Chapter - 9

Conclusion and Recommendations
CONCLUSION AND RECOMMENDATIONS

9.1. Epilogue

The research was undertaken to know the position of a commercial bank with respect to a Universal bank and also its financial health and risk exposure. In other words, an attempt is made to know the progress made by a commercial bank in the direction of universal banking framework and the rating it enjoys as per CAMEL Model. Thus, in short, the objective is to understand the transitory phase of banks as they move towards Universal banking framework.

9.2. Conclusion

On the basis of findings of the study, the following conclusion can be derived –

First, in order to know the position of a commercial bank in the direction of Universal Banking framework, a 6-point positioning scale was used and it was found that all the sample banks were positioned on the upper half of the positioning scale (with a composite score of more than 3.5). This implies that almost all the banks have started their journey towards becoming a Universal Bank and in the years to come, Indian Banking sector can boast of having a few more Universal banks.

Second, it was found that Indian banks are not sound as far as their financial health is concerned. This is because all the sample Indian commercial banks were rated 3 on the CAMEL Scale. Even the State Bank of India and the ICICI Bank, the largest bank in the public sector and the private sector respectively, were also rated 3. However, the new generation private sector banks like the Axis Bank, HDFC Bank, ICICI Bank and Kotak Mahindra 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 in retaining this position and eventually reverted to a rating of 3 in the very next financial year itself. On the other hand amongst the public sector banks, 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 2004-05. However, similar to the other private sector banks, this public sector bank’s CAMEL rating had also degraded to 3 in subsequent years.

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

Third, when the CAMEL score of sample banks and their scores on the positioning scale (with regard to the progress made by them in the direction of Universal banking) were plotted on a matrix, it was found that most of the Indian commercial banks were concentrated in one area of the grid. This is shown in the figure below -

Fig. 9.1 : Matrix Showing the CAMEL Rating and Score on the Positioning Scale (Based on FY 2008-09)

However, in order to have a strong financial system that would be capable of supporting the country’s economic growth, we need more banks to move higher up the CAMEL scale. Although the composite score on the positioning scale of the sample banks were somewhat satisfactory, with all the banks having a score of above 3.5, but the CAMEL rating of 3 of all the sample banks is a matter of concern. Banks with a rating of 3 do exhibit some degree of supervisory concern. This is because, such banks fall under fair category and have weaknesses, which if left unmonitored, may result in failure of banks or even led to degradation to
group 4 or 5. Therefore, Indian commercial banks do need some degree of monitoring so that they do not fail.

**Fourth**, as a commercial bank has started to offer a variety of products under an ‘umbrella brand’, the structure of banks has changed. Initially, when banks were offering only the traditional banking services, the organisational structure was quite simple, but with the introduction of services like insurance, mutual funds, investments banking etc., banks are required to opt for a different structure. In India, almost all banks have been following the Bank Holding Company structure. In BHC structure, apart from a banking subsidiary, the other areas of business activities are carried out through intermediate holding companies.

**Fifth**, universal banking concept can be successfully implemented only when the bank managers have a positive attitude towards it. This is deemed important as the bank managers are the ultimate authority to create awareness on the variety of services that are offered by the bank and at the same time popularise those services among customers of banks so as to generate demand. From the primary data analysis, it was found that bank managers, in general, have a favourable attitude towards universal banking concept. Thus, it can be concluded that it is a positive sign which would ultimately help the banks in their transition towards universal banking framework.

**Sixth**, while the cooperation of bank managers in facilitating the transition of a commercial bank into a universal bank is deemed necessary, it can be considered as only one aspect, the other side being the support rendered by the customers of the bank. From the survey conducted, it came to light that the customers of the banks have a favourable attitude and would facilitate banks transition into a universal bank.

**Seventh**, it is rather very unfortunate to note that although bank managers and customers have a positive attitude towards Universal Banking concept, what is lacking is the level of awareness among the bank customers on the variety of services that are presently offered by the banks. A bank can successfully
function as a Universal bank and sustain that status only when it has sufficient transactions in each of its specialised unit/area of business. Since the awareness of banking and financial services among the existing or the potential customers is less, it is indeed a matter of concern for the individual bank management. Thus, this can be a major obstacle and a demotivating factor in the transition process for the banks because if there are few takers of the services that are offered by the banks, such a transformation may not be cost effective.

**Lastly**, in India, apart from ICICI Bank – the first Indian Universal Bank, all banks are on the edge of becoming a Universal Bank in near future. Findings of the research show that, although commercial banks in India at present do not enjoy the status of Universal Bank technically, they are virtually functioning as Universal banks. This is because the services that are offered by banks presently are in the line of Universal Banks. Thus, even if they are not technically known as Universal Banks, their way of functioning and the service-mix reflects their strong affiliation towards the Universal banking framework.

### 9.3. Recommendations

Based on the conclusion derived from the research, the following recommendations are put forwarded–

1. As most of the Indian commercial banks are in a transition stage of becoming a Universal bank, utmost care should be taken so that only those banks that are financially strong (as depicted by their CAMEL ratings) make the transition. Universal Banks happen to be larger banks when compared with commercial banks or specialised bank and as such failure of a Universal Bank is going to trigger the emergence of systemic risk in the economy. Therefore, utmost care should be taken by RBI to allow only those banks which are financial stable and strong to make the transition. Constant periodical monitoring is necessary to ensure that the health and risk exposure of banks do not deteriorate. For such an exercise, the regulators should make use of on site monitoring by using
CAMEL/ CAMELS Model along with other off site monitoring system which consists of capital adequacy, asset quality, large credit and concentration, connected lending, earnings and risk exposures (currency, liquidity and interest rate risks) etc..

