

AN OVERVIEW OF CONSTRAINTS OF OVERSEAS BANKING OPERATIONS OF STATE BANK OF INDIA

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Abstract

State bank of India had a broader Indian orientation to its business abroad. While retail domestic banking and trade related transactions constituted that main stay of banking business. The State Bank of India has made great strides in the field of international banking. Going by the number of branches, it has the largest offices network of its kind in the whole world. State Bank of India is the only Indian bank which finds a place within the 100 largest banks in terms of assets. The Export Import Bank of India has been making efforts to boost export of India's capital goods to the developing countries. For this it has extended credit lines to some of the Indian banks for providing buyer's credit to the importers in different countries for importing capital goods from India. Present research paper focus on Constraints of Overseas banking Operations of State Bank of India.

Key Words: State Bank of India, Overseas Banking, Constraints

Introductions

The State Bank of India, a bank with a long and distinguished heritage of Banking inherited from the great Imperial Bank of India, is the largest commercial bank in India in terms of branch network, resources and man power. The State Bank of India has made great strides in the field of international banking. Going by the number of branches, it has the largest offices network of its kind in the whole world. State Bank of India is the only Indian bank which finds a place within the 100 largest banks in terms of assets.

In the initial years, State Bank of India opened overseas branches in those countries with which India has ethnic link and bilateral trade relations. In later years, branches were opened in countries whose imports from India were very limited. Until recently overseas branches had a sizeable third country trade financing business, third country trade of Indian banks were concentrated in African countries.

The outstanding credit of The State Bank of India to India joint ventures abroad at the end of 1983 amounted to \$ 106 million covering 26 ventures. In addition, the state bank of India's Bahrain G.B.U. Syndicates a credit facility of U.S.\$ 36 million for the German subsidiary of Dods private Ltd. The Export Import Bank of India has been making efforts to boost export of India's capital goods to the developing countries. For this it has extended credit lines to some of the Indian banks for providing buyer's credit to the importers in different countries for importing capital goods from India.

Objects of Study

Objects of study are as follows:

1. To know constraints of overseas operation of State Bank of India
2. To give suggestions to remove constraints of overseas operation of State Bank of India

Constraints of Overseas Banking Operations of SBI

Branches came under severe pressure resulting into significant drain on the Head Office. In fact, these overseas offices were to operate under several constraints which may be surmised as under:

1. Inadequate resource

The bulk of international banking and overseas financial transactions being designated in the US dollar and other convertible currencies, an adequate resource base is necessary for State Bank of India to undertake and increasing volume of business. Indian rupee is not a convertible currency. Besides, the balance of payment difficulties and the dwindling foreign exchange reserves made it difficult for India to support the overseas operations of a large number of state banks of India's branches with adequate capital, working funds and experience to meet the likely operating losses through remittances of foreign currencies. This content is likely to persist in the future also. Thus, State Bank of India has to be self-reliant in terms of liquidity resources for assets growth and also for the ability. The deposit growth of overseas branches in some countries (for attendance, Mauritius, Kenya, and France) was limited by the magnitude of their assigned capital.

2. Low capital base:

Probably, the most important limitation of the content from which the State Bank of India branches abroad suffer from is the low capital base of the parent Bank. The low capital base of the State Bank also means that the capital that the state bank transfers as assigned capital to their foreign branches, of course with the permission of RBI, is equally small. Since in many countries and capital limitation is becoming a speaker on the higher side, State Bank board in point that it would not be in a position to fulfill this condition for opening branches. Again, since at most form centers especially in the developing countries, loans provided to individual words are directly linked to the assigned capital, a limit can be given amount B and a particular limit.

3. Concentration of ethnic business

Another limitation from which the operation of State Bank of India at foreign centers suffers from is the structure of the deposits of this Bank. Invariably, it has been seen that despite State Bank operating abroad for a long time, the deposits it can gather such centers are only from ethnic population settled at the centers. Relying State Bank operating abroad has been able to master sizeable deposits from the local population. Not only net deposits are low but the ethnic deposits with state bank of India are largely related to the credit limits enjoyed by such ethnic depositors. Thus, deposits with the State bank branches abroad are rather small and hence these branches abroad are rather small and hence these branches have very little freedom in providing credits at their own choice. As a result, State bank of India like other Indian banks have to resort to borrowing in the capital market in order to fund their operational requirements. Whereas in the normal course there is no difficulty in getting money from the open markets, the situation becomes a little worrisome during the period of tight money conditions. Thus, the cost of borrowing goes up leaving a margin rather than for the banks themselves.

4. Services

The capabilities of State Bank of India at mobilizing higher deposits at the local centers is limited by the competitive strength vis-à-vis that of international banks. The type of services that state bank of India branches can provide compared to those given by the international banks from industrial countries is inferior. Branches of the foreign banks operating at different centers is highly managed with latest and technologically advanced Management information devices. International Banks, these days, are becoming actually aware that unless their management information service is up to date and highly efficient, standard to laws on competitive basis, file handling millions and billions of dollars with the exchange rate moving but violently across the world. With limited resources at the command of State Bank of India branches abroad, they will always find playing a rather inconsequential role in the international sphere. In today's highly competitive world, such disparities will work against the progress of State Bank of India.

