



Retail Banking in India

KEYWORDS

Retail banking, Challenges and opportunities of Retail Banking in India, Risk to reputation, Customer relationship management, Response mechanism.

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ABSTRACT 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. There is a growing demand for term deposits, consumer durable loans, auto loans, debit card, credit cards, ATM facilities, insurance, online banking, etc. The retail lending has definitely contributed to the development of the economy. India has also developed retail banking sector and it accounts for one-fifth of all banks credit. The increase in retail lending in developing economies can be attributed to the rapid growth of personal wealth, favorable demographic profile, and development in information technology, the conducive macroeconomic environment, financial market reforms etc. The retail banking strategies of banks are undergoing a major transformation and have 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.

INTRODUCTION

When a Bank executes transactions directly with consumers and not corporations or other banks, then it is known as retail banking. Retail banking in India has fast emerged as one of the major drivers of the overall banking industry and has witnessed enormous growth in the recent past. Retail banking Services include savings and checking accounts, mortgages, personal loans, debit cards, credit cards and so. Retail Banking is now viewed as an important and attractive market segment that offers opportunities for growth and profits. The typical products offered in the Indian retail banking segment are housing loans, consumption loans, auto loans, credit cards and educational loans.

Factors contributing to growth of retail banking.

The following factors can be considered to have influenced and paved the way for the growth of retail banking in India:

Use of plastic money: The total number of cards issued by banks has dramatically increased. As the usage of plastic money has increased a Working Group was set up for regulatory mechanism for cards. The terms of the Working Group were fairly broad and the Group was to look into the type of regulatory measures that are to be introduced for plastic cards for encouraging their growth in a safe, secure and efficient manner, and also to take care of the best customer practices and grievances handling mechanism for the card users. The credit card holders and loan availed by them through various forms have contributed to the growth of retail banking to a large extent.

Housing Loans: Housing credit has increased substantially over last few years. The attitude of the younger income earning people has become liberal. This attitude and the increase in disposable income in their hands have contributed dramatically to the increase in housing credit.

Youngest population in the world: The rise of the young Indian middle class is an important contributory factor in this regard. Improving consumer purchasing power, cou-

pled with more liberal attitudes toward personal debt, is contributing to India's retail banking segment.

Wide customer base: Retail Credit ensures that the business is widely dispersed among a large customer base unlike in the case of corporate lending, where the risk may be concentrated on a selected few plans. Ability of a bank to administer a large portfolio of retail credit products depends upon such factors like; strong credit assessment capability, sound documentation, strong possessing capability, regular constant follow-up, skilled human resource, technological support etc.

Technology advancement: The growth in retail banking has been facilitated by growth in banking technology and automation of banking processes to enable extension of reach and rationalization of costs. ATMs have emerged as an alternative banking channels which facilitate low-cost transactions. It also has the advantage of reducing the branch traffic and enables banks with small networks to offset the traditional disadvantages by increasing their reach and spread. **Range of products:** Retail loans have a wide range of options. Banks even finance cost of registration, stamp duty, society charges and other associated expenditures such as furniture and fixtures in case of housing loans and cost of registration and insurance, etc.

Economic prosperity and Increase in disposable Income: The consequent increase in purchasing power has increased the number of persons availing personal loans. During the 10 years after 1992, India's economy grew at an average rate of 6.8 percent and continues to grow at almost the same rate which has contributed to the growth of retail banking.

Changing consumer demographics: India is one of the countries having highest proportion (70%) of the population below 35 years of age. The BRIC report of the Goldman-Sachs mentioned Indian demographic advantage as an important positive factor for India. **Technological innovations:** Technological factors play a major role in retail banking. Convenience banking in the form of debit cards,

internet and phone-banking, anywhere and anytime banking has attracted 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.

Low burden on banks: Treasury income of the banks, which had strengthened the banks for the past few years, has been on the decline during the last two years. In such a situation, retail business provides a good vehicle of profit maximization. Retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.

Lower interest rates: The interest rates were decreased in Indian money market which has also contributed to the growth of retail credit by generating the demand for such credit. Liquidity in the banking system and falling global interest rates have compelled the domestic banks to reduce it. The declining cost of incremental deposits has enabled the Banks to reduce their interest rates on housing loans as well as other retail segments loans. This has contributed to the increase in retail lending.

Need for higher market share: For commercial banks, gaining customer loyalty is becoming tough. Customers demand instant remedy for their grievances and personalization of services at a cost lower. In a digital environment, market share shifts will be rapid as customers will find it much easier to switch. Now that the customer has the choice, banks need to move from a product-centric model to a customer-centric model. Banks have to plan for it in advance and be at the forefront in catering to the customer's needs.

