

Banking industry analysis: zimbabwe and india

[Finance](#), [Banks](#)



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Banking industry is the major player in every country's economy, and it influences the growth and prosperity of a nation. The following environmental analysis seeks to look at the banking Industry in Zimbabwe and India especially with regard to the PESTLE (Political, Economic, Social, Technological, Legal, Environmental) factors and how they have a bearing on the industry. It will further look at Porter's five forces namely: New entrants, Threat of Substitutes, Power of Suppliers, Power of buyers and Competitive rivalry. In doing so, a brief history is important as it gives a mile view of the origins and development of the industry. . Based on these factors a comparative analysis is done between the two countries

1: Zimbabwe Banking Industry Analysis.

Background

When Zimbabwe attained its independence in 1980, the majority of banks were foreign owned. It was not until 1981 when the government acquired stakes in two banks namely Nedbank and Bank of Credit and Commerce of 62% and 49% respectively. Apart from stakes in these two individual banks,

the government wholly owned and directed the operations of the central bank, the Reserve Bank of Zimbabwe (RBZ). The Reserve Bank is the policing authority for the industry formulating policy direction through periodic monetary policy statements. Indigenous ownership and new entrants into the industry was not until mid to late 90's when a number of banks were registered (Makoni, 2010).

Until mid to late 90's, Zimbabwe was regarded as a model developing African country with a small but strong banking industry. Agriculture was the backbone of economic growth with mining, manufacturing and tourism complementing it. The industry therefore benefited from a strong economy until things changed in the late 90's as a result of negative economic and political policies adopted by the government.

Political Factors

Since independence from Britain in 1980, Zimbabwe has been under the leadership of President Robert Mugabe through his political party ZANU PF. The country was virtually under a one party state system with no credible opposition until 1999 when a new political party entered the political field. The political environment was however stable with the international community having confidence in the way the country was governed. As a result Zimbabwe was experiencing strong economic growth due to the international support and such growth was reflected positively upon the banking sector, as it was working effectively. International lines of credit from international financiers such as the World Bank and IMF were made available benefiting the banking industry immensely. There was however a

sudden change of fortune in the industry when Zimbabwe embarked upon a controversial land reform program around year 2000. The process was chaotic and often violent with the international community condemning it. That resulted in Zimbabwe's isolation from the international community. Some countries such as the U. S. A and the E. U introduced sanctions against President Mugabe's government as a way of protesting against his policies (U. S Department of Treasury, 2010). Zimbabwe's banking industry reeled under sanctions. Some banks especially foreign owned such as Barclays Bank had to downscale their operations as the conditions were no longer conducive to support a complete banking portfolio (The Independent, 2010). The country is still under sanctions, arguably targeted to President Mugabe's inner circle members. Because of that, banks do not have access to foreign sources of capital and cannot enter into strategic alliances with most western banks who fear the political situation in Zimbabwe. A new government of national unity was recently formed to dilute President Mugabe' era. The change has not had a significant positive impact on the industry as it is still new with vague views about economic development. Moreover the government recently launched a short term recovery program in 2009, in order to stabilize the economy with a focus on multi currency due to the inflated exchange rate of the US dollar against the local currency. That left the industry without a long term view of economic direction (The World Bank, 2010).

Economic Factors

Zimbabwe's economy is characterised by negative economic growth, high unemployment, high interest rates and absence of foreign investment. The economic situation started to deteriorate in the early 90's when Zimbabwe embarked on an Economic Structural Adjustment Program, ESAP supported by IMF and the World Bank.

Although the intended benefits were to grow the economy and create jobs, the opposite actually happened (The World Bank, 2010). The economy started to shrink. It was further exacerbated by the sanctions imposed after a chaotic land reform program earlier mentioned together with mismanagement by the government. Banks were not and still do not have access to cheap sources of capital as a result. The population is poor and characterised by high unemployment levels. According to an AFP report (2009), such negative economic factors have been haunting the banking industry particularly in the last 10 years. Poor people are likely not to save, a situation that is negative for the banking industry. On the other hand, the rise in inflation coupled with the devaluation of the Zimbabwe dollar meant banks could not cope with depositor's need for daily cash withdrawals. Around 2003 and 2004, some banks collapsed while others were put under curatorship (Africa Monitor: Southern Africa, 2008). Those which survived had to limit their exposure to risks (Marawanyika, 2010). Although the situation has improved as a result of a power sharing government, banks still do not enjoy the benefits of a wide product portfolio as some products are still non-implementable. Good examples are lack of long term mortgages and credit cards. Banks remain uncertain as to the economic future and therefore are concentrating on products which are short term.

