

The banking industry is tied to IT in the age of Globalisation in India

*Dr. Ishwar Singh Darji

Abstract

There is a growing body of research that examines the micro and institutional implications of bank globalisation, looking at things like profitability, expenses, the net interest margin and other performance indicators. The present paper describes the link between globalisation and the banking system in association with the IT sector. Despite the fact that domestic banks are less efficient, the introduction of international banks has boosted the efficiency of the banks. On the other hand, increasing IT expertise shows that depicts the best performance in the banking system. It is further found that the impact of globalisation is preferably dependent on the institutional regime and regulatory framework of India. Private banks are performing better in comparison to public sector banks. Also, the private sector banks are much more techno-friendly than the public sector banks in India. The banking system is being centralised because of the IT sector and the increment in its efficiency has been observed.

Keywords: private banks, public banks, globalisation, IT, banking system

Article Publication

 Published Online: 31-Dec-2023

*Author's Correspondence

 Dr. Ishwar Singh Darji

 singhishwar93@gmail.com

 [10.31305/rrjss.2023.v03.n02.003](https://doi.org/10.31305/rrjss.2023.v03.n02.003)

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Introduction

During the last few decades, there has been an inherent worldwide economic and financial relationship that has resulted in globalisation in banking. A new window of opportunity opened up for foreign banks in the 1990s with the dissolution of the Soviet Union and the emergence of free markets in Latin America. As financial services in other areas of the universe, like the Asian continent, have become more liberalised in recent years, major banks have begun investing in nations like China and India. Research on globalisation in banking has grown as a result of the expanding trend of bank globalisation. Bank globalization's macroeconomic impacts have been the subject of numerous studies (Morgan and Strahan, 2003). They tend to focus on banks in specific economies or regions. A study by Barajas et al. (2000) compares the 1990s performance of foreign-owned and domestic Colombian banks and finds that in Colombia, financial liberalisation generally had a positive effect on bank behaviour by increasing competition, reducing intermediary costs, and boosting credit quality. A study by Crystal et al. (2001) examines the effects of foreign bank entry in Latin American countries in the second half of the 1990s and finds that foreign acquisitions of local banks tend to result in only minor improvements in their financial strength ratings when compared to their domestic counterparts. According to a study published in the Journal of Financial Services Research, all of these factors work together to reduce the impact of foreign banks' entering the market. large number of artists and audience members. A more competitive banking market, less supervisory power, more restrictions on

foreign banks, and more supervisors all help incumbent domestic banks benefit more from their countries' outside investments in the banking sector. International bank presence has a more detrimental effect on efficiency for riskier firms, and firms willing to take on greater risk have a more positive influence on efficiency as a result of foreign expansion.

Literature Review

Ciurlău and Ianc (2020) stated that banks now do more. New technologies and complex techniques and products have changed banking activities. They switched from administrative to technical and commercial to better serve international clients. Financial globalisation has hit banks hardest. Due to economic changes like financial market liberalisation and new technology, banks have adopted new strategies and policies. In today's interconnected world, they face greater dangers. After the 1970s collapse of the international monetary system, exchange rates fluctuated and financial liberalisation increased market volatility, putting banks at risk. Operational risks—banking system flaws—and market risks—asset price fluctuations—must be managed. Economic integration and trade movements in the host country increase bank profitability, according to research by Sufian and Kamarudin, F. (2016). However, social globalisation reduces bank profitability. The performance of banks in economically globalised countries is higher than that of banks in socially and politically globalised countries. In addition, the home field, foreignness liability, and global advantage hypotheses can be tested to gain insight into the world of international banking. Heryan, T. (2015) examined the Czech banking sector, which is majority owned by foreign investors, and its risks, a topic that is increasingly being discussed in light of previous crises. Czech banks becoming branches of their foreign parent companies could reduce tax revenue for the Czech government and impact the Czech economy. This paper examines how a change in the role of Czech bank parent companies could affect government debt growth. The study found a negative correlation between government debt growth and bank earnings taxes. Joshi and Goyal (2011) In a jungle where monsters eat smaller animals, one must be skilled enough to win the rivalry to survive. Big companies have acquired smaller ones. This banking merger review article was inspired by the Bank of Rajasthan Ltd.-ICICI Bank Ltd. merger. This paper examines Indian banking's merger and acquisition motivations. We examine 17 post-liberalisation bank mergers. This analysis includes market share, geographic reach, and merger synergies. This article raises HRM and OB questions in addition to financial ones. This article opens up M&A research to new perspectives. Somalkar, P. (2006) investigated Global economic and social integration which is a hotly debated topic in international economics. Liberalization Twenty years ago, privatisation and globalisation led to rapid growth and the reduction of poverty in China, India, and other poor countries (LPG). However, globalisation has been criticised for contributing to rising income and wealth gaps as well as worsening environmental conditions. The impact of globalisation on FDI flows to developing nations requires further study. Multinational corporations (MNCs) in some developing nations, notably Asia and Latin America, are the driving force behind globalisation. It wasn't until the early 1990s that India's economy was liberalised, following a major crisis brought on by a shortage of foreign currency. Joshi and Goyal (2012) From British rule to reforms, nationalisation to privatisation, and now the rise of foreign banks, India's banking industry has seen it all. Consequently, the Indian banking industry has come a long way. Financial institutions in India have also developed with the times. Because of technological advancements, banking is now much more efficient. Public faith in banks, however, continues unabated. Investors and other stakeholders usually feel comfortable with their bank. New dangers have emerged, however, as a result of shifting dynamics in the banking industry. This research paper makes an effort to gauge the outlook, threats, and possibilities in the Indian banking sector.