Challenges and Opportunities of Retail Banking In India

Retail banking has immense opportunities in India. India has been identified as the "second most attractive destination of 30 emergent markets". The rise of the middle class is an important contributory factor in this regard. Increase in the consumer purchasing power, coupled with more liberal attitudes toward personal debt is contributing to India's retail banking segment. The SEZs will also provide growth opportunity for retail banking. The combination of these factors promises growth in the retail sector.

As retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. The retail banks have to market their products aggressively. The challenge is to design and to introduce innovative products which cater to the needs of the target segment. This requires devising products which is easy to understand and at the same time meet the financial goals of the customers.

Another major challenge in retail banking is attraction as well as retention of customers. Retention is more difficult in this competitive environment. Customer retention favorably affects the profitability. According to a research by Reich held and Sesser in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business. Thus, banks need to focus on customer retention.

Sustainability is another issue, which is becoming increasingly vital with respect to the growth of retail banking in India. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and rapid movement of mon-

ey. However this dependency on the network has brought IT department's additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. The network challenges include proper functioning of distributed networks in support of business objectives. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers.

Another issue of concern is the increase in Non Performing assets and increasing indebtedness, which could affect the future growth of retail banking. As per the new Economic policy of the government there is massive inflow of capital into the banking and financial services sector. This may sometimes make it difficult for the banks to survive and the smaller banks may have to merge with other banks.

The banks will also have to build up the image of their brand. A bank has to build its brand by clearly communicating what it stands for and ensure that the brand image is consistently conveyed to its customers. This would require integration of all channels to ensure optimum customer satisfaction, regardless of the channel being used.

The development of Information technology and its application in the banking sector provides both opportunities as well as challenges. Most of the retail banks are witnessing a tremendous expansion in their customer base. However, on the other hand there is increase in the number and types of cyber crimes like spam, scam, spy ware, phishing, and embezzlement etc. The number of complaints regarding various undesirable practices and cheating of credit card account holders is increasing. The RBI is considering bringing credit card disputes within the ambit of the Banking Ombudsman scheme. Banks have to be very careful and cautious and try to prevent the malpractices done by the misuse of technological advancements. The Information technology has to be properly adhered and the customers have to be protected from all the risks arising in this behalf. Though building a regulatory oversight in this regard is essential, it is to be ensured that the regulations do not reduce the efficiency of the system nor does it hamper the credit card usage.

In a service industry the value can be delivered at the moment of interaction with the customers. Banks, in a drive to carry on with tremendous expansion in terms of customer base, need to have requirements of the employees who are well informed about the products as well as have the necessary soft skills to deal the customers. It is necessary for the banks to upgrade their existing manpower and retention or lock in the best talents for having competitive advantage in terms of human resources. Maintaining the performance of retail banking network and ensuring that all bank products and services are available at all times is also a necessary for customer satisfaction.

Banks in order to increase the customer base sometimes waive and do not adhere to the KYC norms, which may lead to the formation of unethical customers which may affect the genuine customers and banks. Banks should try to reduce the Non Performing Assets and try to prevent fraud and malpractices.

Strategies for future:

- Banks have to spread their banking activities to the masses in rural areas where even today the people are ignorant of the services offered by banks.
- Customer segmentation or product differentiation can

be implemented and banks can try to bring out products as per the special needs of customers.

- Promoting low risk retail banking products can help the banks to reduce their liabilities and the risk of repayment.
- Banks have to also concentrate on cost effective expansion programmes since reducing the cost of operation can only lead to development and growth of the banks.
- Customer relationship management is the backbone of retail banking. A response mechanism for customer enquiries can be designed and should be handled by special designated employees.
- Service quality is another major area of thrust. Service quality only will help in increasing the customer satisfaction level and loyalty level. Banks must also concentrate and be aware of any risk to reputation, because it can have a negative impact on the present, future and prospective customers. Recognizing, measuring and controlling risk to reputation must be followed by the banks.

CONCLUSION

There is a need of constant innovation in retail banking. A paradigm shift in bank financing through innovative products and mechanisms involving constant up gradation and revalidation of the banks' internal systems and processes is called for. Banks now need to use retail as a growth trigger. This requires product development and differentiation, innovation and business process reengineering, micro-planning, marketing, prudent pricing, customization, technological up gradation, home / electronic / mobile banking, 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, technological advancement and the efficiency of operations would contribute to success in retail banking business. Furthermore, in all these customers' interest is of paramount importance. So, it is vital for banks to improve their customer services and cut off predatory lending strategies, particularly in the area of interest on credit cards. Finally we say that retail banking is one of the most tremendous areas to be looked after by the banking industry.

"The bank that best addresses and anticipates customer needs, delivers consistently higher quality service and connects to the customer via their channel of choice wins."
Y.Y. Chin, OCBC Bank.

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