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RETAIL BANKING IN INDIA

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INTRODUCTION

A sound and evolved banking system is essential for sustained economic development. India is one of the fastest growing economies after financial and banking sector reforms since 1991. Banking sector evolution and growth has gone through innumerable twists and turns in the post independence era. Retail banking in the banking industry has always been important in India where banks were nationalized with the objective of reaching the masses. However, the growth in retail banking has been quite prominent retail in the recent years. Retail banking has been facilitated by growth in banking technology and automation of the banking process. Technological development has been hugely responsible for the rapid growth and spread of retail banking. There is also an expansion in the nature and products offered under retail banking. Retail banking has vast opportunity as well as challenges in a growing economy like India. A.T. Kearney, a global management-consulting firm, recently identifies India as the second most attractive retail destination of 30 emergent markets. As the growth story gets unfolded in India, retail banking is going to emerge a major driver. The major policy issues relevant to retail banking are financial capability, consumer protection, regulation and responsible lending.

OBJECTIVES OF STUDY

1. To study the concept and scenario of retail banking in India.
2. To explain the drivers of retail business in India
3. To explain the various challenges and opportunities of retail banking in India.
4. To suggest certain measures for the future growth of retail banking in India.



METHODOLOGY OF STUDY

This study is based on the analysis of the retail banking scenario in India with the help of secondary data resources. The main resources of information are retail banking books, journals, magazines, annual reports of RBI and online sources etc.

RETAIL BANKING-INDIAN SCENARIO

Retail banking is the innovation of the 21st Century. India has experienced a rapid growth in retail banking. Retail banking is a banking service that is geared primarily toward individual customer it focuses strictly on consumer markets. Retail banking is a mass-market banking where individual customers use local branches of larger commercial banks. The services offered by retail banking includes saving and checking accounts, mortgages, personal loans, debit cards, credit cards etc. It takes care of the diverse banking needs of an individual customer. It provides banking products and services to individuals. Retail banking contains feature like multiple products, channels and customer groups. Most of the Indian banks have been retail banks in their business composition. Retail banking in India is growing and the same expected in the future. The various reasons for the growth of retail banking in India are:

- * Technology.
- * Introduction Private and foreign banks.
- * Increased competition.
- * Innovation in banking products and services.
- * Economic growth.
- * Deregulation of interest rates.
- * Consumerism.
- * Changes in life style of working/middle class.
- * Focus on productivity and profitability.
- * Drive towards low NPAs.
- * Changing consumer demographics.

Retail banking segment in the banking industry is continuously undergoing innovations, product reengineering, adjustments and alignments.

Indian retail banking segment includes:

- * Cards- credit, debit and ATM.



- * Housing loans.
- * Personal loans
- * Consumption loans
- * Education loans
- * Vehicle loans.
- * Insurance.
- * Demat services.
- * Online services.

Retail banking in India is not a new phenomenon. It has always been prevalent in India in various forms. For the last few years it has become synonymous with mainstream banking for many banks.

The typical products offered in the Indian retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. The loans are marketed under attractive brand names to differentiate the products offered by different banks. Retail loans were usually restricted to housing loans. The RBI's Report on Trend and Progress of India, 2010-11 has shown that the loan values of these retail lending typically range between Rs.20,000 to Rs .100 Lakhs. The loans are generally for duration of five to seven years with housing loans granted for a longer duration of 15 years. Credit card is another rapidly growing sub-segment of this product group.

Retail lending is the buzzword in India. Most banks has retail as of around 20% of their total lending portfolio and these are growing at an unnatural rate of 30 to 35% per annum, In recent past retail lending has turned out to be a key profit driver for banks with retail portfolio constituting 21.5 per cent of total outstanding advances as on March 2011. The overall impairment of the retail loan portfolio worked out much less than the Gross NPA ratio for the entire loan portfolio. Within the retail segment, the housing loans had the least gross asset impairment. In fact, retailing makes amply business sense in the banking sector.

Economic growth, which is cited as one of the important propellers of the growth of retail banking in India, is reflected in the income of the households. Income can be mainly divided into consumption and savings. Both provide fuel to the engine of retail banking. It is now undeniable that the face of the Indian consumer is changing. This is reflected adequately in a change in the urban household income pattern.

The banking organizations are seeking ways to increased automated access to a wider range of products. The technological advancement has led to increase in off-site and on-site



delivery channels, which brings new product development speed of transaction processing and reduction in transaction cost like ATM, Telephone banking and Internet banking.

While new generation private sector banks have been able to create a niche in this regard, the public sector banks have not lagged behind. Leveraging their vast branch network and outreach, public sector banks have aggressively forayed to garner a larger slice of the retail pie. By international standards, however, there is still much scope for retail banking in India. After all, retail loans constitute less than seven per cent of GDP in India vis-à-vis about 35 per cent for other Asian economies - South Korea (55 per cent), Taiwan (52 per cent), Malaysia (33 per cent) and Thailand (18 per cent). As retail banking in India is still growing from modest base, there is a likelihood that the growth numbers seem to get somewhat exaggerated. One, thus, has to exercise caution in interpreting the growth of retail banking in India.

