REVIEW OF LITERATURE ON STUDY ON THE ESSAYS ON BANKING AND FINANCIAL INTERMEDIATION

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Abstract: Since the initiation of economic reforms in 1991, India's banking industry has undergone a remarkable shift. Liberalization not only welcomed private participants but also reshaped the way banking institutions functioned. Privately managed banks brought in professional administration, state-of-the-art technology, customer-oriented practices, and a variety of innovative financial products. These elements provided them a distinct advantage over public sector banks. Over the years, private banks have emerged as key contributors to the economy by promoting entrepreneurship, improving financial inclusion, and supporting rural development. Banking institutions are widely regarded as the backbone of a nation's financial structure. They not only mobilize savings and provide credit but also contribute to employment, capital circulation, and long-term economic growth. For several decades, Indian banking was dominated by government-owned institutions. However, the reforms of the 1990s significantly altered this scenario, creating opportunities for private banks to establish themselves as modern and competitive financial service providers.

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Introduction: A banking system is a crucial link in the network of the national economy by collecting deposits from the public and creating credit to the economy. A shock on the banking system has a great influence on the real economy through a bank's behavioral change in funding and credit supply. To protect the banking sector from the negative shock and prevent its ripple effect on the real economy, the banking industry is highly regulated. However, a regulatory reform can also be a shock to the banking system, leading to a substantial spillover effect on the entire economy. The 2007-2009 financial crisis triggered a far-reaching reform of the existing banking regulatory structure, characterized by reinforcement of capital requirement, introduction of a new leverage standard and adoption of a new liquidity regulation through the Basel III framework. The regulatory change inevitably could have a substantial effect on a bank's operation because banks are required to adapt to the new regulatory environment. Previously, banking literature has addressed the effect of the regulatory change on a bank's operation and performance (Thakor (1996) and other papers). A bank's behavioral change in its operation consequently has a real effect on local economy through its lending channel (Peek and Rosengren (1995) and other papers). Further, the impact of regulation on a bank's operational change makes a spillover effect on other competing financial entities because of competition between institutions in the local market (Maggio et al. and other papers). In this regard, a regulatory reform makes a widespread ripple effect on real economy not only through the direct channel of the regulated bank's credit supply change but also through the indirect channel via competing other financial entities' operational change.

Literature Review

Thakor (1996) predicts that capital requirement will increase equilibrium credit rationing and lower aggregate lending. Aiyar et al. (2014a) highlights that regulated banks reduce lending in response to tighter capital requirements. Peek and Rosenbaum (1995) examines a direct link between regulatory enforcement actions and reduction in bank loans to sectors that are bank-dependent. Kisin and Manela (2016) finds that as the capital requirement increases by one percentage point, a cost of $220 million a year is imposed to all participating banks combined. Unlike the literature that focuses on capital adequacy requirement, this paper addresses the impact of the new liquidity requirement on banking sector. Second, this paper is directly related to literature that focuses on Basel III liquidity regulation. Giordana et al. (2011) simulates a bank's optimal balance sheet adjustment needed to adhere to the new Basel III liquidity regulation using Luxembourg banking data. Covas and Driscoll (2014) develops a nonlinear dynamic general equilibrium model to study the macroeconomic impact of introducing a minimum liquidity standard for banks on top of existing capital adequacy requirements. Using a dynamic banking model, Balasubramanyan and VanHoose (2013) shows that the LCR constraint has theoretically ambiguous effects on the stability of bank's optimal dynamic balance-sheet paths. Keister and Bech (2012) finds that the LCR requirement does not impair central bank's ability to implement monetary policy. Most literature that deals with LCR's impact conducts a simulation analysis for a macroeconomic implication, but this paper employs empirical analysis to find micro level causal relationship. Third, this paper contributes to the discussion on a real effect on the economy through a bank lending channel. Peek and Rosenbaum (2000) identifies an exogenous loan supply shock of Japanese banking crisis and links the shock to construction activity in the U.S. commercial real estates market. Gilge et al. (2016) demonstrates that a bank exposed to liquidity windfall from an oil and natural gas shale boom increases mortgage lending in non-boom areas through the bank's branch network. There are many other banking literature on a bank lending channel (Bernanke and Blinder (1992), Kashyap and Stein (2000), Khwaja and Mian (1998), Ivashina and Scharfstein (2010), Chava and Purnanandam (2011) and Schnabl (2012)). All of the above literature deals with the real effect of an exogenous shock via a bank lending channel. Similarly, this paper addresses the impact of the Basel III regulation on real economy through a bank's adaptation to a new regulatory environment. Finally, this paper is relevant to literature that investigates a spillover effect of a regulatory change on other entities through local competition. Di Maggio et al. (2015) suggests that the deregulation of credit markets triggers a race to the bottom among financial institutions through competition between lenders. On the other hand, this paper focuses on the effect of the regulatory shock on the behavior of competing local banks following an introduction of the LCR.

