INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

IJRCM

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,

Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],

Index Copernicus Publishers Panel, Polandwith IC Value of 5.09 &number of libraries all around the world.

Circulated all over the world & Google has verified that scholars of more than 2592 Cities in 161 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

CONTENTS

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** ***anytime*** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (***FOR ONLINE SUBMISSION, CLICK HERE***).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____

THE EDITOR
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF .**

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '_____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mentionthe following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/ Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE:** The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS:** The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT:** Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS:** Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT:** Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS:** All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS:** All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT:** The main text should follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES &TABLES:** These should be simple, crystal clear, centered, separately numbered &self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS:**These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES:** The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

A STUDY OF FDI AND INDIAN BANKING

DR. G. S. GAUD
S. A.
STATE BANK OF INDIA
NANDED

DR. GIRISH KUMAR PAINOLI
HEAD
DEPARTMENT OF BUSINESS MANAGEMENT
VIJAY RURAL ENGINEERING COLLEGE
MANIK BHANDAR

ABSTRACT

The global banking industry worn unstable times in 2007 and 2008, the impact of the economic slowdown on the banking and insurance services sector in India has so far been moderate. The Indian financial system has very little exposure to foreign assets and their derivative products and it is this feature that is likely to prove a solution to the financial sector troubles that have overwhelmed many other emerging economies. Owing to at least a decade of reforms, the banking sector in India has seen outstanding development in financial health and in providing jobs. Even in the wake of a severe economic downturn, the banking sector continues to be a very dominant sector of the financial system. Now a day, foreign commercial and investment banks have gently begun picking up public sector bank's bond issues. Bankers said that the funds were coming into these bonds; some of the foreign banks were also using the banks' bonds as an arbitrage opportunity in view of the increasing liquidity. As due to the globalization local banks are competing in the global market, where innovative financial products of multinational banks is the key limiting factor in the development of local bank. More efficient allocation of credit in the financial sector, better capitalization and wider diversification of foreign banks along with the access of local operations to parent funding, may reduce the sensitivity of the host country banking system and lead towards financial stability.

KEYWORDS
FDI, Banking, Impact of FDI.

1. INTRODUCTION
Foreign Direct Investment as seen as an important source of non-debt inflows, and is increasing being sought as a vehicle for technology flows and as a means of attaining competitive efficiency by creating a meaningful network of global interconnections.FDI plays a vital role in the economy because it does not only provide opportunities to host countries to enhance their economic development but also opens new vistas to home countries to optimize their earnings by employing their ideal resources. India has sought to increase inflows of FDI with a much liberal policy since 1991 after decade's cautious attitude. The 1990's have witnessed a sustained rise in annual inflows to India. Basically, opening of the economy after 1991 does not live much choice but to attract the foreign investment, as an engine of dynamic growth especially in view of fast paced movement of the world forward Liberalization, Privatization and Globalization.FDI in the banking sector has been liberalized by raising FDI limit in private sector banks to 74 per cent under automatic root including investment by foreign investment in India. The aggregate foreign investment in a private bank from all sources will be 74 per cent of paid-up capital of the bank.

1.1 THE PRESENT BANKING & FINANCIAL SCENARIO
In recent times economy is been pushing to increase the role of multi-national banks in the banking and insurance sector, despite, the concern expressed by the left communist parties are opposing the finance minister move to raise overseas investment limits in the insurance business. The government wants to fulfill a pledge to allow companies like New York Life Insurance, Met Life Insurance to raise investment in local companies to 49 per cent from 26 per cent. But it is opposed on the front that it will lead to state run insurers loosing business and workers their job. Left does not want foreign investors to have greater voting rights in private banks and oppose the privatization of state run pension fund. There are several reasons why such move is fraught with dangers. When domestic or foreign investors acquire a large share holding in any bank and exercise proportionate voting rights, it creates potential problems not only of excursive concentration in the banking sector but also can expose the economy to more intensive financial crises at the slightest hint of panic. Opposition is not considering the need of present situation.

Owing to at least a decade of reforms, the banking sector in India has seen remarkable improvement in financial health and in providing jobs. Even in the wake of a severe economic downturn, the banking sector continues to be a very dominant sector of the financial system. The aggregate foreign investment in a private bank from all sources is allowed to reach as much as 74% under Indian regulations

The insurance sector has also been fast developing with substantial revenue growth in the non-life insurance market. However, despite its enormous population, India only accounts for 3.4% of the Asia- Pacific general insurance market's value. The cap on foreign companies' equity stakes in insurance joint ventures is 26%, but is expected to rise to 49%.

