



# INDIAN RETAIL BANKING INDUSTRY: OPPORTUNITIES & CHALLENGES

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## ABSTRACT

Banks play an essential role in spearheading the economic development of the nation and are the main motivational factor of the economic progress. The highly synchronized and directed banking system has transformed itself into one characterized by openness, competition and discretion. This development conforms to the liberalization and globalization needs of the Indian economy. As plodding up gradation of skills and technology and restructuring and re-engineering processes are attempted by both foreign and private sector banks, public sector banks in India face new challenges. The need and want to become highly customer driven has forced the slow-moving public sector banks to accept a fast track approach. The unleashing of products and services through the net has attracted players at all levels of the banking and financial institutions market framework to look new at their existing portfolio offering. Further, due to spotlight to global trends after information explosion led by internet, customers demand superior services from their banks. There is change from mass banking products to class banking with an introduction of value added and personalized products. Banks, privately owned or in the public sector have all jumped into retail band wagon. The agile footed novel age group private sector banks have taken a guide on this front and the public sector banks are trying to play catch up. In this context, an effort is made in this paper to

determine the extent of the customer's awareness and their level of satisfaction regarding retail banking. The study concludes that while retail banking offers extraordinary opportunities for growth, the challenges are equally frightening. How far the retail banking is able to lead growth of the banking industry in future would depend upon the capability building of the banks to meet up the challenges and make use of the opportunities profitably.

**KEYWORDS:** Financial Inclusion, Financial Products, Innovation, Mechanization, Urbanization.

## INTRODUCTION

Indian banking industry during the course of its evolution and growth has oblique through innumerable twists and turns. The industry has emerged triumphant against all chances by its complete strength. It has braved many challenges, battered many a storm and withstood many onslaughts and has emerged as one of the vibrant and energetic industries. The covert of its success lies in its ability to adopt changes in the most commendable manner. Like an oscillating pendulum, the industry has witnessed extremely opposite and diverse conditions over the years. Banking industry has embraced a retail culture; of late it is nothing but yet another proof of its adaptability and tenacity. Banks, irrespective of their size, have been progressively more focusing on retail segment for mutually resource mobilization and lending.

## RETAIL BANKING

Retail Banking is a banking service that is geared primarily towards individual consumers. Retail banking is usually made available by commercial banks, as well as smaller community banks. Retail banking is unique mass-market banking where individual customers make use of local branches of larger commercial banks. 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, ATMs and other technology-based services, stock-broking, payment of utility bills, reservation of railway tickets, etc.,. It caters to diverse customer groups and offers a host of financial services, mostly to individuals. It takes care of the diverse banking needs of an individual. Retail banking is a system of providing soft loans to the general public like family loans, house loans, personal loans, loans against property, car loans, auto loans etc. The products are backed by world-class service standards and delivered to the customers through the growing branch network, as well as through alternative delivery channels like ATMs, Phone Banking, Net Banking and Mobile Banking. Customers and small businesses get benefited from increased credit access, speedy and objective credit decisions whereas lenders get benefited from increased consistency and compliance. Today's retail banking sector is characterized by three basic characteristics:

- ❖ Multiple products (deposits, credit cards, insurance, investments and securities);
- ❖ Multiple channels of distribution (call centre, branch, Internet and kiosk); and
- ❖ Multiple customer groups (consumer, small business, and corporate).

The objective of retail banking is to provide customers a full range of financial products and banking services, give the customers a one-stop window for all their banking requirements. Retail banking segment is continuously undergoing

innovations, product re-engineering, adjustments and alignments.

## OBJECTIVES OF THE STUDY

The main objectives of the study are:

1. To identify various drivers of retail business in India.
2. To highlight the competition prevailing in retail banking services in India
3. To highlight various challenges & opportunities to retail banking in India.

## DRIVERS OF RETAIL BUSINESS IN INDIA:

The Indian players are bullish on the retail business and this is not totally unsubstantiated. As the face of the Indian consumer is shifting, that is reflected in a change in the urban household income pattern, the direct fallout of such change is on the consumption pattern and hence on the banking habits of Indians, which is now tilted towards retail products. Following changing consumer demographics have led to the need for growth of retail banking activities in India.

