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STRATEGIES OF COMMERCIAL BANKS IN RETAIL FINANCING

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ABSTRACT

Retail banking is when a Bank executes transactions directly with consumers, rather than corporations or other banks. Services offered include savings and transactional accounts ,mortgages , personal loans, debit cards, and cards. Today, retail banking is being considered as one of the most innovative financial services provided by the various commercial Public Sector Banks (PSBs), private sector and foreign banks. Retail banking has a huge potential considering the growing demand for its products namely, term deposits, consumer durable loans, auto loans, debit card, credit cards, ATM facilities, insurance, online banking, etc. The growing sector of retail lending has contributed significantly to the development of the economy. Like other developed countries, India too, has a developed retail banking sector which accounts for one-fifth of all banks credit. Retail lending across the globe has been a showcase of innovative services in the commercial banking sector. Countries, like China and India, have emerged as potential markets with changing investment opportunities. The higher growth of retail lending in emerging economies can be attributed to the rapid growth of personal wealth, favorable demographic profile, rapid development in information technology, the conducive macroeconomic environment, financial market reforms and small micro-level supply side factors. The retail banking strategies of banks are undergoing a major transformation, as banks are beginning to adopt a mix of strategies like organic growth acquisition and alliance formation. This has resulted in a paradigm shift in the marketing strategies of the banks. PSBs are adopting aggressive strategies, leveraging their branch network to garner a large share of the retail market.

KEYWORDS : Strategies, Retailing, Bank, Finance, Small, Customer.

INTRODUCTION:

Retail Banking as a business model is adopted by all the banks on account of multiple comfort factors for the banks viz. acquisition of a huge customer base, multiple product offerings, better pricing and profitability, scope for cross selling and up selling financial and beyond financial products for increased per customer revenue and of course better risk proposition. With the changing paradigm of technology as the driver for retail banking explosion, banks are embracing different strategies by redesigning their conventional business silos, re-engineering existing products and inventing products, services, channels, relationships to increase the share of the customers' wallet.

OBJECTIVES OF THE STUDY

In this dynamic retail banking scenario, the study is an attempt to understand the different models and strategies adopted by the commercial banks.

STRATEGIES

PRODUCT STRATEGIES

PRODUCT DEVELOPMENT STRATEGIES

Product development strategy is the first step in the product development model. The model and strategy are intertwined. It is like the chicken and the egg. Which comes first is a very difficult question to answer. Building a model and developing strategies in line with the model is adopted by some banks. Developing strategies and building a model around is followed by some other banks. But strategies and models should be in tandem with each other for a coherent implementation programme. Product development strategies in PSBs are mainly based on the different customer segments (existing and prospective), competitors' offerings and also based on the market research / market demand.

CUSTOMER ACQUISITION STRATEGIES

Customer base is the basis on which the business strategies are built in retail banking. Acquisition of customer base (1 million accounts, 2 million accounts) to achieve target volumes is one strategy. Achieving target volumes from the existing and acquired customer base is another strategy. Acquiring customer bases include acquiring target segments (HNI, Mass affluent) in line with the business strategies. Some bank work on business volumes first through customer targets. Some other banks target customer volumes first and business volumes in the process. Some banks adopt both the above in tandem. Most of the PSBs follow the strategy of customer segments and business volumes together though customer acquisition is given more focus to improve the business volumes. In one Kolkata based PSB, the strategy is more skewed towards achieving business volumes.

CHANNEL STRATEGIES FOR DELIVERY OF PRODUCTS / SERVICES

Delivery Channels make or break retail banking. The initiatives in retail banking across products and beyond products get translated into business only through efficient delivery channels. Channel is the mode through which the offerings reach the customers. Banks offer both direct channels and remote channels as a part of channel strategies and make a judicious mix of these channels as effective delivery models. The brick and mortar format still rules the roast in the direct delivery format. Technology has changed the conventional formats of delivery channels and new technology driven remote channels like ATMs, Mobile Banking, Internet. Banking and Telephone Banking have emerged to enhance customer experiences for availing the products and services. The efficacy of these channels plays a vital role in the level of customer engagement to the banks' products and services. In no PSB, only direct branch delivery format is adopted.