2. OBJECTIVES
1. To understand about FDI and its need
2. To know about impact of FDI on Indian Banking sector
3. To understand how FDI affects Financial Sector of India

3. METHODOLOGY
Secondary data is widely used from all the available sources i.e. published and unpublished literature related to the present study and other relevant sources useful to this study

4. LIMITATIONS OF FDI IN BANKING SECTOR
i) Innovative Financial Products
ii) Technical Developments in the Foreign Markets
iii) Problem of Inefficient Management
iv) Non-performing Assets
v) Financial Instability
vi) Poor Capitalization

vii) Changing Financial Market Conditions

If we consider the root cause of these problems, the reason is low-capital base and all the problems is the outcome of the transactions carried over in a bank without a substantial capital base.

Therefore, we can say that, as the FDI is a non-debt inflow, which will directly solve the problem of capital base. Along with that it entails the following benefits such as –

1. Technology Transfer
2. Better Risk Management
3. Financial Stability and Better Capitalization

5. ANALYSIS

TABLE NO. 1: COUNTRY-WISE AND INDUSTRY –WISE FDI FLOW INTO INDIA

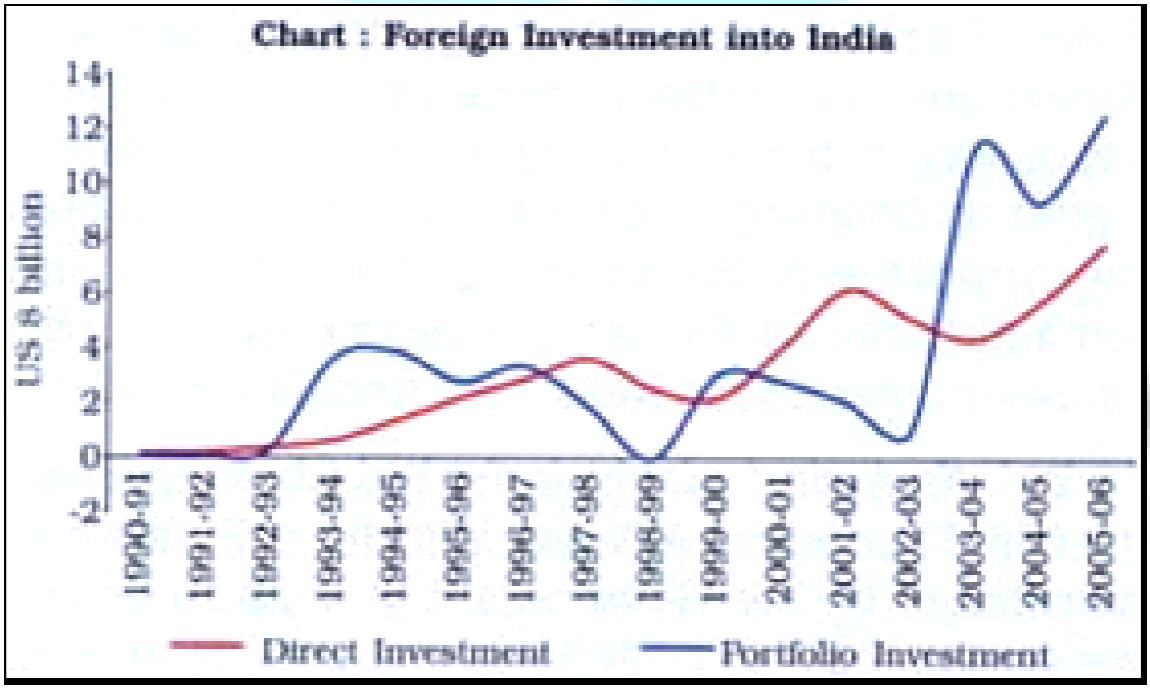
Table 1.76: Foreign Direct Investment to India: Country-wise and Industry-wise*

(US $ million

Source/Industry	2003-04	2004-05	2005-06 P
1	2	3	4
Total FDI Flows	**1,462**	**2,320**	**3,358**
	Country-wise Inflows		
Mauritius	381	820	1,363
USA	297	469	346
UK	157	84	261
Germany	69	143	45
Netherlands	197	196	50
Japan	67	122	86
France	34	44	12
Singapore	15	64	166
Switzerland	5	64	68
South Korea	22	14	61
Others	218	300	901

Source: "Economic Review", RBI Annual Report 2005-06.