Another factor which badly affected the banking system was the Reserve Bank of Zimbabwe forcing private banks to acquire quantity of its related papers, and also to lend it free the compulsory statutory reserve of 40%, which is considered the highest in the world. Moreover, the Reserve Bank of Zimbabwe also forced financial institutions to use the excess surplus cash to invest in securities. Such influence significantly affected the performance of the banking sector (Africa Monitor: Southern Africa, 2008)

Social Factors

Zimbabwe has a population of around 13 million. There has been a steady outflow of people to other countries as a result of economic difficulties. Estimates put the number of Zimbabweans living outside the country to 4. 5 million (Sunday Mail, 2010). That is a very significant percentage of the population. The end result is a population that is too small to sustain a vibrant banking industry. People who migrated to other countries are the middle age group, the very core of middle class society. In addition, emigration has starved the industry of essential expertise needed to run the banking industry efficiently as the educated and qualified left for greener pastures. Before the recession, Zimbabwe's banking industry was already under stress and some of it is attributed to lack of proper management and lack of innovativeness. To compound the emigration problem, the country has been beset by HIV/AIDS epidemic which seem to affect the productive ages. It is estimated that 14. 3 % of the population was infected with the virus as of 2007, (UN report, 2009). Although the problem is not uniquely a banking industry problem, it has affected the way the industry operates by

taking away both potential customers and the expertise needed to run the industry.

Technological Factors

Although Zimbabwe is a third world country, it is generally doing well in terms of technology. The country has seen an early introduction of ATMs in almost all cities and tourist destinations. ATM technology was first adopted around 1990 when two of the industry players Standard Chartered Bank and CABS introduced ATMs. Since then, telephone banking and online banking have been introduced as well. The industry is also linked to international big brands such as Visa and Mastercard. Travellers to Zimbabwe will have access to their cash on all ATMs so long they have Visa cards (Barclays Bank Zimbabwe, 2010). ATMs have greatly enhanced the capacity of the industry to reach a wider population and cover geographic areas which would have been costly. Although most banks have adopted internet banking, the usage numbers are still very low (Thulani et al. 2009)

Legal Factors

Although the Zimbabwean government had little interference in the banking industry prior to 2003, the situation has since changed significantly. Government enacted various legislations meant to police the operations of the industry. This was necessitated by the collapse of some banks resulting in loss of depositor's funds. As a way of protecting the public from such incidences, the government raised the minimum capital requirements needed to open and operate banks, both commercial and discount houses.

The minimum is currently set at \$12. 5 million. This new capital requirement has not been easy due to the industry's inability to access cheap sources of capital.

Further affecting the industry's ability to raise more capital and funds is the new government legislation requiring all companies to have a minimum local majority shareholding of 51%. Foreign investors with an interest in the industry can only take up the remaining 49%. (Zimbabwe Mail, 2010) This has not gone down well with foreign investors who feel the legislation strips them of their ability to manage and have an influence on their investments.

As a way of trying to fight the AIDS epidemic, the government introduced a levy on banking profits towards an AIDS fund administered by the National Social Security Authority, NSSA. The rate is 3% across all income levels with banks however levied at a much higher rate of 5 % compared to other industries and individuals. This has the effect of reducing the amount available to shareholders.

Environmental Factors.

Zimbabwe does not have legislation compelling companies and businesses to direct their resources towards the environment and corporate social responsibility activities outside of the Aids levy earlier mentioned. It is truly lagging behind in this area. The banking industry, like any other industry has instead concentrated on its own survival with little regard to environmental issues.

Industry Analysis by Porter's forces.

Porter explains and argues that there are five forces which determine the industry's profitability and attractiveness. These are threat of new entrants, threat of substitutes, bargaining power of buyers, bargaining power of suppliers and the degree of rivalry between existing competitors. Some of the forces mentioned above have limited applicability to banking because of the nature of the industry. An example is the substitute factor. The banking industry in general has limited room for substitutes. Looking at the banking history in Zimbabwe, there was a time soon after independence when suppliers had the power in the market because competition was very low. There were few players in the industry and customers were even lucky to be accepted to open a bank account. As the government liberalised the industry, more indigenous players came in making competition very stiff.

Currently, there is little differentiation which banks can apply to have an edge over others. Rivalry is very high and the areas of differentiation come from good customer service and degree of risk expected. The collapse of some banks around 2003 and 2004 has left the market and customers jittery about which banks to be entrusted with their deposits. Banks with adequate capital such as Standard Bank and Barclays Bank have a competitive advantage over others due to their history of stability. They can use their foreign component of their shareholding structure to mobilise resources.

2. 0 India Banking Industry Analysis

2. 1 Introduction:

The Banking Sector in India is regulated by the Reserve Bank of India (RBI) and the Ministry of Finance (MoF). The banking sector comprises of

Nationalised, Private and Public Sector, Cooperative and Foreign banks. A brief history tells us that the nationalisation of 14 largest commercial banks in 1969, and further nationalisation of 6 major private banks in 1980 has completely reformed the banking sector in India (Das and Ghosh, 2006). According to 2010 survey more than 80% of banks in India are nationalised, 15% are private and cooperative sector banks and the remaining 5% are foreign banks, serving a population of more than 1.1 billion.