5. Lack of high level technology

The adoption of new generation computer, high technology telecommunication facilities and advanced mathematics to banking and other allied financial services by foreign banks made

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it increasingly difficult State Bank of India to complete and build up more business. Unless there is a concentrate volume of business, the adoption of these innovative facilities may not be viable. This vicious circle is not easy to break unless State Bank of India job verses branches are either mulled and or a subsidiary is set up to look after these offices.

6. Lack of support from top management

Another major constraint which has been inadequately recognized so far is the lack of expertise and guidance from the top management of the bank for international operations. Very few top management personal of State Bank of India have a close perception of the complexity and risk potential of international banking, as they themselves have no international banking expertise or exposure besides, there preoccupation being with the active management problems in domestic banking business and also the maintenance of contracts and report with the government and the where are you and see they have very little time or inclination to take an active professional interest in the overseas operations of their branches. In granting permission, Afton the viability of overseas operations has not received you concentration. The viability studies made by the aspirant banks are often exaggerated. Inflexibility in all organizational performance may also be encounter due to the need to balance the interest of different banks.

7. Manpower

Another limitation is of course man power. International business is highly competitive and risky. The people handling the branches food highway through training and exposure. While the record of State Bank of India in this regard is quite good, the problem is that State Bank of India has lost quite a few of its best workers on road to foreign banks who can leave them with better salary and services conditions. Given the salary structure in the State Bank of India, obviously the management can do little to return those who are went upon to leave. Perhaps, management and incorporate curtain stipulation in the service conditions, while posting pupil abroad which will detect them from leaving.

8. Low Profitability

Even though foreign exchange has not constraints, the profits and profitability of State bank of India has not been comfortable enough to enable it to bear even temporary losses in its overseas operations. The overseas asset and liability management strategies of State Bank of India have to take into account this major constraints.

9. Lack of International Banking Culture

State Bank of India is traditionally accustomed to operating in a stable but highly protected and regulated economic and financial environment. Even in this market, it is engaged in conventional commercial banking, although its involvement in development banking has been increased particularly after the nationalization of the major banks. But the policies and programmes for such activities are generally initiated by the government. The banks have as yet, no experience or expertise in investment banking which is the mainstay of international banking today, Acquiring international banking culture is difficult enough for state bank of India, even more difficult would be the investment banking culture to acquire, particularly since financial instruments techniques and the market environment are undergoing rapid and fundamental changes.

10. Others

Besides the above constraints, a number of operational problems were also to be faced by the overseas offices, few such problems are:

- A) The liberalization of interest rate including the removal of interest rate ceilings in many countries and the emergence of acute competitive environment have increased the cost of funds by linking interest rates for retail deposits with that of wholesale deposits.
- B) The overseas offices and branches of State Bank of India are not geared to render correspondent banking services to its domestic network.

- C) Due to the inability of overseas offices to take high risks and also due to the lack of expertise and adequate financial resources, these offices could ill afford to engage in treasury operations in a significant way.

Conclusion

State bank of India had a broader Indian orientation to its business abroad. While retail domestic banking and trade related transactions constituted that main stay of banking business. The emphasis of State bank of India on having a lion's share of its overseas network at developed centers is justified. Growth of business and profitability of transactions had been the two key policy parameters governing the bank's overseas operations. Overseas operation of State Bank of India have various constraints which affect the growth of State Bank of India in abroad. But these problems can be removed by efficient decision making capacity.

Suggestions

Keeping in to account the various constraints and operational problems, the following suggestions are offered:

1. Reserve Bank of India and Government of India will have to be actively involved and helping the banks not only in the strategic planning activity, but also putting them to possession of various coping abilities that the situation demand.
2. By supplying timely information about produce and export firms and linking them with overseas importers, much can be done to promote Indian exports. Special schemes for promoting counter trade also can be initiated by overseas branches of banks, particularly with countries having external payment difficulties.
3. All the human and material resources, strategic plans and training and other systems can yield results only if banks are provided with a measure of operational freedom that the international environment demands. We would do well to evolve a policy framework that enables commercial banks to optimize their operations given the basic weaknesses and constraints surrounding them at the foreign centers. The details of this framework will have to be worked out with foresight and circumspection keeping hard realities in clear focus.
4. The small individual bank branches, as they are today, are inappropriate outfits to undertake any sizeable treasury business, since international financial markets have become increasingly global and sophistications and complexities are taking place daily. It is necessary from the overall national point of view that at least two or three Indian banks should establish their presence in the foreign exchange and money market mainly to handle their own funding and hedging requirements and to a limited extent to be able to be in touch with the market. It is obvious that all overseas branches of Indian banks cannot under-take these activities.
5. Proliferation of branches in the same financial centers could be avoided as happened previously and this would allow Indian banks to derive the maximum benefits for economics of scale. It is equally important to follow more rational personal policy. Bankers feel that overseas branches cannot be manned by deputationists from the parent banks and a trained cadre will have to be developed for manning such branches and undertaking international banking assignments.

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