❖ **INCREASINGLY AFFLUENT AND BULGING MIDDLE CLASS:** About 320 million people will be added in the middle-income group in a period of 15 years approximately.

❖ **YOUNGEST POPULATION IN THE WORLD:** Changing consumer demographics indicate vast potential for growth in consumption both qualitatively and quantitatively, due to increasing affluent with bulging middle class and youngest people in the world. 70% of Indian population is below 35 years of age which means that there is tremendous opportunity of 130 million people being added to working 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:** Due to increase in the literacy ratio, people have developed a experience for latest technology and variety of products and services. It will

lead to larger demand for retail activities specially retail banking activities.

- ❖ **HIGHER ADAPTABILITY TO TECHNOLOGY:** 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 card, ATMs, direct debits and phone banking have contributed to the growth of retail banking in India.
- ❖ **CONTINUING TREND IN URBANIZATION:** Urbanization of Indian population is also an important feature influencing the retail banking.
- ❖ **INCREASING CONSUMPTION MINDSET OF INDIANS:** Economic prosperity and the consequent increase in purchasing power have given a fillip to a consumer boom. During the 10 years after 1997, India's economy grew at an average rate of 6.8 percent and continues to grow at the almost the same rate – not many countries in the world match this performance. It means that Indian consumers are now shifting from the tendency of buying more and better quality to new services and products.
- ❖ **DECLINING TREASURY INCOME OF THE BANKS:** 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 truth that retail's share in impaired assets is far lesser than the overall bank loans and advances, retail loans have put relatively less provisioning load on banks apart from diversifying their income streams.

- ❖ **DECLINE IN INTEREST RATES:** Finally, decline in interest rates has also contributed to the growth of retail credit by generating the demand for such credit.

### COMPETITION IN RETAIL BANKING

The access of new generation private sector banks has altered the entire situation. Former the household savings went into banks and the banks lent out money to corporate. Now they require selling banking. The retail segment, which was earlier unnoticed, is now the most vital of the lot, with the banks jumping over one another to give out loans. The consumer has never been so lucky with so many banks contributing so many products to choose from. With supply far greater than demand it has been a race to the bottom, with the banks undercutting one another. A lot of foreign banks have previously scalded their fingers in the retail game and have now decided to get out of a few retail segments completely.

### OPPORTUNITIES AND CHALLENGES OF RETAIL BANKING IN INDIA

As the growth story gets unfolded in India, retail banking is going to emerge astonishingly. Kearney, a global management consulting firm, in recent times identified India as the second most attractive retail destination of 40 emergent markets. The rise of the Indian middle class is an important contributory factor in this regard. The percentage of middle to high income Indian households is expected to continue rising. The younger population not only increase the purchasing power, but as far as acquiring individual debt is concerned, they are perhaps more contented than previous generations. Civilizing consumer purchasing power, tied with more liberal attitudes toward personal debt, is contributing to India's retail banking segment. The mixture of the above factors promises substantial growth in the retail sector, which at present is in the budding stage. Due to bundling of services and delivery channels, the areas of probable disputes of interest tend to increase in worldwide banks and financial conglomerates. Some of the key policy issues pertinent to the retail banking sector are: consumer protection, financial capability, regulation financial inclusion, responsible lending, and access to finance, long-term savings

and financial crime prevention.

### **CHALLENGES OF RETAIL BANKING FOR THE INDUSTRY AND ITS STAKEHOLDERS**

Retention of customers is going to be a major challenge. According to a research by Reichheld and Sasser in the Harvard Business Review (HBR), 6 per cent increase in customer withholding shall increase profitability by 37 per cent in banking business, 52 per cent in insurance and brokerage, and 127 percent in the consumer credit card market. Thus, banks need to emphasise retaining customers and increasing market share.

Rising indebtedness could turn out to be a cause for concern in the future. India's position, of course, is not comparable to that of the developed world where household debt as a proportion of disposable income is much higher. Such a scenario creates high uncertainty. Expressing concerns about the high growth witnessed in the consumer credit segments the Reserve Bank has, as a temporary measure, put in place risk containment measures and increased the risk weight from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards (Mid-term Review of Annual Policy, 2004-05).

