



RETAIL BANKING: THE NEW BUZZWORD OF TODAY'S WORLD OF BANKING

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ABSTRACT

Banking is the financial function which plays an important role not only for the particular individual but also for the overall economy. With changing face of overall economy the face of banking service is also changing now it has become more & more attractive. Various newer functions have been added in the banking services to attract more & more customers.

Retail Banking has always been an integral part of the Banking activities the world over, but it is only in the recent past that it has gathered special momentum. Though internationally this revolution started in 80's with the advent of credit cards followed by other products of retail financial services, yet, as far as India is concerned, the year 1995 marks the starting point of Retail Banking Revolution with Foreign Banks and new generation Private Banks taking the lead. In the present paper, an attempt has been made to cover the theoretical aspects of the Retail Banking which includes the issues and challenges in Retail Banking, the recent trends in Retail Banking, the future growth of Indian Retail Banking and challenges to retail banking in India.

KEYWORDS: *Banking portfolio, Challenges, Retail banking, Strategies.*

INTRODUCTION

Banking occupies one of the most important positions in the modern economic world. It is necessary for trade and industry. Hence it is one of the great agencies of commerce. Although banking in one form or another has been in existence from very early times, modern banking is of recent origin. It is one of the results of the Industrial Revolution and the child of economic necessity. Its presence is very helpful to the economic activity and industrial progress of a country.

BANKING IN INDIA

The banking scenario in India is of a highly developed nature, even though it is still far from achieving world standards in terms of size, products and services. Indian banks have realized that along with organic growth there is a need to grow inorganically as well, in order to be competitive with other players in the market. In this scenario, retail banking has been the focus of attention for the banking industry. The emergence of new economies and their rapid growth have been the most important contributing factors in the resurgence of retail banking. Changing lifestyles, rapid improvements in information technology and other service sectors, as well as increasing levels of income, have contributed to the growth of retail banking in countries like India that are developing at a good pace.

The Indian banks are vying with one another to grab a pie of the retail banking sector which has tremendous potential—retail loans constitute only 8-9% of the GDP in India, whereas it is about 35% in other Asian economies. However, retail banking also has its share of challenges in retaining customers, introduction of tech-savvy facilities and investments in such facilities, security concerns, Know Your Customer (KYC) norms, credit evaluation norms, etc.

NEED OF THE STUDY

The retail bank studied here has recently undergone a re-branding exercise. This gives rise to the need to study the growth of Retail Banking in India.

OBJECTIVES OF THE STUDY

1. To understand the concept of Retail Banking in India.
2. To understand the reasons for banking upon Retail Banking
3. To study the issues and challenges in Retail Banking.
4. To study the various products being offered in Retail Banking portfolio.
5. To study the strategies to increase the Retail Banking business.

DATA COLLECTION

The study required the understanding of the concept of Retail Banking and of the various products associated with it. The method adopted to collect the data was secondary research. Under secondary research a detailed study was done from the various banks websites, books, journals, magazines on banking to obtain the required information.

RETAIL BANKING IN INDIA: AN OVERVIEW

“Banking for the people, by the people and of the people”

Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. The concept is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Excess of liquidity, increased dependence of corporate on capital markets, the rising income of middle class with increase in purchasing

power and ability to handle debts, the increasing amount of NPA's from corporate portfolio and the growth and future growth potential of the credit card business has induced banks to shift from wholesale banking to retail banking. Retail banking has immense opportunities in a growing economy like India. As the growth story gets unfolded in India, retail banking is going to emerge a major driver. Some of the key policy issues relevant to the retail-banking sector are: financial inclusion, responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention. The credit portfolio of banking business is fast changing in India. Retail lending is becoming an important segment of bank credit. As a result, interest rates on retail lending too have come down. Risk management for banks as far as retail banking goes should focus on risk and return characteristics of consumer loans, revenues from consumer loans, losses from consumer loans, collection strategies, product structuring and lending policies.

MEANING OF RETAIL BANKING

The term 'retail banking' encompasses retail deposit schemes, retail credit, retail loans, credit cards, debit cards, insurance products, mutual funds, and depository services, including demand facilities and services to customers according to their needs. So, retail banking includes various financial services and products forming a part of the assets as well as liabilities segment of the banks. Retail banking on the assets side of the balance includes a wide range of loan products such as housing, auto, consumption and educational loans. The following are the features of retail banking:

- Strong credit assessment capability;
- Regular and constant follow-up;
- Strong processing capability;
- Skilled human resources;
- Technological support; and
- Sound documentation.