Political factors:

The ruling government and the Ministry of Finance play a decisive role in contributing to the rules and regulations of the industry. A huge turning point came in 1991, when the Finance minister Dr. Manmohan Singh under the Narsimha Committee opened the doors for the Foreign Direct Investments (FDI) in the country thus boosting the economy and uplifting the banking industry (Das and Ghosh, 2006). This served as a platform for the future decision making of the rules and regulations and law enforcement for RBI and other financial regulatory bodies. The relaxation of some regulations allowed the major foreign banking corporations to enter the developing Indian economy through mergers or independent setup.

Economic factors

Nationalisation of the banking sector helped farmers and small industries in India to directly access credit facilities, efficient short and long term loan sanctions and has helped reduce the unemployment rate and further increase the profitability of the money lenders. Interest rates for certain

loans are lower than the market rates. For example food and agriculture related business and services. This has led to many nationalised banks giving more importance to social priorities than profit maximisation. Reduction in Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) has helped the banking sector to increase efficiency. Liberalisation has encouraged competition in the interest rate and services provided by many banks and financial regulatory bodies (J. Sengupta; C. Neogi)

Social factors

In spite of the recent downturn in the global economy India was able to attain a growth rate of 8.8 % in the first quarter 2010 (RBI Bulletin, 2010). That means the industry and the agriculture sectors that form the majority of the working population are supplying huge amount of their disposable incomes to banking and investment corporations to further increase their profits. This change is much obvious in the Cooperative banks and domestic banks regulated by RBI where deposits, repayment of loans, sanction of new loans improved significantly, enhancing industry profitability. Since 1991, due to the outburst of multiple opportunities in national and international industrial and service sectors, the urban and the semi-urban cities have witnessed an increase in educated, high earning individuals who are well associated with their income and investments. Since 2001 the changes in banking norms, stable and long term understanding between the commercial and cooperative banks have helped the banking sector achieve 51% of compounded annual rate based on growth, asset quality and profitability (McKinsey and Company, 2010).

Technological factors

Technology is always seen as a building block for any industry or economy. With the arrival of the foreign banks and financial corporations, the public, private and cooperative sectors have witnessed a revolutionary support and competition in its technology. As a result of this many banks such as Housing and Finance Corporation (HDFC), ICICI, State Bank of India, Central bank, Union Bank, J&K bank, and all major cooperative banks have revolutionized their various banking products and services. Services like internet and telephone banking, online investment and loan proposals, personalized and premium banking services are available 24 hours a day. Large numbers of ATM outlets have all helped increase the profitability and efficiency of their service providers. As a result the year 2001-02 saw 20.83% private sector banks achieving efficiency of more than 100%, and year 2003-04 saw 26.92% private sector banks having productivity of more than 100% (Bodla and Verma Bajaj, 2010). The growth in industrial and outsourcing sectors have boosted foreign exchanges and remittances. This has produced a fluent and rich source of income for the banking industry.

Legal factors

Banking Regulations Act in 1949 and the Reserve Bank of India Act in 1934 are the major regulations in Indian banking industry. All Indian banks trade and work in accordance to the guidelines of RBI. Due to liberalisation and influence of World Trade Organisation, Indian banking industry adapted to the global banking standards. Indian banks and finance corporations follow

the regulations of the Basel Committee, International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD). (2008)

2. 7 Environmental factors

The finance and banking sector is one of the most advanced and rapidly growing sectors in Indian economy. The concentration in banking industry is due to certain core principles, standardization, regulating and supervising of the sector. This has created a frantic race to stay at the top. To overcome their competitors almost all banks and finance corporations have adopted social responsibility measures or environmental concerns (Zuberbühler, 2000). Banks like SBI, HDFC, ICICI etc have undertaken various public and corporate issues seriously and have allocated a sizeable amount of their income on public and environment issues. Recently, the Ministry of Finance and Corporate Affairs in India have set out core elements of CSR for companies and corporations to address. The president speaking at India Corporate Week has urged finance and industrial corporations to assist the government in various programmes designed for rural economic development (SRI, 2010).

Analysis by Porter's Five Forces

2. 8 Bargaining power of buyers:

Bargaining power of buyers is high in Indian banking system because of many reasons. There are lots of alternatives for each customer. Due to the technological advances, buyers know about the market status and position of each bank. Switching cost to shift the bank is very low, so the customer

changes the bank frequently. Almost all banks give the same service and products, so they cannot charge for extra service and differentiation. Banks try to be customer friendly to attract as many clients as possible.

