

# [Role of regional banks in globalised economies](https://assignbuster.com/role-of-regional-banks-in-globalised-economies/)

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Role of Regional Banks in Globalised Economies Introduction Countries that had hitherto been sheltering their agriculture, industry and services sectors from international competition, have opened their markets to the forces of globalisation through negotiations at forums like GATT, UNCTAD, and now, the World Trade Organization. Financial services industry is no exception and the entry of international players into the developing and emerging markets, makes it imperative that the regional players reassess their initiatives and strategies for survival and growth.
Globalisation and changed role of regional banks
Globalisation in essence is ‘ free market economy on a global scale’, without any artificial barriers by governments. This process has opened the floodgates of knowledge-intensive, high quality products / services from the developed world to the developing countries and they in turn, are able to market their products / services, based on cheap & abundant skilled / semi-skilled / trained manpower, into the developed markets. In an ideal situation, all economies should benefit and the consumer should get best value for money.
Global giants in the financial services sector conduct a range of operations spanning personal banking to investment advisory services, consumer financing to industrial credit, stock market operations in futures, options and derivatives, merchant banking, underwriting, treasury operations and the like. These services are extensively backed by technology. To the customer, these banks provide a pleasant experience – from the very ambience to the fast decision-making processes. This is in stark contrast to traditional banking mode, as practiced by the regional banks which were catering mainly to traders of agricultural products in the beginning followed by ‘ directed credit’ as mandated by governments to agriculture and small-scale industries (Guruprasad). Industrial credit is a later development. But the new market situation altered the role of regional bankers significantly. Their growth rates and margins are decreasing, leading to a search for newer initiatives and strategies.
Threats and opportunities
According to Guruprasad, the advent of global service providers resulted in migration of customers from the regional banks and corresponding loss of business. Added to this, the historical dependence on manual operations began to erode business margins in an environment of rising manpower costs. Industrial clients have also started tapping capital markets more aggressively, reducing their dependence on banks. These developments lead to a re-assessment of the role of regional banks to remain in business competitively and to earn profits for survival and growth. In this process, they have to rely upon their vast network of branches to reach nooks and corners of customer-base to provide those services, which the global banks can ill-afford to offer.
New initiatives and strategies
In my role as a prospective regional banker, I would:
1. Leverage on my strengths in ‘ reach’ and ‘ familiarity with local conditions’ or, as in telecommunications language, provide last mile connectivity. For short-term crop loans, there is usual subsidized refinance facility from state-owned institutions. I would use my bank’s own funds or take recourse to global banks’ refinance, for extending credit to trade & small and medium scale enterprises to generate profitable business. Thus I will turn traditional sources of business in trade and agriculture into niche markets. Here the risks are minimal.
2. Win back urban customers, by inducting technology, since personal banking is an important source of cheap funds.
3. Create facilities like the ATMs and networks that permit internet / phone banking, if required, as a pooled service in association with other regional bankers. This will reduce investment and costs can be shared.
4. Participate in fee-based services like underwriting and merchant banking.
5. I would join hands with global players in providing merchant banking services, especially where customers show a preference to work with regional banks. According to Guruprasad, this is quite a common experience.
Conclusion
As the saying goes, if you cannot beat them, join them! I will do just the same.
References
Guruprasad M. Asst. Professor (Economics), AICAR Business School, Mumbai.
“ Banking in the New Millennium” < http://www. indiainfoline. com/bisc/ari/mill. pdf.> (accessed on March 15, 2006.)