TRANSFORMATION OF RETAIL BANKING IN INDIA

SHIVGANGA MAINDARGI & PRITAM P. KOTHARI
Assistant Professor, Bharati Vidyapeeth, Abhijit Kadam Institute of Management & Social Sciences, Solapur, India

ABSTRACT

Retail banking scenario in India is witnessing a dramatic change in the patterns of product creation and consumption. The influx of consumerism has its natural spill over effect in terms of increased demand of retail banking products- cards, loans, customized products and services. The retail banking sector has its task cut out: keeping pace with the fast changing competitive environment, optimum usage of technology, expanding customer base by targeting rural India towards inclusive banking, improving customer service standards & strategically designing innovative products and services towards targeted segments.

Retail banking in India has seen a dramatic change over the years. It has evolved from a time when the mindset of a traditional middle class Indians used to be debt averse, which preferred managing under their thrifty means to the current mindset which does not hesitate in taking loans for spending. To keep in pace, the retail banking environment today is changing fast.

If retail banking on one hand offers development opportunities, it also offers challenges on the other hand. These challenges are listed in the market investigate reports made on retail banking. Further growth and success of the retail market (in the banking sector) will depend upon the capacity and ability of the banks to meet with the challenges and make the best use of the opportunities.

KEYWORDS: Retail Banking, Retail Banking in India, Performance Status of Retail Banking, Opportunities of Retail Banking, Strategies for Future Growth

INTRODUCTION OF RETAIL BANKING

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current / savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services. Today’s retail banking sector is characterized by three characteristics: such as multiple product, multiple customer, & multiple channels of Distribution.

Retail banking means mobilizing deposit form individuals and providing loan facilities to them in the form of home loans, auto loans, credit cards, etc, is becoming popular. This used to be considered by the banks as a tough proposition because of the volume of operations involved. But during the last couple of years or so, banks seem to have realized that the only sustainable way to increase deposits is to look at small and middle class consumer retail deposit and not the price sensitive corporate depositors.

With financial sector reforms gathering momentum, the banking system is facing increasing companies from non-banks and the capital market. More and more companies are tapping the capital market directly for finance. This is one of the main reasons for the banks to focus vigorously on the much ignored retail deposits. Another reason is the current
liquidity the margins are 1 to 2 percent above the prime rate; in retail market they are 3 to 4 percent. It is reported that Indian retail market has the potential to be second only to the USA. National Readership Survey puts Indian households with monthly of over Rs. 5000 at 4.5 million. According to the survey, the category of households with annual income of Rs. 2 lakhs and above is growing at the rate of 30 per cent per annum.

No winder, banks with vision and insight are trying to woo this market through a series of innovative additions to their products, services, technology and marketing methods. Fixed and unfixed Deposits, (cluster deposits which can be broken into smaller units to help meet depositors’ overdraft without breaking up entirely), centralised database for ‘any branch banking’ (whereby the customer can access his account in any of the branches irrespective of where the account is maintained), room services (whereby the customers are visited at their residences offices to enable them to open their accounts), automatic teller machines, tele banking network, extended banking time, courier pickup for cheques and documents, etc are some of the privileges extended to the customers by the banks in an eagerness to cultivate the retail market. In short, in the bold new world of retail banking the customer is crowned as king.

- The main characteristic of retail banking, very much similar to retail trade, is that banks directly execute transactions with consumers rather than other banks or corporations. The retail banking is characterized by multiple products, multiple delivery channels and multiple customer segments.

- The multiple products may include financial products such as deposits, insurance products (agency), investments etc.

- The multiple delivery channels may include customer service centers, internet kiosks etc.

Multiple customer segments may include the individual customers, small businessmen and corporate

Drivers for Retail Growth

- Changing Consumer Demographics
- Growing disposable incomes
- Youngest population in the world
- Increasing literacy levels
- Higher adaptability to technology
- Growing consumerism
- Fiscal incentives for home loans
- Changing mindsets-willingness to borrow/lend
- Desire to improve lifestyles
- Banks vying for higher market share

Indian Retail Banking

Indian banking has undergone a total metamorphosis after the introduction of financial sector reforms in 1992. The environment in which the banks are operating has drastically changed. Indian banks are trying to attain International Banking standards and Practices.
In the current business environment, banks are beginning to improvise and expand their current mode of operations to ensure profitability and maintain customer relationship. So its time to measure and refine the competitive strategy.

The Indian economy is on a robust growth trajectory and boasts of a stable annual growth rate, with rising foreign exchange reserves and flourishing capital markets among other factors. World Bank estimates the Indian economy to be amongst the top 3 economies in the world by 2050.

So to achieve the standards level the following factors affecting to the banking sectors like:

- Keen Competition among the banks with the entry of new private sector banks
- High Transaction Cost
- High level of Non-performing assets.
- Require to enhance the employee productivity
- Continuous increasing operating cost in banks
- Consumer Centric
- Computer & Information Technology, which leads, the banking sector change the transformation in retail bank.

