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RETAIL BANKINGIN INDIA: THE VIBRANT FUNCTIONAL TOOL FOR INCLUSIVE GROWTH

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ABSTRACT

Retail banking industry is not a new phenomenon for the Indian banking industry. Retail banking is the typical mass-market banking in which individuals customer use local branches of large commercial banks. It offered various services include savings and checking accounts, mortgages, personal loan, debit/credit cards and certificate of Deposits(CDs). Retail banking aims to be the one- stop shop for as many financial services as possible on behalf of retail clients. Today's retail banking must battle it out to win the most attractive customer segment and increase their share of existing customer's wallets, in order to grow profitability in a difficult market. Retail banking faces stiff competition to sustain in the market and it has a vast growth prospects in future. This present study is an attempt to highlight the concept of retail banking and its future strategies in the context of Indian retail banking industry.

INTRODUCTION

Retail banking is the provision of banking facilities and services to individuals and entities. This may be in the form of acceptance of deposits or the giving of consumption loans, loans for the purchase of vehicles, loans for marriage or travel, loan to purchase a house or loan for education.

Retail banking is the fastest growing segment in banking in the country and its growth really began in 1969 when Mrs. Gandhi nationalised 14 large banks. Until then banking was (as it is in the rest of the world) a commercial activity. The purpose of nationalisation was to take banking into areas where no bank had gone before where there was practically no banking activity and to finance those whom banking in the normal course would not have extended loans. Banking became a social activity as opposed to a commercial initiative. Nationalised banks were forced to open branches in rural location to

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make banking facilities accessible to villagers. Consequently, every nationalised bank opened hundreds of branches every year. The next phase of movement took place in the early nineties when the new generation banks were established. Not burdened by the restriction that faced foreign banks, these banks realised that reach, presence and innovation are imperatives. Till then banking was staid and very boring. Banking was not segmented. Bankers accepted deposits, gave corporate loans and offered investment advice.

The new generation banks are customer centric, focused and driven. They want growth, market share and a dominant presence. This is being achieved by creating specialist groups and developing expertise. As a consequence banking has become functionally segmented-Retail Banking, Corporate Banking, Trade Finance, Merchant banking, Private banking and Treasury. Of these Retail Banking is the most vibrant. Banks in their desire to be accessible and have the greatest reach have opened branches with amazing speed. Some banks open a branch every three days. Retail banking will continue to be one of the leaders of growth. In the next decade the feverish growth of the last ten years will not take place.

Retail banking also includes clearing, payments and remittances as these are inalienable from retail banking, cheques deposits have to be collected and cleared, payment remittances have to be made. Retail banking in India has fast emerged as one of the major drivers of overall banking industry and has witnessed enormous growth in the recent past. The retail banking report encompasses extensive study and analysis of this rapidly growing sector.

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. The Retail Banking Report encompasses extensive study & analysis of this rapidly growing sector. It primarily covers analysis of the present status, current trend, Major issues & challenges in the growth of the retail banking sector. This study helps in Banks, Financial institutions, MNC Banks, academicians, Consultants and researchers to have a better understanding of the booming opportunities in retail banking in India. The issue of retail banking is extremely important and topical. Across the globe, retail lending has been a spectacular innovation in the commercial banking sector in recent years. The growth of retail lending, especially, in emerging economics, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro – level demand and supply side factors. India too experienced a surge in retail banking. There are

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various pointers towards this. Retail loan is estimated to have accounted for nearly one – fifth of all bank credit. Housing sector is experiencing a boom in its credit. The retail loan market has decisively got transformed from a seller's market to a buyer's market. Gone are the days where getting a loan was somewhat cumbersome. All these emphasize the moment that retail banking is experiencing in the Indian economy in recent years. The banking scenario in India is at the crossroad and is continuously evolving, but the progress has been remarkable over the past decade.

When one enters any bank, one would try to catch the eye of an employee. Depending on the size of the bank, there will be any number of employees working unmindful of a customer's entry. With the exponential growth of touch points and sophistication, the frontline sales force is assuming the role of a relationship person and is constantly under the microscopic observation of the customer. At a time when channel innovation has become the order of the day to encourage effective banking habits among customers, a vital component of the supply chain, namely customer interface is totally missing. With the advent of liberalization, the banking industry had made a head start towards the best banking practices at each interaction point of the supply chain. However, the Indian landscape is not a replica of the west and is in fact unique. Here is a look at the flipside of some of the common practices of Indian banks. Retail banking is, however, quite broad nature – it refers to the dealing of commercial banks with individual customer, both on liabilities and assets sides of the balance sheet. Fixed, current/saving account on the liabilities side; and mortgages, loan (Eg. personal, housing, auto and education) on the assets side, are the major important of the products offered by banks. Related ancillary services include credit cards, or depositary services. Today's retail banking sector is characterized by three basic characteristics:

1. Multiple products (deposits, credit cards, insurance, investment and securities)
2. Multiple channels of distribution (callcenter, branch, internet and kiosk); and
3. Multiple customer group (consumer, small business and corporate)

Retail banking has immense opportunities in a growing economy like India. India is recognized as the second most attractive retail Destination. The rise of Indian middle class is an important contributing factor in this regard. The percentage of middle to high income in Indian household 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 persona debt, is Contributing to India's

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retail banking system. The combination of the above factors promises substantial growth in the retail sector, which at present is in the nascent stage. Due to Building 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.