Information technology poses both opportunities and challenges. In spite of availing the services of ATMs and Internet Banking, many consumers still prefer the personal touch of their neighborhood branch bank. Technology has made it achievable to deliver services throughout the branch bank network, providing immediate updates to checking accounts and rapid movement of money for stock transfers. 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. Illustratively, verifying that all bank products and services are available, at all times, and across the whole organization is

vital for today's retail banks to create revenues and remain competitive. Besides, there are network management challenges, whereby keeping these complex, distributed networks and applications operating correctly in support of business objectives becomes vital. Definite challenges include ensuring that account transaction applications run efficiently between the branch offices and data centres.

Know Your Customer issues and money laundering risks in retail banking is however another important concern. Retail lending is often regarded as a low risk area for money laundering because of the perception of the sums involved. However, competition for clients may also lead to KYC procedures being waived in the bid for new business. Banks must also consider seriously the type of identification documents they will accept and other processes to be completed.

The most significant challenge is to devise appropriate pricing mechanism. The industry today is witnessing a price war, with each bank competing to have a large slice of the cake of the market, without much of a scientific study into the cost of funds involved, margins etc.,. Most of the banks that use rating models for determining the health of the retail portfolio do not use them for pricing the products. This issue will be gaining more importance in the near future.

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, the kind of technology used and the efficiency of operations would provide the much needed competitive edge for success in retail banking sector.

### **SUGGESTIONS TO EXPAND THE INDIAN RETAIL MARKET**

1. To enlist the "unbanked" segment of the society by the service providers is a method to expand the retail market. It is this underserved segment should become the focus for the banks.

2. Rural Credit or Agricultural Credit is a segment to be explored. It can be considered as an unbanked segment. It has always been looked upon as a charitable activity rather than a profitable activity.
3. Now, the time has come for the customer to demand a product that is not currently available in the Bankers kitty and the Bank has to literally create customer-specific products. Banker is expected to assume the role of a Financial Engineer.
4. Banks should lower the minimum deposit requirement for opening new accounts as announced by RBI. To reach better financial inclusion, all banks require to make existing a basic banking no frills account either with nil or very small minimum balances as well as charges that would make such accounts reachable to cosmic sections of population.
5. Banks should allow the earlier facilities to sink into the culture of the customers before any new facilities are launched. Also, the earlier facilities should be embedded with services so that customers not only appreciate new technology, but are also in a position to operate.
6. For the efficient management of a large and diverse retail portfolio, the most important pre-requisite is the skilled and well-versed employees. Only experienced man power can withstand the rigour of administering a diverse and complex retail credit portfolio.
7. The benefits following out of cross-selling and up-selling will remain a far cry in the absence of robust data warehouse where from meaningful data about customers, their preferences, their spending patterns, etc, can be mined. Data warehouse is vital for success in retail banking.
8. A fullfledged marketing department/division would help in evolving a brand strategy, address the issue of alienation from the upwardly mobile, high net worth customer group and improve the recall value of the institution and its products by arresting the trend of getting receded from public memory.
9. It is time to break the myth that public sector banks are not customer friendly. Banks should follow customer friendly approach to enhance the marketing of their retail banking products. Banks should deliver the products and services rapidly in a dynamic market.
10. Banks should leverage effectively on multiple delivery channels (internet, ATMs etc) to reduce the cost of operations. Banks should ensure innovative products to suit the needs and requirements of different types of customers. With the effective usage of the cell phone technology, coupled with web developments, service providers can innovate and offer rich, user-friendly mobile banking applications.
11. Simplified processes and alignment around delivery of customer service impinging on reduced customer touch-points are of essence to enhance the sale of retail banking products.
12. Banks should build collaborative relationships to convert bank branches into financial supermarkets.
13. There is a need for constant innovation in retail banking. In bracing for tomorrow, 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.

## CONCLUSION

With much scope in the avenues for operations, the true challenge for the banks in the current scenario is to stand out in the midst of hard-hitting regulations of the apex body. Globalization, consolidation and want of expertise are drastically redefining the banking taxonomy. Thus the participants, be it a Indian financial player or a foreign entrant in the retail sector have to adopt a

different approach in everything viz., products, services to hold the Indian market share, as a popular saying goes as variety is the spice of life.

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