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Banking Industry Under Transition (Moving Towards Customer Focused-Retail Banking)

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ABSTRACT

After privatization and liberalization the Indian Banking sector developed and diversified at individual reach. The RBI also nationalized the good amount of commercial banks and co-operative banks for providing socio-economic services at micro-level. All around the world Retail Banking has been an established market; however its rise in emerging economies like India has been of recent origin. India's retail banking is rising continuously where retail is contributing more than 30% of overall credit growth.

Banking as a whole is undergoing change and consumer is getting transacted into a larger demand for retail banking products and services. Major product segments of retail credit include housing finance, auto finance, personal loans, consumer durables loan, credit card etc. In India, all the retail Banking segments are expected to witness a tremendous growth owing to the low cost of borrowing, changing customer's attitudes towards borrowing and optimism regarding economic growth. Retail banking in India has to be developed in the Indian way, notwithstanding the long queues in front of the teller counters in the public sector banks.

Retail banks provides e-banking facilities for their high net worth and techno-savvy customers which enables to do the banking transactions from anywhere in the world without physically going down to the branch. An attempt has been made under this study to observe the transition of banking industry toward customer focused retail banking.

Gone are the days when customer use to wait outside SBI Branches for different services. With privatization of banking industry and emergent of new technology based banks like ICICI, HDFC etc, the entire banking system is on transition mode where customer is King and they are on receiving end.

Present era is service era where banks have to give prompt service to their customer either being it branch banking or net banking or mobile banking.

In short banking now is shifting from leisure brick and mortar to quick and responsive banking. The banks which are quick in their metamorphosis will lead the industry others will only be follower.

KEYWORDS :

INTRODUCTION:

'Flat World' is the term used to describe the paradigm shift taking place in the world as a result of the confluence of technology, globalization, demographics and regulation. This new world order is leveling the playing field and has significant implications on the competitiveness of banks. Our perspective about what banks can do to compete and win in the flat world is as much about changing the business mind-set as it is about recommending changes in strategies and operations. Banks that can quickly grasp the impact of the changing business world, respond to its threats and harness its opportunities are the ones that will *win.*

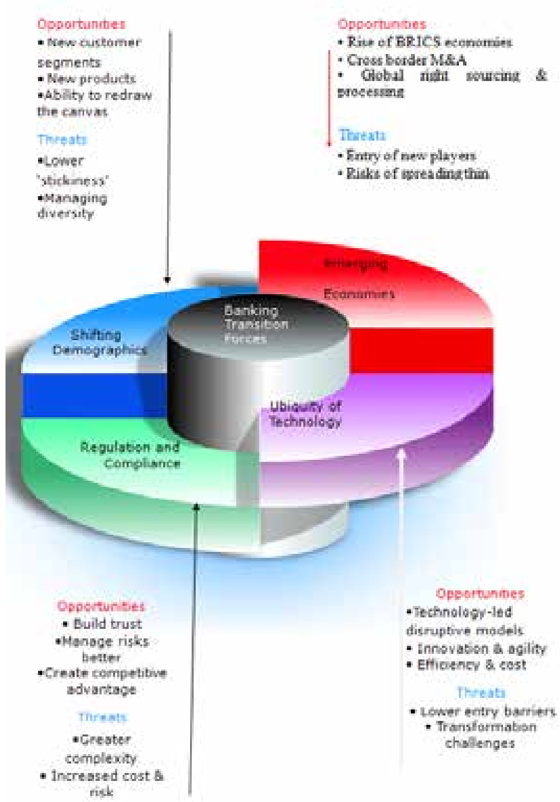
Transitional Forces:

The Transitional forces – opening of emerging economies, significant demographic shifts, ubiquity of technology and emergence of new banking regulations, continue to make a significant impact on the world of banking. These forces have led to trends that are transforming the industry's economics and triggering organizations to redesign themselves around the changing dynamics. With the opening of economies in Asia, Latin America and Europe (specifically the BRICS countries – Brazil, Russia, India, China and South Africa), banks are moving fast to tap this emerging opportunity. Significant demographic shifts across the globe are compelling banks to continuously innovate to cater to customer segments, no longer predictably homogeneous.

Today's banking is metamorphosed to customer focused technology oriented banking. In big metros where there is neck to neck competition between banks, customer relationship and customer focused retail banking is key differentiating factor.

Currently banks are following strategy to train their employees in such a manner that they can serve the customer well and sell a wide range of products to their customer and even retain the customers for lifetime as banks has realized the life time value of the customers.