2. A crucial fact that came to light in course of the research is that most of the customers are not aware about the variety of services that are presently offered by banks. Lack of awareness on the part of the customers with regard to the services that are presently offered by the banks will negate the possibility of earning more profit after their transition to Universal banks. As a result, they many not enjoy the benefit of 'economies of scale' which they are supposed to enjoy in case of their transition, rather it can increase the overall cost (if the number of transactions in each specialised unit are not up to the break-even level) of the bank. Thus, it is recommended that banks should focus on generating awareness on the variety of services that they offer through proper advertisement and appropriate marketing strategies. This is deemed necessary because banks with their present marketing strategies are yet to be successful in generating the required level of awareness of their products as reflected from the customer survey undertaken in this study.

3. Before adding new and innovated services in the product bouquet, banks should assess the market to know the needs of financial products of potential customers. There is no doubt that banks would enjoy the benefit of 'economics of scale and scope' when they provide a wide variety of services under one-roof, but the benefit in terms of lower transaction cost may not be always there, especially when the number of transactions in each of the specialised area/unit is low. Therefore, proper assessment of financial market is deemed necessary.

9.4. Recommendations for Future Research

The Indian Financial Sector is ever changing and the Government of India is formulating new regulations from time to time with an intention of catering to
the needs of the Indian economy as well as to keep pace with the changes in the global financial scenario. In this context, it is worth mentioning that in 2005, RBI, in order to increase the efficiency and stability of the Indian Banking Sector, released the ‘Road map for presence of foreign banks in India’. The roadmap was divided into two phases – the first phase covered the period March 2005 – March 2009 and the second phase was proposed to start from April, 2009. In the first phase the focus, however, was to bring consolidation of the domestic banking system, both in private and public sectors while in the second phase, RBI was expected to remove limitations on the operations of the Wholly-Owned Subsidiary (WOS) of foreign banks and enhance the gradual presence of foreign banks in India in a synchronised manner.

However, the second phase was supposed to start after a review of the experience gained in the first phase. When the time came to review the experience gained in the first phase, global financial markets were in turmoil and there were uncertainties surrounding the financial strength of banks around the world. In view of this, RBI had decided to halt the initiation of the second phase of the Roadmap. However, on January 21, 2011 RBI released the ‘Discussion Paper on Presence of Foreign Banks in India’ and based on the feedback received on the approach outlined in the discussion paper, the Reserve Bank is expected to frame detailed guidelines on the presence of foreign banks in India. Thus, sooner or later, foreign banks would have their presence felt in the Indian Banking sector. As a result of the presence of foreign banks, Indian commercial banks are bound to face stiff competition from their global counterparts and they need to be proactive to the changing situation through enhanced profitability and effective risk management.

Although an attempt is made through this research to project the position of Indian banks in the direction of Universal banking framework and at the same time the risk exposure of banks was highlighted by rating banks by using CAMEL Model, the study covers a period of 7 (seven) years which is too short a period to give the actual position of Indian banks. Therefore, a humble effort is

1 Source: http: www.rbidocs.rbi.org.in/rdocs/Content/PDFs/SFBD210111.pdf
made to recommend a few areas of research pertaining to the Banking Sector in India. This is deemed necessary due to advancements in this area of research.

By considering the constraints within which the research has been completed and the constant advancement in the field of banking, the following areas are recommended for the further research –

- As technology happens to be a driving force in the process of a commercial bank’s transition towards Universal banking framework, ‘impact of technology on the service delivery process of the bank’ can be studied. Research can also be undertaken on the impact of ITeS of commercial banks and its level of acceptance by the customers of banks.

- Banks, today, are trying to do away with ‘brick and mortar’ structure and are opting to become a virtual entity. However, in India, a chunk of bank customers still prefer to visit a branch to avail banking services. Therefore, research can be undertaken on customers’ banking preference and also on how to minimise the waiting line for customer availing bank services by using Queuing Theory.

- The Reserve Bank of India has released the ‘Discussion Paper on Presence of Foreign Banks in India’ on January 21, 2011 and based on the feedback obtained from its stakeholders, RBI is expected to frame detailed guidelines on the presence of foreign banks in India. With limitations expected to be removed by RBI on the operations of the wholly-owned subsidy of foreign banks, they (Foreign banks) would be treated on par with domestic banks. Moreover, as all restrictions on the functioning of branches of a foreign bank are also expected to be eliminated, foreign banks would have their presence felt in the Indian Banking sector. Thus, it can be anticipated that in the years to come competition in the Indian banking sector in going to increase. And to cope up with competition, the Indian banks need to strengthen their balance sheet through mergers and amalgamations. Therefore, research can be done on financial implications of mergers and amalgamations in
the banking sector. Apart from this, research can be carried on the functioning and financial health of Indian banks in comparison to their foreign counterparts.

- As Indian banks are slowly making a transition towards Universal banking framework, an array of banking and financial services are being offered by them. With increased competition in the sector and wide range of options for a customer, research can be undertaken on how a bank prices its services in the market.

As the macro environmental factors influencing business activities are highly fluctuating, therefore apart from the areas mentioned above, research can be undertaken on relevant topics based on the prevailing environmental situation.