Research Methodology

Impact of Globalization Indices Foreign private investment (FPI), foreign trade (FT), and the exchange rate are all globalisation indices that can be used to assess the effects of globalisation (ER).

Model Requirements Specifically, the model is expressed as follows, using the Regression Method:

$$Y_t = \beta_1 + \beta_2 X_{2t} + \beta_3 X_{3t} + U_t \dots\dots\dots (1)$$

t for the tth time period

Uit stands for the error

$\beta_1, \beta_2, \beta_3$, are fixed

Taking account of “individuality” of each bank and/each cross sectional unit, we vary the intercept for each but still keep the slope co-efficient constant. We can rewrite the model:

$$Y_{it} = \beta_1 + \beta_2 X_{2it} + \beta_3 X_{3it} + U_{it} \dots\dots\dots (2)$$

Where i stand for the ith cross-sectional unit

β_1 are random variables

β_i represents a mean value

$$\beta_{1i} = \beta_1 + U_{it}$$

U = the error term.

This study employed the analytical survey method defining both dependent and independent variables as sourced by the researcher to be analyzed using the appropriate statistical tools and drawing inference (Akingunola, 2005). This analysis enables us to either accept our null hypothesis H_0 : there is no significant relationship between commercial banks and the independent variables of Foreign Private Investment, Foreign Trade, and Exchange rate or accepting the alternative hypothesis H_1 : there is a significant relationship between commercial banks and the independent variables of Foreign Private Investment, Foreign Trade and Exchange rate. Essentially, this study aims at evolving an empirical analysis of the impact of globalization on performance of Nigerian commercial banks in post-consolidation period.

Results and discussion

The cross sectional data of 2021 of five major commercial banks and other macroeconomic variables to capture globalization resulting. The five commercial banks were conveniently selected from the list of 23 banks emerged from the bank consolidation exercise. From the result of the analysis, it is clear that globalization proxied by foreign private investment, foreign trade and exchange rate impacted positively on the profit after tax of banks, and coefficients are statistically significant at 5%. The t-statistics for foreign private investment, foreign trade and exchange rate are 1.996781, 2.000321 and 2.584412 respectively are greater than the critical t-value of 1.96. This implies that foreign private investment, foreign trade and exchange rate are determinants of bank performance. The R^2 and adjusted R^2 accounted for 77% and 72% of the variations in banks profit respectively, while the Durbin-Watson d-test of 1.9532145 is a measure of "goodness of fit" of this model. From the foregoing It can be conclude that globalization has significant influence on performance of banks in India. However, the magnitude of such influence remains indeterminable because we discovered that there are variations in the data for performance of banks understudied. This means that the influence of globalization on the commercial banks may differ significantly because their performance differs across banks and years.

Impact of IT in Banking System

RBI Governor R Raghuram Rajan said on the occasion of the 80th anniversary of the Reserve Bank of India that the use of technology has also increased significantly compared to the days when accounts were recorded in the books by hand and unions were using the word computer only. It was just starting to strike. Today the situation is that some banks have allowed their customers to do all their banking transactions on mobile phones, now all the work is done without entering the branch and writing anything with a pen. Paperless banking has also gained momentum with the advent of technology. The statistics show how technology has promoted paperless banking.