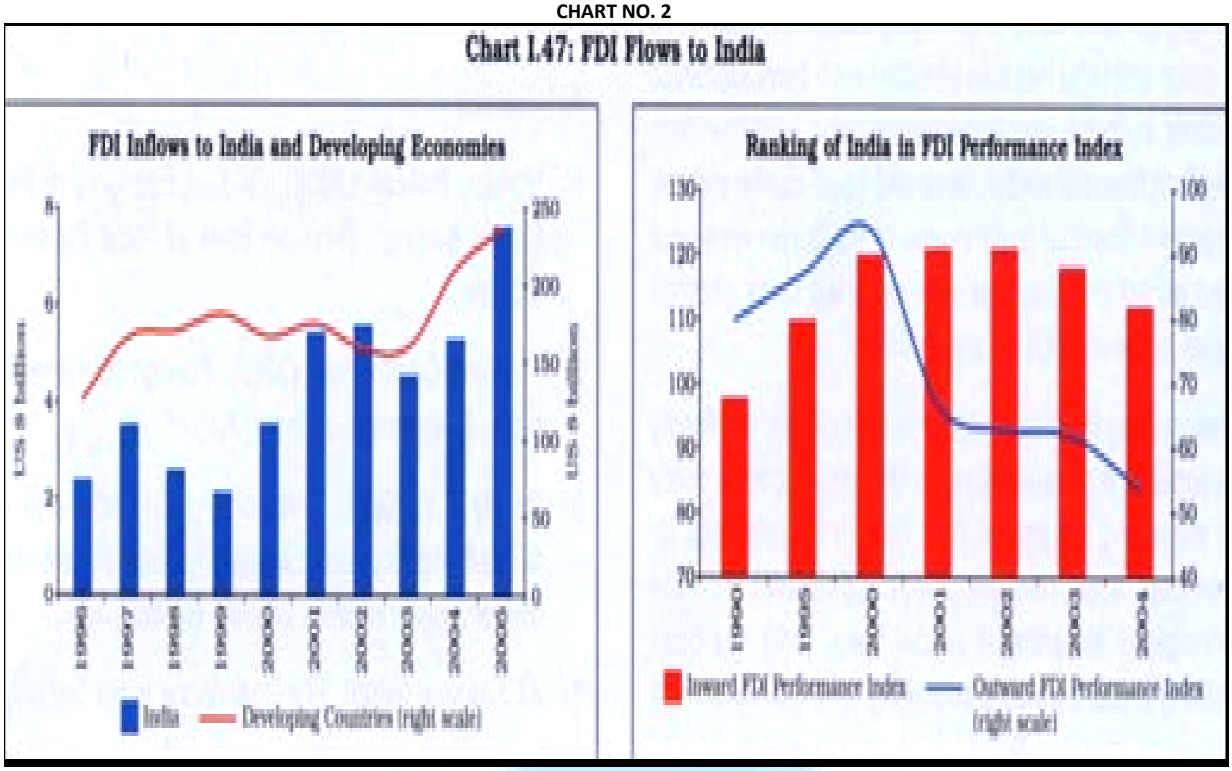
CHART NO. 1: FDI FLOW IN TO INDIA FROM 1990-91 TO 2005-2006



Source: "Economic Review", RBI Annual Report 2005-06.

GRAPHS SHOWING FDI FLOWS IN TO INDIA & DEVELOPING ECONOMIES AND RANKING OF INDIA IN FDI PERFORMANCE INDEX

CHART NO. 2



Source: "Economic Review", RBI Annual Report 2005-06.

'FDI & FII have risen sharply during the 1990s reflecting the policies to attract non-debt creating flows. Cumulative foreign investment flows have amounted to US & 106 billion since 1990-91 and almost evenly balanced between direct invest flows (US & 49 bn) and portfolio flows (US & 57 bn).