The question is the level and extent of implementation of remote channels across geographies. ATM is the most common remote channel adopted by almost all PSBs. Telephone Banking, Mobile Banking and Internet

Banking are implemented at various levels in different PSBs. Predominantly, brick and mortar is the main delivery channels in all the PSBs sampled. A mix of direct and remote channels are offered by all the PSBs depending on the products and services and in some banks, direct channels for relationship oriented products and remote channels for transaction oriented products.

DELIVERY STRATEGIES FOR PRODUCTS / SERVICES

The delivery of physical evidence for products and services (Cheque Book, Pass Book, ATM, Debit Cards, Credit Cards, and Deposit Receipts) is a vital element in the initiation of account relationship. Effective delivery of these evidences is a pre cursor or a smooth relationship. Different strategies are adopted by banks for this. Some banks complete the delivery process at the point of sale itself (Branch), some other banks follow either a centralized delivery process or a regional level geography oriented process for all or some of the deliverables. To illustrate, for Savings Accounts some banks deliver Pass Books, Cheque Books, ATM / Debit Cards at the branch itself whereas in some other banks the whole or part of it is centralised i.e. Pass Book delivered at the Branch and Cheque Book and ATM / Debit Card are delivered through a centralised hub. Another delivery strategy is to route the entire deliverables through a centralized hub. In almost all PSBs uniformly, the physical evidence related to products / services are delivered at the branch level. In some PSBs, the Debit /

ATM / Credit Cards are processed centrally and delivered through the branches.

DOORSTEP BANKING FOR PRODUCTS / SERVICES

Doorstep banking is a service enhancement for customer engagement and banks are embracing this strategy to improve the customer satisfaction. Doorstep banking services are offered in a restricted way by some banks in the areas of cash deposit and withdrawals from accounts. Some foreign banks offer complete range of doorstep banking solutions including issue of drafts and collection of cheques etc. Charging fees for the services rendered is one dimension but ultimately customers don't mind for paying for conveniences. With regulatory permissions in place for doorstep banking services, public sector banks are also gearing up for offering doorstep banking services to their customers.

TRAINING STRATEGIES FOR INTERNAL CUSTOMERS (STAFF) FOR DELIVEY OF PRODUCTS / SERVICES

Training is a very important function in the internal customer education process. Internal Customers' knowledge about the products and services is translated to the external customer and converted into sales. Research studies have established the positive correlation between the product knowledge of the internal customers and the external customers. Training elevates both the knowledge and skill sets of the internal customers. Training in most of the banks are developed and administered as an in-house mechanism. It is administered in a two stage process, both centralized and regional / zonal model depending on the type of human resources to be trained. In some private and foreign banks, outsourced training strategy is adopted for sales / marketing and the technology functions and in-house strategy for product training.

PERFORMANCE INCENTIVE STRATEGIES FOR PRODUCTS / SERVICES

Performance and reward goes together and rewards in turn become motivators for further performance. Incentives for performances are most common forms of rewards and it includes monetary as well as non monetary. Incentivisation strategies are adopted by banks in different forms. It includes direct incentivisation (both monetary as well as non monetary) by the bank and indirect incentivisation by third party partners in the fee-based business segment (Insurance, Mutual Funds). Monetary Incentives are directly given as cash awards for performances / achievements, whereas non monetary awards are in the form of nominations to overseas educational trips, domestic trips to hill stations , attending conferences etc.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM) STRATEGIES FOR RETAIL BANKING

Customer Relationship Management (CRM) is the backbone of retail banking. A vertically organized model with availability of customer information across products will be a sound base for building an effective customer relationship management programme. Integration of customer data base in a single platform will facilitate a smooth CRM programme. It helps the banks not only to implement various CRM initiatives but also to develop cross selling and up selling strategies to mobilize additional business and increasing the per customer profitability. But all these depend on the strength and spread of customer data base available in banks. The data base structure varies across banks. In banks with a single server environment, centralized data base will be available. Depending on the level of technology integration, banks will have multiple layers of customer data base and the CRM strategies are built around those layers.

In almost all PSBs, stand alone branch level data base is the norm for all retail banking activities and CRM initiatives. Centralised data base does not exist as core banking solutions are not implemented covering all branches and the implementation level is in various stages across banks. In some banks, regional level data base is built up for localised CRM initiatives.