Retail banking has been at the forefront of the growth for many a consumer economy worldwide, following globalization in India the FMCG and consumer durable products opened up to international players.

Retail banking made strong inroads into Indian banking as well. Retail customer who represent a huge untapped market for consumer credit, have suddenly become the darling of the banking sector. There is tremendous scope for increasing credit to the retail segment in India

The retail banking landscape will evolve during 2011 as institutions continue to make post-industry crisis recovery. While the competitive environment will not alter radically, 2011 will witness a renewed regulatory focus, further M&A activities prompted by additional asset disposals, and changes among the upper echelons of executive personnel as new CEOs take control.

India is one of the most under-penetrated retail banking markets in the Asia-Pacific region. Compared with growth in other markets, especially the developed world, this is a market yet to be fully explored by various players - private sector banks, public sector banks and foreign banks.

During 2005-2006, the Indian government initiated steps for easy entry of foreign banks into the country. The government has introduced a step-wise approach (to last till 2009) to ensure expansion of foreign players in the country’s retail banking industry.

While the overall growth prospects for this industry seem impressive, scheduled commercial banks seem to have more potential for growth in the country’s relatively under-penetrated retail lending segments. Retail loans, which grew at a CAGR of 30.5% annually during 1999-2004, will remain the main source of earnings, although corporate lending could also contribute significantly.

Retail banking scenario in India is witnessing a dramatic change in the patterns of product creation and consumption. The influx of consumerism has its natural spillover effect in terms of increased demand of retail banking
products—cards, loans, customized products and services. The retail banking sector has its task cut out: keeping pace with the fast changing competitive environment, optimum usage of technology, expanding customer base by targeting rural India towards inclusive banking, improving customer service standards & strategically designing innovative products and services towards targeted segments.

Technological innovations, improvements in the regulatory environment, and low penetration in the consumer loans segment are some of the growth drivers. The gross national savings are estimated to triple in the coming 10 years.

**Market Share: Retail Loan**

The Main Products of the retail banking in India are as follows:

- Deposits products such as flexi deposits.
- Loan products such as housing, auto, education and personal loans
- Card products such as credit cards
- Travel products such as traveler’s cheques etc.
- The objective of the retail banking is to increase the penetration. The delivery channels have got various names such as home banking, internet banking, mobile banking, ATM Cards and so on.
- Retail banking provides the banks an opportunity to do cross selling and provide the ancillary services.
- The Retail banking offers a promise of low transaction costs, more sale productivity and more convenience in the business. The older banks have already a vast network, but new entrants in the markets have a disadvantage against the established banks.
- So, retail banking gives them an opportunity to create a customer base and optimum leverage of the resources.

**PRESENT SCENARIO OF RETAIL BANKING**

Currently, India is the 5th largest retail market in the world. The country ranks fourth among the surveyed 30 countries in terms of global retail development. The market size in 2010 was estimated at US$ 353 bn (Source: IBEF) and is expected to reach US$ 543 bn by 2014. Retailing has played a major role the world over in increasing productivity
Transformation of Retail Banking in India

across a wide range of consumer goods and services. In the developed countries, the organised retail industry accounts for almost 80% of the total retail trade. In contrast, in India organised retail trade accounts for merely 5% of the total retail trade. This highlights tremendous potential for retail sector growth in India.

Traditionally branch banking has changed. A number of banks have adopted a new model of branch banking, where one would find that only a small space is reserved for self service area and the rest is used for activates related to sales. Some of the banks have opened special retail outlets call retail banking boutiques which cater to the needs of consumer under one roof.

According to market estimates, wealth is expected to double in the 'emerging affluent' and affluent space to $31 billion by 2015. It currently stands at around $14 billion and includes entrepreneurial wealth, which is the case with India as well.

The personal consumption story, which is expected to grow twice as fast. As per market estimates, it currently stands at Rs 45-lakh crore and is expected to touch Rs 85-lakh crore by 2015.

The increasing inclination of Indians to go global. Earlier it was only NRIs, which segment has now grown to become a sizeable group. It is estimated to be at 13 million individuals.

- Retail assets are just 22% of the total banking assets of India.