This is proved in a report released by the Institute for Development and Research in Banking Technology titled 'Technology in Banking'. According to the report, 27 big and small banks of the country have invested a total of Rs 14,890 crore in the financial year 2013-14 to strengthen their banking technology. It has been revealed in the report that by the year 2013, the number of mobile banking users in India had reached Rs 5.49 crore. Technology has

changed banking in such a way that paper-based fund transfer has overtaken electronic fund transfer. In the year 2013, the paper based fund transfer was about Rs 1,02,137 crore, while the electronic fund transfer was Rs 1,44,720 crore which was much higher than the paper based fund transfer.

Indian IT and Globalisation argued by different studies in India and world

Managing the customer experience has become increasingly vital to businesses over the past decade. In order to cater to the demands of today's busy consumers who want more options and less hassle, businesses are increasingly relying on simple, pervasive technologies. So it's no surprise that innovative tools like smartphones, VR/AR, cloud computing, Big Data analytics, the IoT, AI/robotics have made their way into customer experience design. The purpose of this chapter is to provide a synopsis of the ways in which technology has altered the face of the customer service industry. This paper provides insight by showcasing two case studies from very different industries, a private sector bank and a public sector transportation organisation, to explain how India's rapidly expanding economy is using technology to improve the customer service it provides. Some research has been done on how information technology has altered the banking industry in the United States and Europe. However, studies of this nature are extremely uncommon in India and other developing countries. Consequently, Gupta et al. 2017 expanded upon the prior literature and set the stage for further study in this area. Chawla and Joshi, 2016 examined the effect of popularity of mobile banking in India. When compared to research done on internet banking, this study aims to look at how mobile users think and feel about banking. This research builds on previous work that has used standard TA models and theories of technology diffusion, but aims to refine those models for use in mobile banking. In terms of the ATM technology Ganesh, 2011 have stated that nine years after its initial adoption, in 1998, the ATM's rate of spread was clearly very high. At the same time, the wage bill for tellers was rising and the number of tellers was declining. When compared with the other cases, the data are clearly better predicted by the CES production function model used in this paper. According to the estimate, automated teller machines are a strong substitute for human tellers. The ATM can be convenient, but it can't replace human interaction entirely. Based on what we learn from what-if analyses, it's clear that the decline in ATM prices and the rise in tellers' salaries both played a role in the widespread adoption of ATMs. Murai and Tater, (2013) revealed that IT has led to increased customer satisfaction, improved operational efficiency, reduced transaction time, and gives the bank a competitive edge in reducing the running cost by quick responses in delivery of services.

Conclusion

It may be concluded that the Indian banking sector's development has been boosted by globalisation and that the efficiency and profitability of the business have increased tremendously. It's not all good news, though, as more rivalry and a widening disparity in the size of companies pose obstacles. IT is also contributing greatly in terms of the online services to the customers, as now there is no need to go to the branch even to open an account. Hence, globalisation and IT have enormously impacted the banking system in India.

The use of technology in banking is more appropriate for public sector banks in this study. Thanks to the CBS platform, 'anywhere, anytime' banking is now a reality for all PSBs. Some banks have begun offering basic banking services to their customers via mobile devices, but this is only the beginning, as the technology has the potential to have far-reaching effects. Using technology, public sector banks should construct a data warehouse and then conduct data mining and analysis using technology. An important goal should be to make use of the data in a variety of ways, from product development to business model and delivery channel development. Customers should be able to access the items they need via the internet and other banking methods because public sector banks should be able to do so. Customers' preferences are shifting toward online shopping, which is quickly overtaking brick-and-mortar stores. PSBs face the task of enhancing their skills and training their personnel on new technology in order to take advantage of the advantages that come with adopting new technology. The good news for banks is that a huge number of young people are being hired to work in banks at this point in time. The younger members of the workforce are more technologically adept and can learn new skills quickly. In the interest of both banks and their customers, entrepreneurs should be given the flexibility to come up with new ideas and suggestions. If public sector banks are to compete effectively with private sector banks in the future, senior/top management must adjust their thinking to reflect this.

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How to Cite this Article?

Darji, I. S. (2023). The banking industry is tied to IT in the age of Globalisation in India. *Research Review Journal of Social Science*, 3(02), 15–19.
<https://doi.org/10.31305/rrjss.2023.v03.n02.003>