

INDIAN BANKING ON RETAIL

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Abstract : Retail banking means banking in which banking institutions undertake transactions directly with consumers, rather than corporations or other banks. Services offered include: savings and transactional accounts, mortgages, personal loans, debit cards, credit cards, and so forth. Retail lending is a part of retail banking which is conceptually similar in characteristics. This paper highlights on measurement for expanding retail banking in globalised era.

Keywords: Retail Banking, Globalization, Benefits, Limitations And Future Prospects

1 INTRODUCTION

To keep in pace with the ever changing customer needs and preferences, banking sector is undergoing a rapid revolution in the recent past. New financial products are being innovated day by day. The bankers being aware of the fact that the plain vanilla products cannot satisfy the demanding customers. Several creamy layers have developed. One such nourishing layer is the introduction of retail banking services. Retail banking segment is continuously undergoing innovations, product re-engineering, adjustments and alignments.

With a jump in the Indian economy from a manufacturing sector, that never really took off, to a nascent service sector, Banking as a whole is undergoing a change. A larger option for the consumer is getting translated into a larger demand for financial products and customization of services is fast becoming the norm than a competitive advantage. With the Retail banking sector expected to grow at a rate of 30% [Chanda Kochhar, ED, ICICI Bank] players are focusing more and more on the Retail and are waking up to the potential of this sector of banking. At the same time, the banking sector as a whole is seeing structural changes in regulatory frameworks and securitization and stringent NPA norms expected to be in place by 2004 means the faster one adapts to these changing dynamics, the faster is one expected to gain the advantage. In this article, we try to study the reasons behind the euphemism regarding the Retail-focus of the Indian banks and try to assess how much of it is worth the attention that it is attracting.

1.RETAIL BANKING – ESSENCE AND LATITUDE:

Retail banking is made available by commercial banks, as well as smaller community banks. Retail banking is typical mass-market banking where individual customers use local branches of larger commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit cards, credit cards and so forth. Retail banking is that part of bank's operations providing services at its branches for small account holders. In short, retail banking is the banking services for individual customers. The term 'Retail Banking' encompasses various financial products viz., different types of deposit accounts, housing, consumer, auto and other types of loan accounts, demat facilities, insurance, mutual funds, Credit and Debit Cards, ATM and other technology-based services, stock-broking, payment of utility bills, reservation of railway tickets, etc., catering to diverse customer groups, offering a host of financial services, mostly to individuals. It takes care of the diverse banking needs of an individual. Retail banking can be

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outlined as, the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet with fixed, current / savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the assets side.

✍ 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 corporates.

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.

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✍ 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.

2WHAT LURES THE BANKS TO RETAIL BANKING?

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.

3POTENTIAL FOR RETAIL IN INDIA: IS SKY THE LIMIT?

The Indian players are bullish on the Retail business and this is not totally unfounded. There are two main reasons behind this. Firstly, it is now undeniable that the face of the Indian consumer is changing. This is reflected in a change in the urban household income pattern. The direct fallout of such a change will be the consumption patterns and hence the banking habits of Indians, which will now be skewed towards Retail products. At the same time, India compares pretty poorly with the other economies of the world that are now becoming comparable in terms of spending patterns with the opening up of our economy. For instance, while the total outstanding Retail loans in Taiwan is around 41% of GDP, the figure in India stands at less than 5%. The comparison with the West is even more staggering. Another comparison that is natural when comparing Retail sectors is the use of credit cards. Here also, the potential lies in the fact that of all the consumer expenditure in India in 2001, less than 1% was through plastic, the corresponding US figure standing at 18%.

4BUT HOW COMPETITIVE ARE THE PLAYERS?

The fact that the statistics reveal a huge potential also brings with it a threat that is true for any sector of a country that is opening up. Just how competitive are our banks? Is the threat of getting drubbed by foreign competition real? To analyze this, one needs to get into the shoes of the foreign banks. In other words, how do they see us? Are we good takeover targets?

Going by international standards, a large portion of the Indian population is simply not "bankable" – taking profitability into consideration. On the other hand, the financial services market is highly over-leveraged in India. Competition is fierce, particularly from local private banks such as HDFC and ICICI, in the business of home, car and consumer loans. There, precisely lie the pitfalls of such explosive growth. All banks are targeting the fluffiest segment i.e. the upwardly mobile urban salaried class. Although the players are spreading their operations into segments like self-employed and the semi-urban rich, it is an open secret that the big city Indian yuppies form the most profitable segment. Over-dependence on this segment is

bound to bring in inflexibility in the business.

5 CHALLENGES TO RETAIL BANKING IN INDIA:

If all challenges shown below 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 sector.

✎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.

✎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.

✎Banks are expected to take utmost care to retain the ongoing trust of the public.

✎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 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.

✎The efficiency of operations would provide the competitive edge for the success in retail banking in coming years.

✎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.

✎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.

6 SO ALL FOR THE KEEPING THEN?

This will perhaps be the most wrongful inference that can be drawn from the above. We just cannot afford to look inwards and repeat the mistakes that were the side effects of the Nationalization of the Banking System. A growing market can never be an alibi for lack of innovation. Indian banks have shown little or no interest in innovative tailor-made products. They have often tried to copy process designs that have been tested, albeit successfully, in the West. Each economic culture has its own traits and one who successfully adapts those to the business is the eventual winner. A case in point is the successful implementation of micro-credit networks in Bangladesh. Positioning a bank as a tech-savvy financial vendor in a country where Internet penetration is an abysmal 1.65% can only add to the over-leveraging as pointed out earlier. The focus of the sector should remain in macroeconomic wealth creation and not increasing the per capita indebtedness that will do little but add to the NPA burden. 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!

7 MAJOR FINDINGS:

With recession departing away from away global economy, opportunities are slowly emerging in emerging markets. Since emerging markets, except China, were less depending upon US for growth; are first to come out of recession eclipse. Growth opportunities in banking, especially retail segment is set to witness fast growth due to high consumption. The higher growth of retail lending in emerging economies is attributable to fast growth of personal wealth, favorable demographic profile, rapid development in information technology, the conducive macro-economic environment, financial market reforms, and several micro-level supply side factors.

The retail banking strategies of banks are undergoing major transformation, as banks adopt a mix of strategies like organic growth, acquisitions and alliances. This has resulted in a paradigm shift in the marketing strategies of the banks. Public Sector Banks players are adopting aggressive strategies, leveraging their rural branch network and their customer base to earn a larger share of the retail pie. Banks are also going in for innovative strategies like cross selling, packaged selling of retail products and technology based banking. At the same time, new foreign players are also entering this high growth sector

8 CONCLUSIONS:

Retail banking is the fastest growing sector of the banking industry with the key success by attending directly the needs of the end customers is having glorious future in coming years. Retail banking sector as a whole is facing a lot of competition ever since financial sector reforms were started in the country.

Walk-in business is a thing of past and banks are now on their toes to capture business. Banks therefore, are now competing for increasing their retail business. There is a need for constant innovation in retail banking. This requires product development and differentiation, micro-planning, marketing, prudent pricing, customization, technological up gradation, 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 customer 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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