GENESIS OF RETAIL BANKING

The concept of "retail banking" is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Retail banking and retail lending are often used as synonyms but in fact, the later is just the part of retail banking. In retail banking all the needs of individual customers are taken care of in a well-integrated manner. Today's retail banking sector is characterized by three basic characteristics:

- Multiple products (deposits, credit cards, insurance, investments and securities);
- Multiple channels of distribution (call center, branch, internet) and
- Multiple customer groups (consumer, small business, and corporate).

REASONS FOR BANKING UPON RETAIL BANKING

- 1) The financial sector reforms undertaken by the Government since the year 1991 has lead to cut throat competition among Banks for corporate loans making them to lend even at PLR or sub PLR and offer other valued services at comparatively cheaper rates to big and high value corporate. In the process, most of the banks have experienced substantial reduction in interest spreads and drain on their profitability.
- 2) Whereas corporate loans give average return of just 0.5 to 1.5 percent only, the retail advances offer attractive interest spread of 3to 4 percent, because retail borrowers are less interest rate sensitive than the Corporate. Another reason for large interest spreads on retail advances is that the retail customers are too fragmented to bargain effectively. While corporate loans are subject to ups and downs in trade frequently, retail loans are comparatively independent of recession and continue to deliver even during the sluggish phase of economy.
- 3) Retail Banking gives a lot of stability and public image to banks as compared to corporate banking.
- 4) The greater amount of consumerism in the country with upswing in income levels of burgeoning middle class, which has propensity to consume to raise their standard of living, is enlarging the retail markets. This market is growing 2.50 percent per year and boosting the demand for credit from households. The potential is huge as present penetration level is just over 2 percent in the country. Given the easy liquidity scenario in the country the growth rate in this sector is likely to go up manifold in the years come. This offers great potential for banks to enlarge their loan books.
- 5) The Indian mindset is also changing and consumers prefer to improve their quality of life even if it means borrowing for facilities like housing, consumer goods vehicles and vacationing etc. Borrowing and lending is no longer considered a taboo. The peer pressure and demonstration effect is further pushing up demand for housing loans, consumer products and automobiles. All these developments give big push to Retail Banking activities.
- 6) Retail Banking clients are generally loyal and tend not to change from one Bank to another very often.
- 7) Large numbers of Retail clients facilitate marketing, mass selling and ability to categorize/select clients using scoring system and data mining. Banks can cut costs and achieve economies of scale and improve their bottom-line by robust growth in retail business volume.
- 8) Through product innovations and competitive pricing strategies Banks can foster business relationship with customers to retain the existing clients and attract new ones.
- 9) Innovative products like asset securitization can open new vistas in sustaining optimal capital adequacy and asset liability management for banks.
- 10) Retail Banking offers opportunities to banks to cross sell other retail products like credit card, insurance, mutual fund products and demat facilities etc. to depositors and investors.

DRIVERS OF RETAIL BANKING BUSINESS IN INDIA

What has contributed to this retail growth? Let me briefly highlight some of the basic reasons.

First, economic prosperity and the consequent increase in purchasing power has given a fillip to a consumer boom. Note that during the 10 years after 1992, India's economy grew at an average rate of 6.8 percent and continues to grow at the almost the same rate – not many countries in the world match this performance.

Second, changing consumer demographics indicate vast potential for growth in consumption both qualitatively and quantitatively. India is one of the countries having highest proportion (70%) of the population below 35 years of age (young population). The BRIC report of the Goldman-Sachs, which predicted a bright future for Brazil, Russia, India and China, mentioned Indian demographic advantage as an important positive factor for India.

Third, technological factors played a major role. Convenience banking in the form of debit cards, internet and phone-banking, anywhere and anytime banking has attracted many new customers into the banking field. Technological innovations relating to increasing use of credit / debit cards, ATMs, direct debits and phone banking has contributed to the growth of retail banking in India.

Fourth, the Treasury income of the banks, which had strengthened the bottom lines of banks for the past few years, has been on the decline during the last two years. In such a scenario, retail business provides a good vehicle of profit maximization.

Fifth, decline in interest rates have also contributed to the growth of retail credit by generating the demand for such credit.

