

Welcome students in this module.

We are going to learn about

universal banking  
meaning and its merits and

demerits of universal banking.

So the learner will be able to

understand the meaning of universal

banking as well as identifying

the advantages as well as the

disadvantages of universal bank.

Universal banking introduction in 1990s,

when the financial sector reforms took place,

there was an increase or we can

say images of a large number of

private sector banks in our country.

And these banks gain popularity

mainly because they had.

An edge over technology and

Better Business models.

In order to meet their customer

requirements under one roof.

So universal banking?

What does it mean?

It is basically the financial entities.

When you say financial entities,

it includes commercial banks.

Financial institutions and the

non banking financial companies.

They undertake to provide multiple

financial activities under one.

So they provide investment banking,

commercial banking,

development, banking,

insurance and other financial services

including functions of merchant banking,

mutual funds, factoring,

housing, finance,

insurance etc.

As for the World Bank in Universal banking,

the large banks operate

extensive network of branches.

They provide different services as well

as they hold several claims on forms,

including equity and debt,  
and participate directly in the  
corporate governance of firms that  
rely on the banks for funding  
or as insurance under writers.

So if you go to see Universal Bank is  
basically a financial supermarket.

So when I say supermarket,  
we get different varieties of  
groceries or we can sell products  
and services under one roof.

So the same concept has been applied  
in the banking wherein the bank  
provides different types of services  
to its customers and this type of  
bank is called as Universal Bank.

So it is a financial supermarket  
which provides all financial  
products under one roof.

Universal banking is usually undertaken  
by large banks who can manage the

cost of such widespread operations.

8 The ICICI Bank that is industrial credit

and Investment Corporation of India Limited.

This was the first financial institution of

India that adopted universal banking system.

Now let's see what are the

advantages of universal banking.

The first advantage is economies of scale.

So when we talk about economies of scale,

it basically means you are

earning more by spending less.

So universal banking results

in greater economic efficiency

in the form of low cost,

higher output and better products.

2nd profitable diversions the

banks can utilize existing skill

in single type of financial

services and offering other kinds

by diversifying their activities.

Turn white resources utilization.

When a bank provides universal banking,

it possesses all types of

information about the different

products which they are offering.

They will also know information

about their existing customers

and this information can be

utilized to perform other financial

activities within the same customer.

So you can basically offer the same

old customer different products and

services from one particular place rather

than the customer visiting one bank,

bother bank or One Financial institution

to another financial institution

to get availability of different

products or get availability of

different investments and services.

Explained easy marketing.

A bank with established brand

name can easily use its existing  
branches and staff to sell the other  
financial products like insurance  
policies mutual fund plans without  
spending much effort on marketing.

So I suppose my bank is  
offering universal banking.  
I can easily do marketing of my products from  
one particular place rather than visiting.

You know,  
different marketing companies  
to market my different products.

It is better that one particular  
bank which is offering different  
types of products and services can  
give them a marketing strategy.

In this,  
it in turn leads to reduction  
in cost of servicing.

This products and other services.  
Next to one stop shopping beneficial for

the bank as well as to its customers,  
because it saves a lot of transaction costs,  
it increases the speed of economic  
activities. Next is under one roof.

All financial products and services  
which the customer is looking for  
can be provided under one roof.

Again,  
this saves the transaction cost and time  
and thereby increases the speed of work.

Makes point his investors trust.

Universal banks hold equity  
shares of many companies,  
and these companies can easily  
get investors from public to  
invest in their business.

This is because other investors  
have full confidence and faith  
in Universal Bank and they look  
up to the Universal Bank as a  
strong entity which will be in the

business for a long time.

Next we move to the disadvantages  
of universal banking.

The first disadvantage is there is  
no expertise in long term lending.

These are different types of long term  
loans like you know we have project  
findings infrastructure filings which  
have a very long gestation period.

So this loans which are having  
long gestation projects cannot be  
properly handled by a single pet.

You need services of different  
entities who will actually take  
care of this type of products.

So even though universal banking.

I have certain advantages or  
you can save many advantages.

There are certain disadvantages  
which they do face,  
and one of the major disadvantages.



They cannot handle properly long

term loans like project finance

and infrastructure finance.

2nd disadvantage is that it leads to

NPS nonperforming assets many times.

They cannot control the ratio or the

degree at which the nonperforming

assets go on increasing and as a

result in a long run it might affect

the business of that particular bank.

Turning point. Risk of failure.

The larger the banks, the greater the

effects of their failure on the system.

Serious for the entire banking system as

well as to the customer because it is set.

If one universal bank collapses.

It will lead to systemic financial

crisis because that Universal Bank is a

strong bank which has different services

which have different products which have

connection not only to banks which are

in our country but also across the globe.

So if that particular bank say

one universal bank collapses.

Then there will be a strong

impact on the financial.

On the economy of the country,

so it may lead to financial crisis.

Next, concentration of monopoly

power in the hands of few bankers.

Such a monopoly power in the hands of

few bankers is a source of danger to the

community because the community's main

goal is socialistic pattern of society.

So when we have universal banking to

a certain extent it leads to monopoly.

So when we see monopoly,

few people are in charge to take

the overall decision and this type

of monopoly power in the hands of

few big bankers basically becomes

a danger to the community.

Bureaucratic and inflexible universal

banks tend to work primarily with large,

established customers and

ignore or discourage small and

newly established businesses.

That in this small and newly

established businesses they are

in mature or you can say urgent

need of financial resources and

Universal Bank do not cater to them.

They mostly work with large

established customers.

Next, different rules and regulations,

universal banks offers all financial

products and services under one group.

However, all these products and

services have to follow different

rules and regulations of RBI, Sebi.

And this creates many problems

because some banks have.

Has to follow different rules or

regulations for different products,  
so they might get confused according  
like to which rule they have to apply  
for which type of product and service.

Because there are different rules given  
by different financial institution  
or agency rules and regulations  
given by different regulatory  
bodies which leads to problems.

Because if the Universal Bank is  
not very clear with respect to  
which rule has to be followed  
for which product or service,  
it will leads to confusion.

Conflict of interest.

Combining commercial and investment  
banking can result in conflict of interest.

Some banks may give more important  
to one type of banking and less  
importance to another time.

So in conclusion,

we can say that universal banking is a  
system in which banks provide a wide  
variety of comprehensive financial services.

Including those tailored to retain  
commercial and investment services.

Is that the references and credits?

Thank you.