- **Contribution of Retail Loans to GDP**

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<td>India</td>
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- Indian population below 35 yrs of Age – 70%
- Reach of Formal Banking Channels – 20-25% of Indian population

**Why Indian Retail Banking Booming?**

- Pension fund industry in India grew at a CAGR of 122.44% from 1999-00 to 2006-07.
- In terms of ownership, debit cards are more in number than credit cards but in terms of transactions, use of credit cards is more prevalent than debit cards.
- The ATM outlets in India increased at a rate of 28.09% from March 2006 to March 2007.
- Outstanding Education loan segment is expected to grow at 36.41% till March 2009 from March 2007 onwards to cross Rs. 27000 Crore Mark.
- Two-wheeler finance industry is projected to forge ahead at a CAGR of 14.21% till 2009-10 from 2005-06.
- Indian Mutual Fund industry witnessed a growth of 49.88% from May 2006 to May 2007, and a higher 215.61% growth was recorded in closed ended schemes.
- Increasing number of millionaires in India is increasing the scope of Wealth Management Services.
- Bankable households in India are estimated to move up at a CAGR of 28.10% during 2007-2011.
CHALLENGES OF RETAIL BANKING

Rural Retail Banking

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<th>Supply Side Factors</th>
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<td>Persons are un-bankable according to bankers</td>
<td>High transaction costs for clients: e.g. travel</td>
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<td>Small loan amounts</td>
<td>Documentation</td>
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<td>Long distance for services/branches</td>
<td>Lack of awareness</td>
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<td>High transaction costs</td>
<td>Lack of social capital</td>
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<td>Lack of collateral</td>
<td>Non-availability of special products</td>
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<td>Information asymmetry</td>
<td>Convenience of informal lending</td>
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<td>Human resource constraints</td>
<td>Prior rejection by formal banking system</td>
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No Social Media for Retail Banks

Only two-third of retail banks across the world & one-third across the India have no plans in place to use social media in any way. Most retail banks do not view social media as an important tool to engage with customers, putting them in a dangerous position, said Ovum in a statement. Ovum is part of Datamonitor group. Social media includes Facebook, Twitter and Linkedin among other networking websites.

Retail Lending Scheme

In Industry activity bank have aggressively increased the share of credit towards the retail lending. The critical challenge for the banking industry is approachability and accessibility, the ability to make finance available to those who need it, when they required. The Industry must become proactive and reach the customer rather than expecting the customer to reach out to the corporate/Industry.

The following major reasons for resurgence

- A paradigm shift from corporate lending:
- Disintermediation
- Increased Middle Level customer demand
- Differential Interest Rates
- Volume Orientation

Outsourcing

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.

Sustaining Customer Loyalty

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 customer’s needs and requirements in terms of services/products etc. The customer retention is of paramount important for the profitability if retail banking business, so banks need to retain their customer in order to increase the market share.
Fraud Prevention

The dependency on technology has brought IT departments' additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. It is equally important that banks should maintain security to the advance level to keep the faith of the customer. Regulatory compliance based on homeland security, IT framework and privacy regulations are forcing financial institutions to integrate the databases and overhaul the information systems.

Other Challenges faced by banks like:

- Designing their own financial product is very costly.
- High preference in net banking is difficult to the banks because of slow in introducing technology based products, finding it difficult to retain the customer.
- Customer are getting attracted towards other financial products like derivative market, mutual fund etc

STRATEGIES IN FUTURE

- Management's central focus must therefore be on the existing customer relationship. However, many banks lack an understanding of the needs and behaviour of individual clients. Best practice in the sector involves having a single customer view incorporating all services used by the client, but only a handful of leading banks have the systems capable of providing this view. It is widely assumed that a large proportion - if not the majority - of individual client relationships are unprofitable. Major efforts are being made to match customer needs with the preferred distribution channel.

- Develop the rural retail banking by way of Local area banks (LABs), Self-help groups (SHGs) with bank linkages was another indigenously developed banking model. Partnership model, the MFI evaluates, recommends, originates the loans, helps in disbursement and subsequently tracks and collects the loans the Kisan Credit Card (KCC) that enables the farmer to get loans over a three to five year period as a revolving credit entitlement, thus, providing them control over their cash flows and reduced transaction costs for both the banks and the farmers.

- Retail banks towards social media is a major issue in an era of aggressive competition. The banks without a social media strategy are being shortsighted and are placing themselves in a dangerous and vulnerable position compared to competitors who have realised that social media can and must play an intrinsic role in their business.

- The technological base and efficiency in operations would give the retail banking market a competitive edge and will contribute in the success of the business in India. Prime importance has to be given to consumer interest.

- 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.

- The branch system is widely viewed as the key element of attracting and serving clients who demand advice, while direct channels are increasingly used to execute transactions. Achieving a seamless interface among channels is a challenge for many large and complex banks. Upgrading branch staff to provide advice and 'customer experience' is also a priority.
• Future retail strategies will focus on deposit-gathering, cross-selling to existing clients rather than new client acquisition, and developing systems which enable management to track customer needs and relative profitability.

• In the geographic dimension, as a result of the crisis many retail banks are retreating to their core markets where they have a significant market share. On the other hand, leading banks in dynamic emerging markets such as India and Brazil are positioned to expand in their region.

• CROSS-SELLING OF PRODUCTS: Banks have an added advantage of having a wide network of branches, which gives them an opportunity to sell third-party products through these branches.

• 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.

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