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Procedia Economics and Finance 11 (2014) 383 – 395

Procedia Economics and Finance

www.elsevier.com/locate/procedia

Symbiosis Institute of Management Studies Annual Research Conference (SIMSARC13)

Analysis of Banking System Performance Of Select Global Economies With That Of India - During And After The Global Financial

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Abstract

Banks and Financial Institutions (FI) are in the business of financial intermediation i.e., channelizing investible financial resources to investment opportunities. Banks and FIs create Liabilities and Assets in their operations. The liabilities and assets, though in the books of the FI, are subject to influence by prevailing markets conditions and regulatory norms. Thus, optimum mix of Liabilities and Assets in the portfolio of Banks / FIs is required to ensure their survival and growth. The economic environment is subject to various external economic and non-economic forces beyond the control of the individual institution. The changed economic environment leads to unforeseen impact on the institutions. This paper evaluates performance of Indian Banking System during the Global Economic Crisis with that of select global markets.

The paper also focuses on the change required in business and operational strategy by Banks and FIs in during economic slowdown i.e., re-strategizing in economic slowdown for converting adverse economic environment into a favourable business and operational opportunities.

Selection and/or peer-review under responsibility of Symbiosis Institute of Management Studies.

Keywords: Words: Business Strategy; Asset, Liability; Regulatory Norms; Provisioning; Restructuring, Settlement

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Selection and/or peer-review under responsibility of Symbiosis Institute of Management Studies.
doi:10.1016/S2212-5671(14)00206-8

1. Introduction

Financial system is the backbone of any economy as it has direct bearing on the economic growth of a country and thereby prosperity and welfare of the populace. The financial system services other sectors of the economy viz., the real economy. Stability of the financial system is critical to the stability of the economy itself. The banking sector is the principal constituent of the financial system. Banking sector is directly linked to the country's economy; each compliments the other for growth, strength and status. A strong and resilient banking system is the foundation for sustainable economic growth. Banks are the core transmission system of wealth and growth in the economy. The basis for efficient banking is simplicity in operations based on effective risk management, transparency and accountability. Trust and confidence are the bedrock of banking. A major challenge for Regulators in administering the regulatory restrictions on 'exuberance' and 'excesses' in financial markets is to make a distinction between 'growth enhancing' credit and finance, and 'speculation enhancing' ones.

2. Objectives of the Study

The broad objectives of the study are as follows:

i. To understand the impact of Global Financial Crisis on the banking companies in select global economies including that of USA
ii. To understand the performance of banking entities (select economies) in the years immediately preceding Global Financial Crisis
iii. To understand the impact prudential banking norms on profitability of banking entities during the period of financial as well as the period post financial crisis
iv. To understand the current performance status of banking entities in India
v. To suggest measures/steps that can be taken by entities to safeguard themselves in time of crisis

3. Literature Review

It is generally believed that though the financial system is fraught with risk, it is a self-equilibrating system on account of the competitive markets and market forces. There also has been general belief that consistent credit provisions and dispensation of credit risk by the banks makes them more resilient to external economic shocks. Same view was expressed by the IMF (International Monetary Fund) in its 'Global Financial Stability Review - April 2006'. To quote certain excerpts from the Global Financial Stability Review of April 2006 'There is growing recognition that the dispersion of credit risk by banks to a broader and more diverse group of investors, rather than warehousing such risk on their balance sheets, has helped make the banking and overall financial system more resilient. Credit derivatives enhance the transparency of the markets' collective view of credit risks and thus provide valuable information about broad credit conditions and increasingly set the marginal price of credit' [7].The above stated belief and confidence in the International financial system was soon shattered by the Global Financial Crisis (2008) that impacted financial systems across countries.