FEATURES OF RETAIL BANKING

One of the prominent features of Retail Banking products is that it is a volume driven business. Further, 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:

1. **Strong credit assessment capability**

Because of large volume good infrastructure is required. If the credit assessment itself is qualitative, then the need for follow up in the future reduces considerably.

2. **Sound documentation**

A latest system for credit documentation is necessary pre-requisite for healthy growth of credit portfolio, as in the case of credit assessment. This will also minimize the need to follow up at future point of time.

3. **Strong possessing capability**

Since large volumes of transactions are involved, today transactions, maintenance of backups is required.

4. **Regular constant follow- up**

Ideally, follow up for loan repayments should be an ongoing process. It should start from customer enquiry and last till the loan is repaid fully.

5. **Skilled human resource**

This is one of the most important pre-requisite for the efficient management of large and diverse retail credit portfolio. Only highly skilled and experienced man power can withstand the river of administrating a diverse and complex retail credit portfolio.

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6. Technological support

This is yet another vital requirement. Retail credit is highly technological and intensive in nature. Because of large volumes of business, the need to provide instantaneous service to the customer, faster processing, maintaining database, etc. is imperative.

RETAIL BANKING ACTIVITIES

Banks' activities can be divided into retail banking, dealing directly with individuals; business banking, providing services to mid-size business; corporate banking dealing with large business entities; private banking, providing wealth management services to High Networth Individuals; and investment banking, relates to helping customers raise funds in the Capital Markets and advising on mergers and acquisitions. Banks are now moving towards Universal Banking, which is a combination of commercial banking, investment banking and various other activities including insurance.

Technology has brought about strategic transformation in the working of banks. With years, banks are also adding services to their customers. The Indian banking industry is passing through a phase of customers market. The customers have more choices in choosing their banks. With stiff competition and advancement of technology, the service provided by banks has become more easy and convenient.

1. Internet Banking (E-Banking)

Internet banking (or E-banking) means any user with a personal computer and browser can get connected to his banks website to perform any of the virtual banking functions. In internet banking system the bank has a centralized database that is web-enabled. All the services that the bank has permitted on the internet are displayed in menu. Any service can be selected and further interaction is dictated by the nature of service. The traditional branch model of bank is now giving place to an alternative delivery channels with ATM network. Once the branch offices of bank are interconnected through terrestrial or satellite links, there would be no physical identity for any branch. The Reserve Bank of India constituted a working group on Internet Banking.

2.Information Only System

General purpose information like interest rates, branch location, bank products and their features, loan and deposit calculations are provided in the banks website.

3. Fully Electronic Transactional System

The system provides customer- specific information in the form of account balances,

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transaction details, and statement of accounts. This system allows bi-directional capabilities. Transactions can be submitted by the customer for online update. This system requires high degree of security and control.

4.Automated Teller Machine (ATM)

ATM is designed to perform the most important function of bank. It is operated by plastic card with its special features. The plastic card is replacing cheques, personal attendance of the customer, banking hour's restrictions and paper based verification.

5.Credit Cards/Debit Cards

The Credit Card holder is empowered to spend wherever and whenever he wants with his Credit Card within the limits fixed by his bank. Credit Card is a post paid card. Debit Card, on the other hand, is a prepaid card with some stored value.

6. Smart Card

Banks are adding chips to their current magnetic stripe cards to enhance security and offer new service, called Smart Cards. Smart Cards allow thousands of times of information storable on magnetic stripe cards.

7. Core Banking Solutions

Core Banking Solutions is new jargon frequently used in banking circles. The advancement in technology especially internet and information technology has led to new way of doing business in banking. The technologies have cut down time, working simultaneously on different issues and increased efficiency. The platform where communication technology and information technology are merged to suit core needs of banking is known as Core Banking Solutions. Here computer software is developed to perform core operations of banking like recording of transactions, passbook maintenance, and interest calculations on loans and deposits, customer records, balance of payments and withdrawal are done.

8. Real Time Gross Settlement (RTGS)

RTGS is an electronic settlement system of Reserve Bank of India without involvement of papers. To facilitate an Efficient, Secure, Economical, Reliable and Expeditious System of Fund transfer and clearing in the Banking sector throughout India. Real time gross settlement systems (RTGS) are a funds transfer mechanism where transfer of money takes place from one bank to another on a "real time" and on "gross" basis.

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9. Electronic Clearing Service

Electronic Clearing Service is another technology enhancement happened in the banking industry. The customer willing to use this facility is required to fill in the mandate form from the corporate/any utility service institution for ECS mode of credit and debit. The customer needs to prepare the payment date and submit it to the "sponsor Bank" and after that everything happened electronically. So customers can thereby make payments as well as receive all incomes electronically.