STRATEGIES FOR CUSTOMER ENQUIRIES FOR PRODUCTS / SERVICES

Response mechanism for customer enquiries is one of the determining factors for the reputation of the banks. Customer Response Management is the first step for a successful customer relationship management. Banks follow different strategies for customer enquiries. Some banks set up a Call Centre for a centralized customer response mechanism. Customer enquiries are handled through a centralized toll free number and actions initiated through that set up. Another strategy adopted by banks is setting up regional call hubs specific for regions and responses effected through specially designated customer service executives. Additionally, touch screen information kiosks based on centralized / regional data bases are offered as enquiry tools. In a stand alone data base scenario, branch level enquiry response model is the standard strategy uniformly adopted by all banks.

PROMOTION STRATEGIES FOR MARKETING PRODUCTS / SERVICES

Promotion strategies constitute an important element in the success of any retail banking initiative and are mainly focused as brand promotion and product promotion. The product and value propositions have to reach the customers / prospects in the right perspective and promotion is the means to achieve that goal. A proper and pragmatic promotion strategy alone will translate the opportunities into business. The promotion strategies normally adopted by banks are basically in two ways. One way is to address the customer universe in general and another way is to address the specific targeted customer segments with customized promotional measures including the promotional media for the target segments.

STRATEGIES FOR CUSTOMER RETENTION

Customer retention is one of the key words for the success of retail banking. In these days of cut throat competition in the retail banking space, retaining a customer is more important than acquiring a new customer. To add, the cost of acquiring a new customer is more than retaining an existing customer. Customer retention creates opportunities for product and price bundling, cross selling and up selling.

Banks also structure Customer Loyalty Enhancements Programmes for specific customer segments like NRIs, HNIs, Private Banking & Wealth Management Clients. The programmes range from simple customer meetings to arranging for social, cultural meets and also include special musical concerts. All these are implemented as a part of the total customer relationship management initiatives. Customer retention is also adopted by customer discrimination or differentiation by specialized value, service and delivery and price prescriptions for different customer segments.

SERVICE QUALITY POLICY FOR RETAIL BANKING OPERATIONS

Service quality and brand loyalty goes together. If the customer is served with the expected quality and the services are delivered as per the promises, then satisfaction level increases and loyalty levels are intact. If there is a gap in this area, then loyalty factor is put under strain. Service Quality encompasses the service prescriptions, setting service standards, benchmarks and promises across products / services and strives to achieve delivery of promises with zero deviations. Though some statutory service standards are adopted by banks like Banking Standards and Codes, a stand alone service quality policy will be a real differentiator forretail banking effectiveness. For banks with separate Strategic Business Unit (SBU) focus on retail banking space, a separate quality policy covering all the retail banking products and services is a must for business governance.

REPUTATION RISK MEASUREMENT STRATEGIES FOR RETAIL BANKING OPERATIONS

Reputation Risk is the risk of risks and will shake the foundation of the bank's business. Other risks like credit risk, capital risk and operational risk affect one particular dimension of business but reputation risk affects the brand image of the banks and will shake the entire business model of the banks. Reputation Risk arises from the deficiencies of the service provider (bank) due to gap in service promises and delivery and also other negative triggers. The negative triggers may be frequent breakdown in ATMs, process bottlenecks / delay in sanctioning / releasing retail assets, delayed receipt of credit card statements, delay in credits in accounts ,wrong return of cheques etc., It is not just customer dissatisfaction but extends beyond that.

Customers' belief about the bank's service level will be shaken and this disbelief extends to not just withdrawal of existing relationship or rejection of future business proposals but will result into negative brand equity. Risk to reputation will impact business both present and future and also existing and potential / prospective customers. Recognising the risk to reputation is the first step to arrest any loss of business. Measuring reputation risk is primarily collecting feed back from customers about the service quality and the gap if any between promise and performance through internal mechanisms. Another way is by doing a reputation risk audit by an external agency for a balanced approach focusing the potential triggers and to check up whether the relevant systems are in place to address the risk. The third way is to conduct a survey internally from the customer universe focusing on the potential triggers of reputation risk in retail banking, eliciting responses and initiating corrective measures to address the threats.

CONCLUSION:

The business strategies with regard to the domains targeted are approached in different ways by different banks. In most of the PSBs only a general model based on the corporate objectives for retail is adopted and there is no specific segmentation by customer, geography or type and profile of branch. In Private Banks a mix of segmented model and classification based model is adopted to capture the retail potential in a structured way in segments where it matters. In foreign banks, a model not restricted to any of the above but based on the retail game plan is being adopted.

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