RETAIL BANKING PRODUCTS & SERVICES

(A)RETAIL DEPOSIT PRODUCTS

There are many products in retail banking like Savings A/c, Current A/c, Recurring A/c, Fixed Deposit A/c, NRI A/c, Corporate Salary A/c, Free Demat A/c, Kid's A/c, Senior Citizen Scheme, Cheque Facilities, Overdraft Facilities, Free Demand Draft Facilities, Locker Facilities, Cash Credit Facilities, etc

(B)RETAIL LOAN PRODUCTS

Banks grant loans for different periods like short term, medium term, and long term and also for different purpose. Personal Loans, Housing Loans, Education Loans, Vehicle Loans, Professional Loans, Consumer Durable Loans, Loans against Shares and Securities.

(C)RETAIL SERVICES

This includes: Lockers, Depository Services, Credit Cards, Debit Cards, Net Banking, Mobile Banking, Phone Banking, Anytime, Anywhere and Anyhow banking, Automated Teller Machines, Gift Cards etc.

GROWTH OF RETAIL BANKING IN INDIA

The economic growth rate of India is one of the fastest in the world. The economy of India has recorded a growth of above 5% in the last two decades. A report of Goldman Sachs says which is the one of the leading investment banks that would be the 3rd largest economy in the world by 2050. The surplus money that is left in the hands of the people after their basic needs given rise to the desire of investing in various banking products that are offered by the banks. Thus Retail Banking has been increasing at an attractive rate in India and still there is a lot more potential for its growth in coming years. The emergence of Retail Lending has push the Indian economy towards economic growth and retail lending has helped banks to good profits and prosper the economy at the same time. A report released by A T Kearney (A global management consultant firm) that “identified India as the second most attractive retail banking destination of 30 emerging markets”, and in reality, India has witnessed a shift from wholesale lending to retails lending especially in the private sector banks. Housing Loan occupies a very prominent place and it accounts for more than 50% to 60% of the total credit of almost all the banks. This is also because this loan is comparatively safer, supported by mortgage of property finance and the default rate on an average is less than 1% annually. In the market of Auto Loan, another very popular loan of retail lending has emerged as a profitable financing activity for banks. Banks and automobile companies have formed tie ups to offer customers a variety of auto loans on attractive terms and various incentives such as zero percent surcharge on petrol, free insurance cover for auto mobiles, free accessories etc., as per the Chairman of RBI, 82% of all new cars, 505 bikes and 90% trucks are financed through banks. The increase in the demand of educational loans is due to finance the higher education and employment opportunities in other countries also the Indian institutions and deemed universities of repute that have emerged in private sector provides quality and placements and because of their high fees students and their parents finds banks the right place to go for loans which is convenient and affordable. Other auxiliary retail banking services in India like ATMs, Mobile Banking, Internet Banking, Debit Cards/ Credit Cards, Phone Banking etc., and the Depository Services by banks have gained eminence in last 5-6 years. The annual growth in the plastic card called debit cards and credit cards in the India is more than 25%. The total number of credit cards in the Indian banking system is about 14 million and the circulation of debit cards is even more and double of the credit cards that's near about 25 million. The entry of private and foreign banks has brought the floods of ATM's as these banks found it cost effective alternative in the comparison to Public Sector Banks and also to capture larger market without much expenditure over infrastructure or branches. It became easier for bank to reach its customer in every corner of the country. Later, banks made an agreement that the customer can use any ATM of other banks where they do not have an account o cut the cost, cover the larger geographical area and for the convenience of the customer. Thus the usage of ATMs turned out to be very frequent, useful and convenient for customers. Mobile phones have become one of the most convenient, quick and time saving means of carrying out the banking transactions all over the world. It has also increased considerably because in India, more than 47 million mobile users exist and nearly 2 million being added every month. And the awareness campaigns and knowledge of using mobile banking will take the number even more in coming years. However, there is still a long way to go. Since India has population of over 1 billion and retail banking has not received its full potential therefore there is much scope for its further progress and growth.

RETAIL BANKING: OPPORTUNITIES AND CHALLENGES

Retail banking has immense opportunities in a growing economy like India. A.T. Kearney, a global management-consulting firm, recently identified India as the “second most attractive retail destination” of 30 emergent markets. The rise of Indian middle class is an important contributory factor in this regard. The percentage of middle to high-income Indian households is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to India’s retail banking segment. The combination of above factors promises substantial growth in retail sector, which at present is in the nascent stage. Due to bundling of services and delivery channels, the areas of potential conflicts of interest tend to increase in universal banks and financial conglomerates. Some of the key policy issues relevant to the retail-banking sector are: financial inclusion, responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