2. 9 Bargaining power of suppliers:

Bargaining power of suppliers is less in India due to the strict rules and regulation of Reserve Bank of India (RBI). Interest rate and degree of differentiation are determined by the RBI, so supplier power is very low. But at the time of tight liquidity the negotiation capacity of suppliers increase.

2. 10 New entrants:

New entrants with added services and benefits always pose a threat to the well established older and somewhat government owned banks. In India since majority of the banks are nationalized or state owned as seen above, a new foreign bank, always has to come up with some better ideas to attract a specific group of population which is ready to deviate or change its banking environment. In addition, few of them have tried to blend with the Indian market either by partnering or merging with some Indian nationalized banks, or by exchanging services like use of ATM networks. As a result, foreign and new private banks have realised growth rates of up to 50% while the public sector banks have grown at steady 15% (India Banking, 2010). After the post liberalisation period the banking sector has increased average deposit efficiency especially for State Bank of India and Associates. As for nationalised banks its almost stable and for foreign banks it has declined sharply. The reason for the fall in the foreign banks is due to their attention

to cater to only some of the multinational corporations which lured them for starting their services in India (Services Research, 2009).

2. 11 Threat of substitutes:

Substitutes do not pose a greater threat to the banks. However the fact that they still have influence in some of the major rural areas in the form of non-governmental and unregulated co-operative societies always leaves banks watching their backs. (Das and Ghosh, 2006).

2. 12 Competitive rivalry:

The concentration of nationalised banks and their efforts to be the policy maker have given rise to three major concerns: Competition, Systemic Stability and difficulty in regulating them (Zuberbühler, 2000). It is believed that competition always fuels growth. The commitment shown by banks in terms of employee training programs and technological upgrades have resulted in improved skills and services (Arora and Khanna, 2009). For effective regulation many banks have applied customer centric approach rather than profit oriented approach. This has significantly improved the internal service quality of the banking sector.

3. 0 Comparison and conclusion:

Banking industry in India is more diverse as it includes many nationalised public sector banks, foreign banks, private sector banks, co-operative banks and many approved small and medium money lending institutions well serving a population of 1. 1 billion. In Zimbabwe the banking industry comprises of government banks, private banks and a few foreign banks

serving a comparatively small population of 13 million. The banking industry market is therefore huge in India when considering the population and all related demographics.

Considering the fact that agriculture is the backbone in both countries, most of the government policies and initiatives are in favour of agriculture and its related sectors. A best example is Indian government's approval of \$12.5 billion 'Farmers debt relief fund' in 2008, which allows banks and other approved money lending institutions to waive a farmers loan after signing an agreement of debt relief. (banknetindia. nd).

Indian government is politically more stable than the Zimbabwean government. This has created certainty in the Indian industry compared to its Zimbabwean counterpart. In India all the financial regulatory bodies have formed a supportive environment for the banking and economic industry, and have setup stringent rules and regulations in accordance with the international banking guidelines.

Foreign exchange and remittance is an important factor which acts as a bridge between a country's banking sector and its ability to attract investments from other countries, which provides rich nourishment for the banks. Foreign remittances from industrial activities are practically not present in Zimbabwe whereas in India outsourcing and flourishing economy is maintaining a steady supply of foreign exchange. Though banks in Zimbabwe are earning huge individual foreign remittances from the migrant population, the entire banking sector cannot completely sustain itself on that.

Global economic instability and recent financial downturns were more felt in Zimbabwe, as compared to India which is relatively more insulated to the effects. Since 2007 Zimbabwe was facing huge hyper-inflationary problems until recently when the country achieved some measure of stability through dollarization of its economy. The inflation at some point reached monstrous levels affecting the Zimbabwean dollar exchange rate and banks found it extremely difficult to maintain a supply of the dollar. That led to government introducing foreign multi-currency since 2009, especially the US dollar, (Hanke, 2010). Inflation in India has been steady compared to its growth rate and is handled carefully by the Reserve Bank and the finance ministry. This has helped maintain currency supply and is conducive for the banking environment.

Technology is one of the major drivers for banking industry not just in India and Zimbabwe but across globe. Technology has helped many foreign banks gain an advantage over government banks in India and also in Zimbabwe. Some of the banking areas revolutionised by technology are ATM's, online banking, phone banking, customer service, foreign exchange etc. Indian banks are highly competitive and have strengthened themselves due to information and technology. They are providing many services and provide value addition which has enabled them to successfully compete with many global, well established and technically sound banking corporations. Zimbabwean banks are comparatively at a preliminary stage and are incorporating value addition and services at a slower rate.

Unemployment is a negative driver for banking environment in Zimbabwe. Population migration and AIDS are further deal breakers. Corruption in the government and finance sector is further affecting the banking industry in both countries. Social responsibility is not well adopted in Zimbabwean, whereas almost all major nationalised, private and foreign banks are making huge efforts to be socially responsible in India.