In the below figure it has been shown, how factors are influencing banking transition.



(Source:Finacle from Infosys)

Banking in India
The Indian Banking industry, which is governed by the Banking Regulation Act of India 1949, can be broadly classified into two major categories, non-scheduled banks and scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks (the old/ new domestic and foreign).

The first phase of financial reforms resulted in the nationalization of 14 major banks in 1969 and resulted in a shift from Class banking to Mass banking. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number of scheduled commercial banks increased four-fold and the number of bank branches increased eight-fold. After the second phase of financial sector reforms and liberalization of the sector in the early nineties, the Public Sector Banks (PSBs) found it extremely difficult to compete with the new private sector banks and the foreign banks. The new private sector banks first made their appearance after the guidelines permitting them were issued in January 1993. These banks due to their late start have access to state-of-the-art technology, which in turn helps them to save on manpower costs and provide better services.

(Source: Google official Website)

Current Scenario:
The industry is currently in a transition phase. On the one hand, the PSBs, which are the mainstay of the Indian Banking system, are in the process of shedding their flab in terms of excessive manpower, excessive non Performing Assets (NPAs) and excessive governmental equity, while on the other hand the private sector banks are consolidating themselves through mergers and acquisitions.

PSBs, which currently account for more than 78 percent of total banking industry assets are lacking in modern technology and have massive workforce while the new private sector banks are forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service.

The private players however cannot match the PSB's great reach, great size and access to low cost deposits. Therefore one of the means for them to combat the PSBs has been through the merger and acquisition (M& A), Customer Relationship, customer service and customer retention route.

Virtual Banking:
Banks have pioneered internet banking, phone banking, anywhere banking, mobile banking, debit cards, Automatic Teller Machines (ATMs) and combined various other services and integrated them into the mainstream banking arena.

INDUSTRY INSIGHT – INDIAN RETAIL BANKING
Why Retail Banking?
Ever increasing & intense competition between private, public sector and co-operative banks in retail banking products and profitability have let to reach to individual customer through retail banking products. Retail banking products could substantially increase the number of customers and volume of profits of the banks. Another important reason banks tempt to retail banking products by having excess quantity of deposits. Financial business to bank's performance can pave in a number of ways, as briefly outlined below:

Increased Income generation: Retail banking products can increase income generation source which help to raise profitability and efficiency of the bank.

Increased number of products: Retail banking products helps to increase new products and services to utilize the bank's capital resources at optimal level.

Increased number of customers: Retail banking products approaches individual contacts which helps to increases the new customers and retain old customers with bank.

Optimum utilization of Bank resources: Increase in the works and products helps to utilize banks resources at optimum level.

Customer's preferences for banking transactions. Retail banking products changes the preferences of customers from corporate sector to low income group level which create popularity of the bank among the customers market.

All around the world retail lending has been an established market; however its rise in emerging economies like India has been of recent origin. If recent statistics on consumer finance are any indication, the last few years have been trend setting. Indian retail banking is up and kicking. Major product segments of retail credit include housing finance, auto finance, personal loans, consumer durable loan and credit cards to name a few. Housing constitutes the biggest segment entire retail credit; following the housing loans, it is the auto loan which is also giving the growth of retail credit the necessary boost. The consumer durable loan follows the auto loan market in the third position. The last few years have witnessed a high increase in students aspiring for management and professional courses, leading to a spurt in educational loans. Banks are now having a direct tie-up with the educational institutions to cash in on the opportunity.

Banks offers a wide array of products and services to its customers. For different customer groups and needs, there are different types of products and services including **Personal Banking, Corporate Banking, SME Finance and Agri- Business etc**.

Why Customer-Focused Retail Banking?
So why should banks pursue a customer-focused approach to banking? The rational for pursuing such an initiative is no different than that of 15 years or so ago. Figure 1 portrays the realities about value creation and revenue growth opportunities for financial institutions.

On the far right, the Mass Market is exemplified by transactional rather than relationship- orientated consumers. Revenue opportunities exist in terms of fee-based services. On the far left, the Maintenance segment is, for the most part, focused on preserving the wealth and assets already obtained. Members of this segment represent those high-value customers and relationships that an institution must continue to nurture in order to retain. High revenue is generated in this segment, but many of the relationships have been relatively cemented. Acquisition is difficult and costly, and, as a result, opportunities for revenue growth are limited.