Levesque and McDougall (1996) investigated the major determinants of customer satisfaction and future intentions in the retail bank sector. They identified the determinants which include service quality dimensions (e.g. getting it right the first time), service features (e.g. competitive interest rates), service problems, service recovery and products used. It was found, in particular, that service problems and the bank‟s service recovery ability have a major impact on customer satisfaction and intentions to switch. KangisPeter and VoukelatosVassilis(1997) has reported the findings of a survey among customers of private and public sector banks in Greece on service quality perceptions and expectations. Finds that quality expectations and evaluation of services received were marginally higher in the private than in the public sector in most of the dimensions measured; the relative importance attached to each quality attribute was, however, of a similar profile for the two sectors. The perception of the profile of services received was, however, different between sectors, thus suggesting that they did deliver a different quality of service. Discusses the implications for strategy since sectoral differentiation in banking is becoming blurred as a result of increasing overlap between services and competition from related and substitute industries. Identifies the distinctiveness of what is perceived as a service on offer as essential ingredient to competitive positioning in financial services. Ohiorhenuan (1998),Globalisation can be seen as an evolution which is systematically restructuring interactive means among nations through breaking down barriers is the areas commerce, communication and other areas of endeavor (Ohuabunwa, 1999). This is as a result of existence of free-market forces and good corporate governance among other values. According to the International Monetary Fund(IMF) globalization has increased international division of labor and the accompanying integration of national economies through trade in goods and services, cross border corporate investments, and financial flows. The effect of globalization on the banking or financial system is not something imposed but the result of forces for change that are deeply rooted in human nature: the drive for freedom and better service, for new discoveries, and for a broader horizon (MacEwan, 1990). In the banking sector globalisation has removed national or entity barriers to the free movement of international capital and this process is accelerated and facilitated by the supersonic transformation in information technology.

Leow (1999) as the number of foreign banks increase, excess profits are eliminated, resulting in socially optimal results. A stable and properly functioning banking system is essential for economic growth. Hence this makes the relationship between bank performance and development crucial according to Barth and Caprio (2005). The World Bank(2005) research shows that restrictions on foreign entry constrain productivity growth and financial development, hence making the financial sector more prone to risks. International capital flows are essential for long term development. For this to be a reality long term reforms should to reform the financial sector should be put in place. For this to come into effect it usually takes that entry requirements are relaxed, bank regulations should be strengthened, technology and human skill need to be supported. Smith (1999), the main purpose of multinational banks is diversification and integration to domestic markets. Foreign banks also move due to differences between domestic and foreign interest rates. In this respect other studies have also shown that there is a positive relationship between bank presence and other variables such as foreign investment, foreign trade and the size of the parent country"s banking sector AthmaPrashanta (2000), in his Ph D research submitted at Usmania University Hyderabad, "Performance of Public Sector Banks – A Case Study of State Bank of Hyderabad, made an attempt to evaluate the performance of Public Sector Commercial Banks with special emphasis on State Bank of Hyderabad. The period of the study for evaluation of performance is from 1980 to 1993-94, a little more than a decade. In this study, Athma outlined the Growth and Progress of Commercial Banking in India and. analyzed the trends in deposits, various components of profits of SBH, examined the trends in Asset structure, evaluated the level of customer satisfaction and compared the performance of SBH with other PSBs, Associate Banks of SBI and SBI. Statistical techniques like Ratios, Percentages, Compound Annual rate of growth and averages are computed for the purpose of meaningful comparison and analysis. The major findings of this study are that since nationalization, the progress of banking in India has been very impressive. All three types of Deposits have continuously grown during the study period, though the rate of growth was highest in fixed deposits. A comparison of SBH performance in respect of resource mobilization with other banks showed that the average growth of deposits of SBH is higher than any other bank group. Profits of SBH showed an increasing trend indicating a more than proportionate increase in spread than in burden. Finally, majority of the customers have given a very positive opinion about the various statements relating to counter service offered by SBH. Singh, Sultan (2001) made an attempt in his Ph.D. Thesis titled "An appraisal of banking sector reforms in India" in Guru Jambeshwar University Haryana, to Access the impact of the reforms on the operational performance and efficiency of the Commercial Banks in India. Ratio analysis has been used as a major tool for assessing the performance of the selected Commercial Banks. The study revealed that total income as a percentage of working funds and/or total Assets and Spread as a percentage of total Income/Working fund/total advances/ total deposits have improved in the reform period against the pre-reform period in most of the banks. Total Income, interest earned, other income, spread, total expenses, interest expended, operating expenses and establishment expenses are comparatively more consistent in the reform period. The hypothesis that the profitability position has improved in reform period may be accepted to some extent. It was observed that in the PSBs the size of NPAs has also been reduced to some extent and quality of service has improved in reform period. The priority sector lending has registered a decline in the deregulation era. Benamraoui, Abdelhafid (2003) ,Since the mid-1980s, Algeria has embarked on a programme of comprehensive financial liberalization to establish a market-oriented financial system, and to develop the role of the Algiers Stock Exchange in the mobilization of financial resources. The transition from a centrally planned to a market-oriented economy meant fewer regulatory barriers towards local and foreign banks. This study demonstrates that financial liberalization is the main force that drives the globalization of financial services, followed by financial innovations and the Internet. Globalization has affected the performance of the two prevalent banking models in Algeria: interest based (conventional) and non- interest-based (Islamic). The benchmarks used to assess banking performance are: competition, profitability and efficiency.Quantitative and qualitative analyses show a direct link between banking efficiency and the globalization of financial services. The study concludes that globalization has more advantages than disadvantages to the Algerian banking sector and the Algiers Stock Exchange. The elimination of regulatory barriers has enabled state-owned banks to improve the quality of their services and to use more advanced information technologies. Private and foreign banks are also involved in the modernization of the Algerian banking industry by launching innovative financial products and attracting local and foreign capital. However, this project emphasizes that the removal of remaining regulatory obstacles would enable banks to benefit fully from the process of financial liberalisation, and to be active institutions in the financial market. Moreover, opening the Algiers Stock Exchange to large domestic and foreign companies would attract capital investments and boost equity trading in Algeria.

