	Banca Popolare di Vicenza	Italy	Mumbai	29.04.2006
20	Monte Dei Paschi Di Sienna	Italy	Mumbai	07.04.2006
21	Banca di Roma	Italy	Mumbai	17.01.2007
22	Everest Bank Ltd	Nepal	New Delhi	24.03.2004
23	Caixa Geral de Depositos	Portugal	Mumbai Goa (EC)	8.11.1999
24	Vnesheconombank (Bank for overseas Economic Affairs)	Russia	New Delhi	1.3.1983
25	VTB India(Bank foroverseasTrade)	Russia	New Delhi	May-05
26	Promsvzazbank	Russia	New Delhi	25.04.2006
27	Banco de Sabadell SA	Spain	New Delhi	2.08.2004
28	Banca Bilbao Vizcaya Aroontaria, BBVA	Spain	Mumbai	2.4.2007
29	Hatton National Bank	Sri Lanka	Chennai	1.01.1999
30	UBSAG	Switzerland	Mumbai	24.11.1994
31	Zurcher Kantonbank	Switzerland	Mumbai	27.06.2006
32	The Bank of New York	USA	Mumbai	27.10.1983
33	Wachovia Bank NA	USA	Mumbai	1.11.1996
34	Svenska Handelsbanken	Sweden	Mumbai	1.8.2006
35	Westpac	Australia	Mumbai	1.10.2007

Source : RBI

### Capital Requirement

The Capital requirement for WOS on entry would usually be in line with those that would be arranged for new private sector bank. The WOS shall be required to maintain a minimum competence ratio of 10% of the risk weighted assets or as may be prescribed from time to time. The minimum net worth of the WOS on exchange from twigs should not be less than the minimum capital requirement for new private sector banks. They would be obligatory to maintain a minimum capital adequacy ratio of 10% of the risk weighted assets or as may be prescribed from time to time.

### Corporate Governance

To ensure that the board of directors of the WOS of abroad bank set up in India acts in the best interest of the local institution, RBI may, mandate that

not less than 50% of the directors should be Indian nationals resident in India

not less than 50% of the directors should be non-executive directors a minimum of one-third of the directors should be totally independent of the management of the subsidiary in India, its parent or associates and the directors shall confirm to the "Fit and Proper" criteria as laid down in the extant RBI guidelines

### Raising of Non-equity Capital

RBI may thinking allowing WOS of overseas banks to raise rupee capital through issue of non-equity capital instruments as permissible to local private sector banks.

### Branch Growth Norms

While indulgence applications for new twigs of overseas banks, RBI generally has permitted more twigs than the 12 mandatory (per year) under the WTO commitments. With a view to incentive WOS form of presence, RBI intends to strictly restrict branch expansion to 12 twigs (per year) for all existing overseas banks It is proposed that the applicable branch expansion policy to local banks would be extended to WOS of overseas banks too. This would mean that the WOS would be enabled to open twigs in Tier 3 to 6 centres. As regards Tier I and Tier II, centres would also be dealt in a manner and on criteria similar to those applied to local banks.

### Priority Sector Norms

It is proposed that main concern division obligations on WOS have to be more burdensome than for twigs of overseas banks but less than those for local banks since they would not get full national cure.

## Conclusion

Global Banks in India always brought an clarification about the punctual services to consumer. After the set up abroad banks in India, the banking sector in India also become aggressive and accurate. India is expected to find a place in the policy of these banks given the country's expansion prospects. There have been cases of abroad banks closing braches in India too. India's GDP is seen rising at a robust pace of around 7% over the next few years, throwing up opportunities for the banking sector. Contribution in the expansion curve of the Indian economy in the next four years will supply abroad banks a launch pad for better trade development when they get more liberty after few years.

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