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Globalization of Financial Institutions in India

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Introduction

The growth of an economy in any nation depends entirely on the economy's propensity and invest to enhance production. This makes the financial system of a nation very important in that it facilitates capital formation [1]. Financial systems are made up of three arms which include first the financial intermediaries. This comprise of institutions that link the deficit units to the surplus units in an economy. Financial intermediaries include financial banks, mutual funds, insurance institutions and the non-banking financial organizations. The concept of the financial intermediaries is that they collect deposits from individuals and organization that have surplus funds and lend to individuals and organization that have deficit funds [2]. The second arm of the financial system is the financial markets which comprises of the primary and the secondary market. The primary market serves the first time borrowers and lenders while the secondary market serves individuals and organisation seeking to invest in the financial instruments such as company shares and bonds or government bonds. The secondary market may include both the local and foreign financial instruments. The third arm of the financial system in an economy is the regulators which comprise of the organization responsible for the overseeing the operations of the financial system. The regulators may be government instituted or appointed by the regulating bodies themselves. In most countries the Central Bank of the country bears the highest regulating responsibility of the financial system [3]. One of the main role played by the Central bank is the regulation of the monetary policy through the use of various financial instruments of a nation.

The Indian financial system comprises of the three arms of a financial system. In this case, the financial intermediary comprises of the following first the commercial banks. The banks take the role of receiving deposits from individuals and organizations and lending to organizations and individuals on long term and short term basis [4]. Organizations seek loans to fund working capital for more production. Since 1969 when the government nationalised main commercial banks, Indian banks has had a major role of distributing funds to the society for economic growth [5]. The second financial intermediary institutions in India are the mutual funds. The mutual funds pool a small number of funds from individuals and organizations and invest it in financial markets [6]. In this case, individuals and organization who invest in the mutual funds purchase small investments units and later sell them back to the mutual fund to free their funds. The third intermediary institutions are insurance companies which is responsible for covering investor's risk. The fourth the Indian financial intermediary is the non-banking financial organizations which just like commercial banks receive deposits and lend loans to individuals and organizations. However non-financial institutions operations are regulated differently from the commercial banks' regulation in that they are not fully banks [7]. The Indian financial system also comprises of the financial markets and the regulators.

India embraced financial globalization at around 1980s by seeking commercial loans and receiving saving from Indians living abroad [8]. By the wake of the 1991 balance of payment (BOF) crisis, India made substantial efforts to attract foreign income from portfolio investments and direct source. These efforts bore positive results as foreign direct investment (FDI) grew to $2.6 billion by 1997 form a low of $158 million at the end on 1992. Ultimately, the total foreign investment grew to $6.4 billion by 1997 from a low of $100 million in the 1980s [9].

Amidst the 21st century competition in the local market, companies are seeking to expand their market base through globalisation [10]. Many companies have therefore moved or planning to move their operations to the global market. However, the viability of the move to the foreign market depends on the strength of a nation's financial system. One of the measures of a nation's financial system strength is on its ability to manage its foreign exchange balances. Nonetheless, to be able to effectively manage the foreign exchange balances any nation would need to understand the impacts of the globalization of the financial institutions on foreign exchange. The need for this study is in twofold first; the study will discuss the concept of globalization among the Indian financial institutions. The second need for this study is to provide information about the impacts of globalization on the financial institutions on foreign exchange.

Globalisation may be defined as the integration of financial, economic, communication and trade internationally. According to Gupta globalization is the intensification of the international social relationships with the aim of linking locations in geographically distant areas such that activities experienced miles away are shaped by the local happenings and in reverse [11]. The concept of globalization may be traced back to the sovereignty of states [12]. After many countries gained, individual sovereignty governments started imposing restrictions on the movement of labor, people, capital, goods, and services. People identification became a necessity for people to move from one nation to another. However, globalization may be viewed from a variety of dimensions emanating from the need for connectivity among individuals living in different countries. In this case, the need to connect is facilitated by three basic factors which include public policy, taste, and technology. Furthermore, the need for convexity among individuals living in different nations could be augmented by cultural, economic, political or social factors [13]. This paper focuses on the economic factors and specifically analyzing the impact of globalization on the Indian financial institutions the foreign exchange.

The oil crisis, high rates of inflation, stagnant economy among other factors led to an emergency financial deficit in the Indian economy in the 1990s dropping the fiscal reserve to a low of three weeks' outflow [14]. The situation required urgent decision to remedy the position. At that point, India only had an option of borrowing from

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the World Bank in exchange for a reduction of its trade restrictions opening up the nation for globalization. However, though there have been enormous efforts towards globalization over the years, the nation still lags behind regarding the extent the country is globalized among the emerging economies [15]. The situation indicates the presence of both opportunity and challenge for further globalization. The obvious opportunity lies in the economic growth in the global market which would result in a better balance of payment for India owing to an increased gain of foreign income. The challenges lie in the bottlenecks of the financial system in steering globalization. For example, the banking sector faces the challenge of consolidation to the global financial system. However according to the Reserve Bank of India (RBI) which is India's central bank have it that the Indian financial sector and especially the banking sector is highly effective. RBI also notes that the payment system is one of the key elements of globalization is the payment system. Foreigners are always interested to know about the payment system to be involved in any form of transactions. Where the payment system is unfavorable to an investor conducting business transactions would not be feasible [16]. Currently, the main settlement or payment system in India is the clearing process which is supported by more than a thousand clearing houses in the nation. The clearinghouses operate based on the standardization of rules and regulation among banks as regulated by the RBI. Among the services provided by the clearing houses include cheque clearing, Electronic Fund Transfer (EFT), and Electronic Clearing Services (ECS). Though the Indian payment system seems to work well for the local market, it would need improvements to serve the global market [17-20].

Conclusion

In conclusion, I would like to emphasise the role of institutions and incentives in ensuring globalization that benefits all. The global giants in banking all over the world are manned by Indians, educated and trained in India. The best of technology for the most sophisticated banks in the world is provided by Indian companies and by Indians in foreign companies. Yet, banks in India do not as yet appear to be world class, though have, no doubt, that our banks could well be on the anvil of being reckoned to be on par with international banks.

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