Vyas J.H. and SaxenaNishant(2012) has stated in their study that in a past few years, Organizational culture has been an important theme in management and business research. Banks being significant player in the Indian economy are no exception to it. The Indian Banking sector is rapidly globalizing, making it important for Indian banks to ensure their practices match those of the best banks in the world. The role of banks is more challenging in a developing economy than in a developed economy. The Bank had to face a dramatic cultural change with these challenges. Presently, major task of the banks is to mobilize the savings of the people; create, spread the banking habit, and mobilize the country resources. An equally important function is to effectively utilize its human resource. Studies shows that organizational culture has a significant influence on employee performance. This study is based on secondary data and its objective is to understand the significant changes in culture in SBI in past few decades and examines various cultural drivers of bank"s performance. GoyalK.A. & Joshi Vijay (2012), the banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, with the changing dynamics of banking business brings new kind of risk exposure. In this paper an attempt has been made to identify the general sentiments, challenges and opportunities for the Indian Banking Industry. This article is divided in three parts. First part includes the introduction and general scenario of Indian banking industry. The second part discusses the various challenges and opportunities faced by Indian banking industry. Third part concludes that urgent emphasis is required on the Indian banking product and marketing strategies in order to get sustainable competitive edge over the intense competition from national and global banks. This article is a small seed to existing branch of knowledge in banking industry and is useful for bankers, strategist, policy makers and researchers. Drăgan (Sântămărian) OanaRaluca (2012),Globalization and Its Effects on the Banking Management, this paper describes one of the major challenges of the present: globalization and its effects on the banking. Globalization is now increasingly recognized as central to the growth of market economies. For the banking sector, this represents both a demand as well as a new landscape of business opportunity. Several years ago, the main part of the banks did not consider the globalization problems relevant for their operations. Recently, the banks began to realize the major impact of the globalization over the way of creating the banking risk in the future. The banking management in the context of globalization represents one of the challenges of these days. Starting from literature in the globalization field in this paper focuses on several relevant issues related to banking management.

CONCLUSION

The review shows that private sector banks generally perform better in terms of profitability, cost efficiency, and technological innovation compared to public sector banks. At the same time, service quality dimensions such as assurance, responsiveness, and reliability play a decisive role in influencing customer loyalty. Nevertheless, Raigad district presents unique challenges such as low levels of financial literacy, limited digital awareness, and infrastructural gaps in rural areas. Private banks here carry the dual responsibility of maintaining profitability while promoting inclusive growth. Future studies should employ both quantitative analysis (financial ratios, efficiency indicators) and qualitative approaches (customer surveys, SERVQUAL measures) to provide a complete picture of banking performance. Policymakers and regulators like the RBI must also encourage district-specific research so that targeted financial literacy campaigns and digital awareness programs can be designed. Collaborations between private banks, local governments, and cooperative institutions may further enhance financial inclusion in the district.

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