Due to the global meltdown, Indian government took major steps in monetary policy and cut the banking interest rate for lending like housing and auto loans which impacted the revenue of Indian retail banking segment. Other reason behind the decline in retail revenue may be due to higher collateral charged by the banks for retail loans.

DRIVERS OF RETAIL BUSINESS IN INDIA

The following drivers has contributed to the retail growth, let us 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. This high economic growth resulted in increased job opportunities in urban areas. The reforms had liberalised the economy paving way for attracting sizeable foreign investment. Job opportunities in IT and IT-related activities expanded and income levels rose sharply.

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. Increasing literacy levels and adaptability to technology are the two other factors which have helped retail lending to grow.

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. Technology has also helped in managing the customer lifecycle, automating and centralising credit origination process, and credit risk management in retail lending.



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. Considering the fact that retail's share in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.

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

OPPORTUNITIES

Retail banking in India has vast opportunities and challenges. The rise of the middle class is an important contributory factor in this regard. Improving consumer purchasing power, coupled with more liberal attitudes toward personal debt is contributing to India's retail banking segment. Increase in purchasing power of the younger population would give an immense opportunity. It has been found that younger generation is more comfortable in acquiring debt than the previous generation, thereby improving purchasing power and liberal attitude towards personal debt, and 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

- 1. RETENTION OF CUSTOMERS:** Retention of customers is going to be a major challenge. Retention is more difficult in this competitive environment. Customer retention favorably affects the profitability. According to a research by Reich held and Sasser in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business, 50% in insurance and brokerage, and 125% in the consumer credit card market. Thus, banks need to emphasise retaining customers and increasing market share.
- 2. RISING INDEBTEDNESS:** Another issue of concern is the rising indebtedness, which could affect the future growth of retail banking. The banks will also have to shore 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 call for seamless integration of all channels to ensure optimum customer satisfaction, regardless of the channel being used. Most of the retail banks are witnessing a tremendous expansion in their customer base. However, on the other hand there is increasing menace of hacking, phishing and farming through which scamsters are creating havoc indulging in cyber crimes on a large scale.



3. **INFORMATION TECHNOLOGY:** Information technology poses both opportunities and challenges. Even with ATM machines and Internet Banking, many consumers still prefer the personal touch of their neighbourhood branch bank. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and rapid movement of money. However this dependency on the network has brought IT departments' additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. The network management challenges includes proper functioning of distributed networks and applications operating properly in support of business objectives becomes essential. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers.
4. **DESIGN AND INNOVATE THE FINANCIAL PRODUCTS:** The challenge is to design and innovate the financial products which cater to the target segment needs. In future, retail banking scenario will see a huge proliferation of products. This will in turn require devising product which is easy to understand and at the same time meet the financial goals of the customers. The entry of new generation private sector banks has changed the entire scenario. The retail segment, which was earlier ignored, is now the most important of the lot, with the banks jumping over one another to give out retail loans. With supply far exceeding demand it has been a race to the bottom, with the banks undercutting one another. The nimble footed new generation private sector banks have been losing business to the private sector banks in this segment. PSBs need to figure out the means to generate profitable business from this segment.
5. **KNOWING YOUR CUSTOMER (KYC):** 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 customers' needs and requirements in terms of services/products etc.
6. **OTHER CHALLENGES**
 - a) 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.
 - b) 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.
 - c) Banks are expected to take utmost care to retain the ongoing trust of the public.
 - d) 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.

CONCLUSION

The conventional scenario of banks is fast changing. Retail banking has gained enormous momentum in the Indian banking sector during last five years. There is vast opportunity as well as challenges for retail banking in India. The changing portfolio of retail banking in India has many dimensions. Banks need to use retail segment as a growth trigger. There is a need of constant innovation in retail banking. Banks requires product development and differentiation, innovation and business process re-engineering, micro planning, marketing, prudent pricing, customization, technological upgradation, home/electronic/mobile banking, effective risk management and asset liability management techniques.

While retail banking offers phenomenal opportunities for growth, the challenges are equally discouraging. How far the retail banking is able to lead growth of banking industry in future would depend upon the capacity building of banks to meet the challenges and make use of 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 chief importance. The banking sector in India is representing this and I do hope they would continue to succeed in this traded path.

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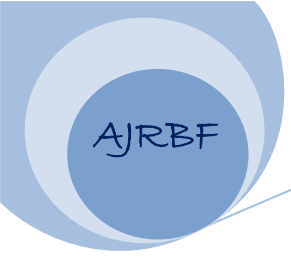
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