The vast majority of revenue growth opportunity lies within the two remaining segments – the Emerging and Accumulation groups. The problem is that virtually every competitor is seeking this same target audience,the primary obstacle is how to differentiate yourself from the competition in order to accomplish the primary mission of "stealing" these other relationships. Effectively managing and influencing these customer relationships does provide an opportunity for differentiation. Differentiation creates a greater share of wallet, increases customer loyalty, and fuels relationship growth, which results in improved revenue and an enhanced bottom line.

Relationship Management Defined
"You can't solve current problems with current thinking because current problems are the result of current thinking." -Albert Einstein

Albert Einstein is recognized as one of the premier scientific thinkers of all time. What is sometimes overlooked is how insightful he was beyond the scientific, into the human condition itself.

Past CRM efforts, particularly unsuccessful ones, focused on methods, systems, or programs, yet ignored the synergy required among all the parts. Rather than a method, system, or program, we submit that successful customer-focused efforts are defined as:

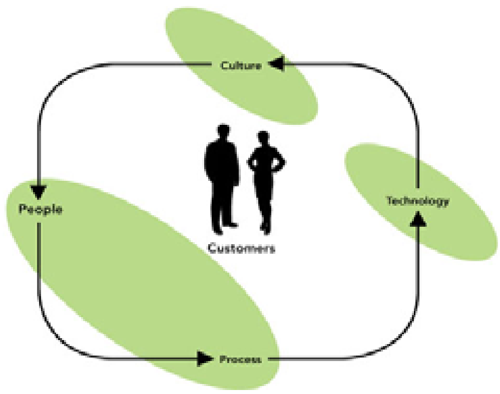
"A customer-focused business culture that allows organizations to understand and influence customer behavior which in turn enhances the company's revenues."

To achieve this culture and generate the financial results expected requires the synergistic melding of four elements:

1. Organizational culture
2. People
3. Processes
4. Technologies

Figure 2 portrays the synergistic relationship between these components. The ability to foster and grow an effective customer-focused business culture directly influences the ability to produce financial growth. Any shortfall in executing any of the four elements negatively impacts the results of a customer-focused initiative.

Customer-Focused Banking



Banks typically possess some natural advantages in the amount of customer information available to them when compared to other industries. The products and services banks market provide for the gathering of a significant amount of information on their customers. The mere act of opening an account gathers far more information about a customer than a retailer might gather when a piece of clothing is sold. Unfortunately, many banks fail to mine this information.

In addition to basic information on customer name, address, etc., core system reports can provide insight into customer holdings and financial services "buying or spending" habits, including:

- Current deposit and loan by balance
- Large deposits/withdrawals
- New accounts/closed accounts
- Maturing CDs and loans
- ACH reports
- Internet banking new customers/usage
- ATM/debit card usage

This information is further enhanced by customer data gathered during the opening of accounts or at the initiation of a lending relationship. Typical sources of such data are:

- Financial statements
- Tax returns
- Credit bureau reports (CIBIL)
- Profile forms

This data can be further refined or enhanced by manipulating:
- Customer data collection
- Customer and product profitability
- Marketing campaign results
- Appended demographic and segmentation information
- Suggested products and services based on known customer habits

The application of specific technological tools often supplements the internal efforts of gathering and disseminating customer information to the appropriate sales force. Basic systems and functionality often center on:

- Contact management
- Pipeline and referral management
- Incentive compensation tracking
- Pricing "what ifs"
- Automated sales prompts of appropriate products and services

*(Source:**Barbara S. Erskine and Michael J. McGinty** Consulting ManagersFIS*

CONCLUSION

Most banks have never created a close relationship with their retail customers and understand little of their actual needs. Tailored products and services are rare, instead

Complaints about inadequate advice, disproportionately high interest rates for overdraft or call centre issue surface in the news with depressing regularity.

But with the emergent of new technology oriented, internet savvy Banks like ICICI, HDFC etc. banks have to realize that they can no longer afford to develop product & service without paying close attention to customer need.

Actually customer focused Banking creates significant results. Effectively managing and influencing customer relationship provides a way to differentiate your bank from your competitors. Such efforts create a greater share of wallet, increase customer loyalty and growth and results in improved revenue and bottom line earnings.

Technology is also an enabler in creating customer focused retail banking but it is just one facet of an overall transformational programmme.

Taking into account People, Process, Technology & Customer Relationship, the journey towards customer centric Retail Banking offers Banks the golden opportunity to create a new trust based bond with their customer. Banks that embark on this journey must be willing not just to implement multiple changes, but also to challenges the very foundation of transitional banking organization. But those that take the effort will reap back their investment with interest, sustainably boosting profitability in a largely saturated market and achieving above average growth.

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