10. Mobile banking

Mobile banking (also known as M-Banking, e-banking, SMS Banking etc.) is a term used for performing balance checks, account transactions, payments etc. via a mobile device such as a mobile phone.

PERFORMANCE OF DIFFERENT SEGMENTS OF RETAIL BANKING

Retail banking in general which had shown a growth of more than 30% during 2005 to 2008 was under strain during 2009. All the major segments of retail banking had lesser growth rates in 2009 than the previous years. The deceleration of growth is more pronounced in the retail asset segment. Financial turmoil across the globe was the main reason for the slower growth in retail banking and the resultant defaults in retail loans.

1. The retail asset growth which was at about 40% in 2005 and 2006 came down to about 17% in 2008 and further sliced down to 4% in 2009.In the retail assets, the segments which suffered most were Consumer Durable Loans and Auto Loans. The receivables in Credit Cards were maintaining the growth rate till 2008 but came down drastically in 2009. Similarly in Housing Loans also there was a drastic reduction in growth.
2. The percentage of retail assets to total assets which was at 25.5% in 2006 had came down to 21.3% in 2009. Again the growth rate of retail assets had also come down to 19.8% in 2009.
3. The number of ATMs as on March 2009 was at 43651 as against the total number of bank branches at 64608.The number of ATMs as a percentage of bank branches were at 67% as on March 2009 indicating the approach of the banks in customer migration from branches to electronic mode. To add, the number of onsite and offsite ATMS reflect that banks are serious in not only making the ATMS available in the branches

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but also had increased the convenience factor to enable the customer to use the ATMs in away from branch locations also at different and convenient points.

4. The number of branches covered under CBS looks very attractive. Out of the total 64608 branches of scheduled commercial banks, 44304 branches (69%) are covered under CBS. i.e. offering across geography banking solutions to customers and not restricting to the branch where the account is held. This gives tremendous opportunities for banks to devise an integrated approach to retail banking.
5. Retail electronic and card based payments registered a quantum jump in the past two years mainly due to introduction of RTGS (Real Time Gross Settlement) and NEFT (National Electronic Funds Transfer). The volume and value of transactions through RTGS had more than doubled, though wholesale remittances constitute a major proportion of RTGS transactions. The concept of electronic remittance mechanism is picking up fast over the past two years and this trend offers potential to package a remittance product as a add on in their retail banking package to the customers.
6. The growth rate of Term Deposits of scheduled commercial banks came down marginally during2009.(Growth of only 22.4% in 2009 as against 23.1% in 2009).If we take an average of 60% of the term deposits are from the household segments/retail segment (percentage extrapolated based on the historical published figure), the core deposit growth was under stress in 2009.
7. The most affected segment in the retail liabilities space was in the CASA front. CASA refers to Current Accounts and Savings Accounts. There was a drastic de-growth in CASA, with CASA sliding to 13.4% in 2009 from 20.2% in 2008.The same is supported by the percentage of Term Deposits to Total Deposits which had improved to 51.08% in 2009 from 49.3% in 2008.

Another important point of discussion is about the composition of income of scheduled commercial banks. The share of interest income had almost remained steady at about 84% and the share of non interest income also is almost stable at around 16% .This indicates that there were no serious efforts by banks to increase the non interest income through fee based product and third party distribution models.

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FUTURE STRATEGIES FOR INCREASING RETAIL BANKING BUSINESS

1.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.

2. 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.

3.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.

4.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.

5.Infrastructure outsourcing

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

6. Detailed market research

Banks may go for detailed 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.

7. Cross-selling of products

PSBs have an added advantage of having a wide network of branches, which gives them an

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opportunity to sell third-party products through these branches.

8. 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.

9. Tie-up arrangements

PSBs with regional concentration can reap the benefit of reaching customers across the country by entering into strategic alliance with other such banks with intensive presence in other regions. In the present regime of falling interest and stiff competition, banks are aware that it is finally the retail banking which will enable them to hold the head above water. Hence, banks should make all out efforts to boost the retail banking by recognizing the needs of the customers. It is essential that banks would be imaginative in predicting the customers' expectations in the ever-changing tastes and environments. It is the innovative and competitive products coupled with high quality care for clients that will only hold the key to success in this area. In short, bankers have to run very fast even to stay where they are now. It is the survival of the fastest now and not only survival of the fittest.

CONCLUSIONS

Now it has been observed that the Retail Banking has constant innovator. It has been converted the financial system of the banks into the innovative product and mechanism which has constant development and renovators of the banks internal system and process.
Retail banking has bright future prospects. In recent years retail banking has strong delivery channels and future strategies to capture the individual customers. Through customer segmentations and their strategic products it reaches to the masses.The bank that best addresses and anticipates customers needs, delivers consistently higher quality service and connects to the customer via their channel of choice.

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