ABSTRACT


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Periodicity of the Research : The research covers a period from FY 2002-03 to FY 2008-09.

Objectives of the Research:

The objectives of the research are –

1. To position a bank in terms of the progress made by it in the direction of Universal Banking.
2. To examine the risk exposure of banks.
3. To critically examine the existing debate on Universal banking in the context of the samples studied.

Research Methodology:

The research was based on primary as well as secondary data.

For Objective # 1: The research aimed to position a sample bank with respect to Universal Bank and as such a 6-point positioning scale was developed. Services were grouped under different points of the scale so that it reflected the evolution of commercial banks in the direction of Universal banking framework. Thereafter, the sample banks were positioned on the
scale in order to know where a bank lay in course of its transition. The data used was from secondary source.

*For Objective #2:* In order to assess the financial health as well as risk exposure of banks, C.A.M.E.L Model was used. The sample banks were rated on a scale of 1-5 (as per CAMEL standards) based on the financial ratios under the different components of the Model. The financial ratios were calculated and ratings assigned based on pre-determined ranges. For calculation of financial ratios, data from Annual Reports of banks were used.

*For Objective #3:* In view of the Objective No. 3, primary data was gathered by using 2 sets of questionnaire. Attempt was made to know the perception of bank managers on Universal Banking and of the customers on the need of having Universal Banks. Samples of 100 bank managers and 270 bank customers were drawn by using judgemental and convenience sampling techniques respectively. The sample size was decided as per general guidelines on sample size and also based on similar studies.

**Limitation of the Research:**

The research has the following limitation –

1. The research was based on secondary as well as primary data. The primary data required for research Objective No. 3 was collected from the samples based in Guwahati city. Although Guwahati is one of the most important cities of the country and a commercial hub of North East India, samples selected from the city cannot be considered as a proper representation of the population of the country.
However, the objective of the survey was to check the mood/perception of the bank managers as well as customers of the bank with regard to the concept of Universal banking. Thus, this may not create hindrance in achieving the desired objective even if Guwahati city cannot replicate other major banking hubs of the country.

**Findings:**

A summary of the findings of the research is given below –

1. In India, most of the commercial banks are on the verge of becoming Universal Banks. When commercial banks – both in public sector as well as private sector were positioned on a scale of 0-5 in terms of services offered with respect to ICICI Bank – the first Indian Universal Bank - it was found that all the banks were placed on the upper half of the scale (with a composite score of more than 3.5). This implies that in near future, as these banks start adding a few more services in their product bouquet, they would slowly emerge as Universal Banks.

2. When risk exposure of Indian commercial banks was assessed, it was found that all the sample Indian commercial banks were having a rating of 3 on the CAMEL Scale. Trend analysis of the CAMEL ratings of all the sample banks reveals that except a few, all banks had been maintaining a composite CAMEL rating of 3 since FY 2002-03. However, an interesting fact that came to light from the trend analysis of Indian banks is that new generation private sector banks namely, Axis Bank, HDFC Bank and ICICI Bank each had elevated themselves to a rating of above 3 at least in one financial year (over the seven year period of study) but were not successful to retain this position and eventually reverted to a rating of 3 in the very next financial year itself. The other banks in this group were IndusInd Bank and Kotak Mahindra Bank which enjoyed a CAMEL rating of 2 (the highest among ratings of Indian banks). IndusInd Bank had this rating in the FY 2003-04 while Kotak
Mahindra Bank had a rating of 2 in FY 2002-03 and FY 2004-05. But unfortunately, these two banks also could not retain their rating and eventually degraded to a rating of 3.

As far as public sector banks are concerned, IDBI Bank in the very first year of its transformation as a bank showed a positive sign with a rating of above 3 (it was in between 2 and 3) in the FY 2005-06. However, similar to the other private sector banks, IDBI’s CAMEL rating had also degraded to 3 in subsequent years.

Central Bank of India, however, showed its rating to dip beyond 3 in FY 2006-07 & FY 2007-08 and UCO Bank was the only Indian bank to have a worst rating of 4 in FY 2007-08.

Therefore, as almost all sample banks were rated 3 on the CAMEL Scale, these banks need more supervision because the weaknesses they suffer from, if not rectified timely, may result in failure.

3. Universal Banking concept can be successfully implemented in India only when the bank managers as well as customers have a positive attitude towards the concepts. Primary survey carried out among bank manager and customers revealed that both the groups have a positive attitude towards the concept. Thus, it can be perceived that with active participation of bank managers and support from the bank customers, Indian banks can slowly and successfully make their transition towards Universal Banking framework. However, the survey also brings to light that majority of the customers of banks are not aware of many of the services (beyond traditional banking services) that are presently being offered by the bank. Therefore, if banks lack in proper promotion of the available services, then they may find very few takers. As a result of this, it may not be beneficial to them if they make a transition towards Universal banking framework, rather they may face various problems like diseconomies of scale and loss of core competence in their specialised fields etc.