Since 1993-94, FDI flows have exceeded portfolio flows in the 5 years while portfolio flows have exceeded FDI in the remaining 8 years. As a proportion to FDI flows to emerging market and developing countries, FDI flows to India have shown a consistent rise from 1.6% in 1998 to 3.7% in 2005'1.

India's FDI growth of above 30% during past 2 years is encouraging. Although the FDI inflows into India are small as compared to other emerging markets, their size is growing on the back of growing interest by many of the world's leading multinationals.

India has improved its rank from fifteenth (in 2002) to become the second most likely FDI destination after China in 2005.

6. THE IMF STUDY REPORT

The IMF's study is in supportive to the above-discussed features of FDI. This study talks about the optimism over India emanates from a contribution of following factors.

1. India contributed nearly one fifth of Asian domestic demand growth over 2000-05. Looking forward, India slated to be the second largest demand driver in the region, after China.

2. India accounts for almost one quarter of the global portfolio flows to emerging market economies, nearly $ 12 bn in 2005.

3. India is the world's leading recipient of remittances, accounting for about 20% of the global flows.

7. COLCLUSIONS

- Now a day, foreign commercial and investment banks have quietly begun picking up public sector bank's bond issues.
- Bankers said that the funds were coming into these bonds; some of the foreign banks were also using the banks' bonds as an arbitrage opportunity in view of the increasing liquidity.
- FIIs have exceeded the FDI and in portfolio investment into India since 2003-04 reflect both domestic and global factors.
- Compared with FII always FDI has a greater and long-term effect on the Indian market due to the whimsical nature of FII.
- The present scenario looks more closely at the pattern of exponential growth and laments that India's role as an engine for global growth has been limited by the still relatively closed nature of its economy.
- As due to the globalization local banks are competing in the global market, where innovative financial products of multinational banks is the key limiting factor in the development of local bank.
- Now a day bank has been prominent and prudent in the rapid expansion of consumer lending in domestic as well as in foreign markets.
- It may need additional information and techniques to monitor for financial vulnerabilities. FDI's tech transfers, information sharing, training programs and other forms of technical assistance may help meet this need.
- As the banks are expanding their area of operation, there is a need to change their strategies put forth competitive pressures and demonstration effect on local institutions.
- Through FDI, the host countries will know efficient management technique. The best example is Basel II. Most of the banks are opting Basel II for making their financial system safer.
- Host countries may benefit immediately. From foreign entry, if the foreign bank re-capitalize a struggling local institution. In the process also provides needed balance of payment finance.
- More efficient allocation of credit in the financial sector, better capitalization and wider diversification of foreign banks along with the access of local operations to parent funding, may reduce the sensitivity of the host country banking system and lead towards financial stability.
- Even though above discussed factors are fair enough for the development of economy. But it is a noted fact that, economy drivers are reluctant towards more liberalization for FDI in the banking sector.
- As the ceiling rates are not increased, FDI in Financial Sector is not getting a wholesome environment. But the foreign investment is finding its own way to come in the economy, May be the way of FII.

Therefore FDI in banking can address several issues pertaining to the sector such as encouraging development of innovative financial products, improving the efficiency of the banking sector, better capitalization of banks and better ability to adapt to changing financial market conditions.

REFERENCES

1. Blomstrom,M, & Kokka, A. (2003), "The Economics of FDI Incentives" NBER Working Paper
2. Caprio G.et al (2001), "The Economics of FDI Incentives" NBER Working Paper
3. Chakravarty, R. (2001), "FIIs flow to India: Nature & Causes", Money and Finance Volume 2.
4. "Financial Liberal Review" Foreign Invest flows to India – RBI Annual report 2005-06
5. Foreign Direct Investment in the Financial Sector of emerging market economics "CGFS publication "
6. FDI in Financial Sector-CGFS publication
7. IMF's study on India - Business Line.
8. Insurance FDI: Left to oppose like - Business Line
9. Kunal Badade & Ms. Medha Katkar "FDI in banking sector a boon in disguise"
10. Prasad, E., et al. (2003), "Effects of Financial Globalization on Developing Countries: Some Empirical Evidence", IMF Occasional Paper
11. RBI guidelines for FDI in Banking Sector - Dr. P.K. Shrivastava

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you tosupply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail i.e. **infoijrcm@gmail.com** for further improvements in the interest of research.

If youhave any queries please feel free to contact us on our E-mail infoijrcm@gmail.com.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals