Role of Commercial Banking & Financial Institutions in Facing the Global Challenges & Opportunities in India Post Recession Era

Abstract
Five Years back the global financial system collapsed and the hue and cry came from each and every corner of global financial market. After three long years of depression, the recovery started, but at snail pace and still clouds of doubts are hanging over. Concern towards prevailing notions that how the economic and financial worlds are supposed to function, is coming from all nook and corners of the globe. Series of failure like Loans going bad, severe liquidity crunch, fall in exports, downfall in almost all stock markets, fall in GDP, decline in House prices, banks bankruptcy and major corporations downsized, decline in the employment market, cut in promotions, and compensation of the employees and heavy losses to IT industries, financial sectors, real estate owners, investment banking sectors and other industries due to the fall down of global economy lead this paper to test that the world economy was adversely effected. The present study is a small effort to analyze the Indian economy passing from Post Recession Era. It is an effort to evaluate thoroughly the global Challenges faced by the nation and the opportunities it can encash. Various aspects of Post-Recession will be assessed and based on those few mitigation measures may be recommended.

Keywords: Recession, Commercial Banking, Challenges, Opportunities, Market Strategies

1 Introduction

Recession is ‘Greed of some, woes of Billions’
Recession is the result of reduction in the demand of products in the global market. Recession can also be associated with falling prices known as deflation due to lack of demand of products. Again, it
could be the result of inflation or a combination of increasing prices and stagnant economic growth. The Great Recession or the global recession of 2009 is a marked global economic decline that began in December 2007. In the summer of 2007, though, the markets for some mortgage securities stopped functioning. Buyers and sellers simply couldn’t agree on price, and this soon spread to other debt markets. Banks began to doubt one another’s solvency. Trust evaporated and not until governments jumped in, late in 2008, to guarantee that major banks would not fail did the financial markets settle down and begin fitfully to function again.

Recession resulted out of low interests and huge funds that helped easy loans for people. With such attractive promises, people took more and more loans to build houses and invest money. Since there was surplus amount of money in the banks, all the terms were relaxed and the demarcation between the prime and sub-prime loans came at par. Banks merely looked for borrowers irrespective of their background, returning capacity and poor credit history. Borrowers were lured with incentives and bonus offers. The interest rates were also kept low initially and were meant to increase after the initial period. Despite of this, borrowers continued to buy even those with a poor credit history called NINJA (No Income No Job No Assets). The house prices started to soar due to huge investments. The splurge proved a good time for all. The lenders and borrowers believed that the interest rates that would increase gradually or the soaring house prices will help in recovering of the loans. In case the borrower is unable to pay the interest, the houses could be sold off until the prices are soaring. Now began the complication when the overbuilding of houses caused a decline in the prices thereby grasping the returning capacity of the borrowers. The borrowers had no money to repay the loans and meanwhile the interest rates continued to soar. The situation became worst when the loan amounts exceeded the total cost of the house and gave way to the Recession. Recession in economics means a general slowdown in economic activity in a country over a sustained period of time. Production as measured by Gross Domestic Product (GDP), investment spending, capacity utilization household incomes and business profits all fall during recessions. These losses trickled down to other banks that were in chain with the international banks of America who formed the backbone of many banks. As the banks were left with no money, the major industries and companies worldwide that depended on loans from these banks for their activities faced closure.

The global recession affected the entire world economy with higher detriment in some countries than others. With loan losses mounting and the fall of Lehman Brothers on September 15, 2008, a major panic broke out on the inter-bank loan market. As share and housing prices declined, many large and well established investment and commercial banks in the United States and Europe suffered huge losses and even faced bankruptcy, resulting in massive public financial assistance. Major investment banks were bought by or converted to commercial banks. What began as a crisis in financial services spilled-over to the broader economy and created a severe economic downturn. Recession in the West resulted in the fall in Exports and also a decline in the employment market with a significant drop in the new hiring. There had been cut in promotions, compensation and perks of the employees. The textile, garment and handicraft industry were worse affected. The tourist industry also showed a decline. The real estate had also a problem of tight liquidity situations, where the developers were...
finding it hard to raise finances. IT industries, financial sectors, real estate owners, car industry, investment banking and other industries as well had confronted heavy losses due to the fall down of global economy.

2 Impact of global recession on India

- Reduced money flow and reduced trade
- Adversely affected the cash flow for the industries and huge shortage of funds
- Fall in the share markets due to shortage of liquidity
- The Indian currency got weakened against dollar
- Increased loss of jobs

3 Challenges for Indian Banking Industry Post Recession Era

1. Ratios of Non-Performing Assets have shown a significant decline. But from the risk management perspective, there has been an increase in the growth of off-balance sheet exposure in recent years, particularly in the case of foreign banks and new private sector banks.
2. Banks tightening rules for securitization specially loans as they plan to hold more capital.
3. Requirement to maintain credit history of Individuals and Corporate Entities as only maintaining the list of defaulters was not adequate.
4. Uniform credit rating norms and a debt recovery institution needs to be established.
5. Better financially engineered products need to be launched.
6. As Recession led to a massive unemployment it was a challenge in front of the institutions to expand social safety nets and to generate job creation even as they are under pressure to cut spending.
7. Banks less willing to fund speculative housing developments, particularly land purchases, and, consequently, developers have less access to capital.

4 Post-crisis evolution of the Commercial banking sector

The financial crisis has conveyed a clear message to market participants and regulators the ever increasing importance of safeguarding financial stability. An immediate priority is to ensure that banks burdened by legacy assets repair their balance sheets by recognizing losses and recapitalizing. This would help restore confidence in the sector, thus reopening access to traditional funding markets. Banks still depend strongly on central bank funding and are not in a position to promote Economic growth. Banks should reduce their reliance on Official support.

5 What saved The Indian Banking Industry?

The Indian Banking Industry stayed somewhat safe due to Reserve Bank of India’s (RBI) steps to check reckless lending to the housing sector by stipulation of stringent credit assessment, higher provisioning for standard assets and higher margin requirements. Secondly the volume of home loans was still small.
1. Low penetration of Financially Engineered products.
2. RBI encouraged lending by reducing SLR, repo rates and CRR.
3. The Government of India and the RBI have attempted to implement a proactive and responsive monetary policy and fiscal policy with timely, targeted, and temporary measures.

5.1 Counter Strategies to overcome Recession

- A stronger Rupee would reduce the import bill, and narrow the overall trade deficit. The Indian central bank (Reserve Bank of India) can intervene anytime and cut interest rates, increasing liquidity in the economy, and catalyzing domestic demand. A strong domestic demand would also help in competing globally when the recession is over.
- Bigger banks can go after more middle-market clients in a bid to win market share as they capitalized on the fact that they received the most government assistance during the crisis and continue to enjoy a cost-of-funding advantage.
- Capital will also be significantly more expensive for companies with lower credit ratings. It should secure cash and improve their credit ratings through various strategies like draw lines of credit, tax planning, working closely with suppliers, close monitoring and managing of receivables, secure new lines of credit and take cost reduction initiatives
- Tax Cuts is the first step any government should take during slump.
- Government should hike its spending to create more jobs and boost the manufacturing sectors in the Country.
- Government should try to increase the exports against the initial exports.
- Builders should also reduce the unrealistic prices of property to bring back the buyers into the market. Thus raise finances for the incomplete projects.
- Innovation is the engine for growth. Focus should be on Research and Development of new Products and Services.
- The manufacturing sector has to ramp up scale economies, and improve productivity and operational efficiency, thus lowering prices.

5.2 Opportunities During Recession

Some leaders seize opportunities during recession to outdistance their competition and position themselves for future growth.

- For companies with strong balance sheets, this is also an ideal time for strategic acquisitions.
- A recession may also be a time to buy options and forward contracts at low prices.
- As stocks across the economy have been beaten down, this is one of the best times – for companies who can afford it – to buy back stock.
- Talent improvement.- Recession also presents a unique opportunity to hire critical talent from universities. Campus and experienced hire recruiting is likely to yield more qualified candidates at lower prices.

6 Post Recession Marketing

As economies recover around the world, global marketers face new challenges in relating to consumers. Consumers have revised their priorities, and advertising needs to speak differently to these consumers if products are to survive and thrive. There is a rise of mindful consumption. Mindful
consumption is demonstrated by consumers buying fewer products and being more considered in their choices. It affects all global markets and even the emerging ones.

The post-recession consumer is different. While they may have been forced by circumstances to reconsider their spending habits, many consumers have found that less really is more. Many consumers are avoiding impulse purchases, and screening their purchases more carefully for real value.

7 The Challenge for Advertisers
While consumer priorities have changed, the basic challenge for advertisers is the same: to deliver a relevant message in a creative way. Marketing messages can show customers how your product or service will last longer, save them money or time, they’ll be willing to invest in it.

Marketing messages that portray products or services as a well-deserved treat, reward or indulgence will go a long way toward convincing customers to buy. Recession calls for marketing managers to use strategies to stimulate consumer demand.

Understanding customers and the changes in their behavior post recession is the first step. Marketers have to assess which changes are likely temporary, versus those which are liable to be more permanent. This assessment will tell the marketer how to position their products or services.

Recessions are leading to unemployment problems. Therefore income falls in general, consumer confidence decreases and all this leads to uncertainty about the future. Companies may offer special guarantees and reasonable prices, communicate tangible and visible benefits, develop new business models and spend more on advertising.

- **Research the customer:** Firms should learn more about how consumers are redefining value and responding to recession.
- **Adjust Product Portfolios:** Marketers must reforecast demand for each item in the product portfolio as consumer’s trade down to models that stress good value.
- **Adjust Pricing Tactics:** Marketers need to offer more temporary price promotions, reduce threshold for quality discounts and extend credit to long standing customers.

8 Conclusion
The economic downturn was definitely worse, and the world economy is still struggling to recover. Recession had an adverse impact on all major sectors. It reduced trade and thus money flow. It resulted in drastic fall in the share markets thus weakening Indian currency against dollars. Various banks and corporate houses suffered losses and thousands of people lost their jobs. Macroeconomists are realizing that it was a mistake to pay so little attention to finance. Evolution post-recession required various strategies and challenges. A combination of steady, rule based monetary policy and a few automatic fiscal stabilizers- such as increased unemployment insurance payments as people lose their jobs and lower tax receipts as income fall- were all it took to tame the business cycle.
Banks will have to tighten rules for securitization and there also exists a strict requirement to maintain individual and corporate history. There is also a need to establish a reliable debt recovery institution with launching of better financially engineered products. Banks need to analyze the ever increasing importance of safeguarding financial stability. Banks still depend strongly on central bank funding and are not in a position to promote economic growth. Government should also invest in skill training for the unemployed and should first focus on long term recovery by creating jobs. Though Recession is a serious threat but may be converted into an opportunity also. This is also an ideal time for strategic acquisitions. It is a time to buy options and forward contracts at low prices. Ideally the best time to buy back stocks. The analysis shows that the Indian banking industry is stable and still growing at a slow pace. The conclusion also has certain learning’s for the Indian banking industry, strategies to overcome recession along with the highlights that saved the Indian economy during the great recession. A war can be seen between the private bank sector and the government over who exactly controls the allocation of consumer credit. If only the government would return some of the decision-making power to the private sector (i.e., let lenders decide who gets approved or denied for a loan), then there would be more lending and the economy would recover faster.

9 References