CHALLENGES TO RETAIL BANKING IN INDIA

1. The issue of money laundering is very important in retail banking. This compels all the banks to consider seriously all the documents which they accept while approving the loans.
2. The issue of outsourcing has become very important in recent past because various core activities such as hardware and software maintenance, entire ATM set up and operation (including cash, refilling) etc., are being outsourced by Indian banks.
3. Banks are expected to take utmost care to retain the ongoing trust of the public.
4. Customer service should be at the end all in retail banking. Someone has rightly said, “It takes months to find a good customer but only seconds to lose one.” Thus, strategy of Knowing Your Customer (KYC) is important. So the banks are required to adopt innovative strategies to meet customer’s needs and requirements in terms of services/products etc.
5. The dependency on technology has brought IT departments’ additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. It is equally important that banks should maintain security to the advance level to keep the faith of the customer.
6. The efficiency in operations would provide the competitive edge for the success in retail banking in coming years.
7. The customer retention is of paramount important for the profitability if retail banking business, so banks need to retain their customer in order to increase the market share.
8. One of the crucial impediments for the growth of this sector is the acute shortage of manpower talent of this specific nature, a modern banking professional, for a modern banking sector.

If all these challenges are faced by the banks with utmost care and deliberation, the retail banking is expected to play a very important role in coming years, as in case of other nations.

STRATEGIES FOR INCREASING RETAIL BANKING BUSINESS

A. CONSTANT PRODUCT INNOVATION TO MATCH THE REQUIREMENTS OF THE CUSTOMER SEGMENTS: The customer database available with the banks is the best source of their demographic and financial information and can be used by the banks for targeting certain customer segments for new or modified product. The banks should come out with new products in the area of securities, mutual funds and insurance

B. QUALITY SERVICE AND QUICKNESS IN DELIVERY: As most of the banks are offering retail products of similar nature, the customers can easily switchover to the one, which offers better service at comparatively lower costs. The quality of service that banks offer and the experience that clients have, matter the most. Hence, to retain the customers, banks have to come out with competitive products satisfying the desires of the customers at the click of a button.

C. INTRODUCTION OF NEW DELIVERY CHANNELS: Retail customers like to interface with their bank through multiple channels. Therefore, banks should try to give high quality service across all service channels like branches, Internet, ATMs, etc.

D. TAPPING OF UNEXPLOITED POTENTIAL AND INCREASING THE VOLUME OF BUSINESS: This will compensate for the thin margins: The Indian retail banking market still remains largely untapped giving a scope for growth to the banks and financial institutions. With changing psyche of Indian consumers, who are now comfortable with the idea of availing loans for their personal needs, banks have tremendous potential lying in this segment. Marketing departments of the banks be geared up and special training be imparted to them so that banks are successful in grabbing more and more of retail business in the market.

E. INFRASTRUCTURE OUTSOURCING: This will help in lowering the cost of service channels combined with quality and quickness.

F. DETAIL MARKET RESEARCH: Banks may go for detail market research, which will help them in knowing what their competitors are offering to their clients. This will enable them to have an edge over their competitors and increase their share in retail banking pie by offering better products and services.

G. CROSS-SELLING OF PRODUCTS: Banks have an added advantage of having a wide network of branches, which gives them an opportunity to sell third-party products through these branches.

H. BUSINESS PROCESS OUTSOURCING: Outsourcing of requirements would not only save cost and time but would help the banks in concentrating on the core business area. Banks can devote more time for marketing, customer service and brand building. For example, Management of ATMs can be outsourced. This will save the banks from dealing with the intricacies of technology.

CONCLUSION

Banks now need to use retail as a growth trigger. This requires product development and differentiation, innovation, and business process re-engineering, micro- planning, marketing prudent pricing, customization, technological up gradation, home/electronic/mobile banking, and cost reduction and cross selling. While retail banking offers phenomenal opportunities for

growth, the challenges are equally daunting. How far the retail banking is able to lead growth of the banking industry in future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably. However, the kind of technology used and the efficiency of operations would provide the much needed competitive edge for success in retail banking business. Furthermore, in all these, customers' interest is of paramount importance. The changing portfolio of retail banking in India has many dimensions. While there is a discernible change in the number and the nature of products been tossed up along with the way in which banking services are being offered, there is also a concern that growth in retail banking is skewed in favor of assets and is not balanced equally with growth in liabilities (retail deposits). An added concern is that banks are not reaching out to the lower income segments of the population. However banks in India have already started taking steps to include those so far excluded from formal banking services. To foster the growth in retail banking, banks have started shoring up their services through various channels keeping the main focus on the bank branch. It is going to be challenging for banks to maintain costs at a level such that their profitability is not affected; a concern that soon may become a top priority for them in the near future.

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