

RETAIL IN BANKING SECTOR-INDIAN PROSPECTIVE

MEENAKSHI RANGA

M. Com. S.L.E.T.

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ABSTRACT: *Banking system plays an indispensable role in spearheading the economic development of a nation and is the main motivational factor of economic growth. This development conforms to the liberalization and globalization needs of economy. As plodding up gradation of skills, technology and restructuring 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 system has forced the slow-moving public sector banks to accept a fast track approach in India.*

SUMMARY- *Banks, privately owned or in the public sector have all jumped into the retail bandwagon. In this context, an effort is made to determine the extent of customer's awareness and their level of satisfaction regarding retail banking in Indian prospective. Study concludes that while retail banking offers extraordinary opportunities for growth, the challenges are equally frightening.*

Key Words: *Retail Banking, Opportunities Challenges, Information Technology*

Introduction

Indian banking industry during 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 defied 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. There is a change from mass banking products to class banking with an introduction of value-added and personalized products. The banking industry has witnessed extremely opposite and diverse conditions over the past years and embraced a retail culture. Banks, irrespective of their size, have been progressively more focusing on the retail segment for mutually resource mobilization and lending money.

RETAIL BANKING

Retail Banking could be a banking service that's back-gearred primarily towards individual customers. Retail banking is unique mass-market banking where individual customers make use of local branches of larger commercial banks. Retail banking is sometimes created accessible by industrial banks, as well as smaller community banks. The term Retail Banking encompasses varied financial merchandise viz., different types of deposit accounts, housing, consumer, auto and other types of loan accounts, demat account 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. Retail banking is a system of providing soft loans to the public like family loans, house loans, personal loans, loans against property, car loans, auto loans, etc. The merchandise area unit backed by best service standards and delivered to the purchasers through the growing branch network, as well as through alternative delivery channels like ATMs, Phone Banking, Net Banking and Mobile Banking. Customers get benefited from accumulated credit access, speedy and objective credit decisions, whereas lenders get benefited from increased consistency and compliance.

Banks' activities may be classified into-

- (i) Retail Banking- dealing directly with individuals;
- (ii) Business Banking- providing services to mid-size business;
- (iii) Corporate Banking- dealing with large business entities;
- (iv) Private Banking- providing wealth management services to high web value Individuals;
- (v) Investment Banking-relates to helping customers raise funds in the Capital Markets and advising on mergers and acquisitions.

Banks area unit currently moving towards Universal Banking, which is a combination of commercial banking, investment banking and various other activities including insurance. Technology has converted strategic transformation in the banking sector. In this context the retail banking sector can be characterized

by three basic features:

- I. Multiple merchandises (deposits, credit cards, insurance, investments, and securities);
- II. Multiple channels of distribution (call center, branch, Internet, and kiosk); and
- III. Multiple shopper groups (consumer, small business, and corporate).

OBJECTIVES OF THE STUDY

The objective of retail banking is to supply customers a full vary of financial merchandise and banking services, provide the purchasers a one-stop window for all their banking needs. Retail banking section is unceasingly undergoing innovations, product re-engineering, adjustments, and alignments. The objectives of the study can be classified as-

1. To identify varied drivers of retail business in India
2. To know the competition prevailing in retail banking services
3. To find the various challenges & opportunities for retail banking

1. 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. 1.1 INCREASINGLY AFFLUENT AND BULGING MIDDLE CLASS: About 320 million folks are extra within the middle financial gain cluster in an excessive amount of fifteen years around, which has given a boost to the retail banking system.

1.2 YOUNGEST POPULATION IN THE WORLD:

Changing consumer demographics indicate the vast potential for growth in consumption both qualitatively and quantitatively, due to increasing affluent with the bulging middle class and youngest people in the world. 70% of Indian population is below thirty-five years more matured which suggests that there's a tremendous chance of a hundred thirty million folks being extra to the operating 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 the Indian banking system

1.3 INCREASING LITERACY LEVELS:

Due to the increase in the literacy ratio, people have developed an experience for the latest technology and a variety of products and services. It will lead to a larger demand for retail activities especially retail banking activities.

1.4 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 with reference to the increasing use of credit / open-end credit, ATMs, direct debits, and phone banking have contributed to the growth of retail banking in India.

1.5 CONTINUING TREND IN URBANIZATION:

Urbanization of Indian population is additionally a very important feature influencing the retail banking.

1.6 INCREASING CONSUMPTION OUTLOOK OF INDIANS:

Economic prosperity and the ensuant increase in getting power have given a bonus to a shopper boom. India's economy grew at an average rate of 6.8 percent and continues to grow at almost the same rate as few countries in the world match this performance. It implies that Indian shoppers square measure currently shifting from the tendency of shopping for a lot of and higher quality to new services and merchandise.

1.7 DECLINING TREASURY FINANCIAL GAIN OF THE BANKS:

The Treasury financial gain 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 situation, the 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.

1.8 DECLINE IN INTEREST RATES:

Finally, a decline in interest rates has also contributed to the growth of retail credit by generating the demand for such credit.

2. COMPTITION 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.

3. OPPORTUNITIES AND CHALLENGES OF RETAIL BANKING

As the growth story gets unpeated 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 social class is a very important contributing consider this regard. The percentage of middle to high financial gain Indian households is predicted 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 client getting 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 the 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 BUSINESS AND ITS STAKEHOLDERS-

Retention of shoppers goes to be a serious challenge. According to analysis by *Reichheld and Sasser* within the Harvard Business Review (HBR), 6 % increase in customer withholding shall increase profitability by 37 % in the banking business, 52 % in insurance and brokerage, and 127 % in the consumer credit card market. Thus, banks must be compelled to emphasize holding customers and increasing market share. India's position, of course, isn't such as that of the developed world where house debt as a proportion of income is far higher. Expressing issues concerning the high growth witnessed within the bank line segments the depository financial institution has, as a temporary measure, put in place risk containment measures and increased the risk weight from 100 percent to 125 percent in the case of consumer credit including personal loans and credit cards (Mid-term Review of Annual Policy, 2004-05).

INFORMATION TECHNOLOGY AND RETAIL BANKING-

Information technology poses both opportunities and challenges. Despite availing the services of ATMs and Internet Banking, many consumers still prefer the personal touch of their neighborhood branch bank. Technology has created it doable to deliver services throughout the branch bank network, providing immediate updates to checking accounts and fast movement of cash for stock transfers. However, this dependency on the network has brought the taxation 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, always and across the whole organization is vital for today's retails banks to create revenues and remain competitive. Besides, there are a unit 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 centers. Know Your Customer (KYC) issues and money laundering risks in retail banking is however another important concern. Retail loaning is usually considered an occasional risk space for concealment owing to the perception of the sums concerned. However, competition for shoppers can also result in KYC procedures being waived within the bid for brand new business. Banks should conjointly contemplate seriously the kind of identification documents they'll settle for an alternative process to be completed. The most significant challenge is to devise appropriate pricing mechanism. The trade these days is witnessing a price-cutting war, with each bank competing to have a large slice of the cake of the market, without much of a scientific study into the value of funds concerned, margins, etc. Most of the banks that use rating models for determinant the health of the retail portfolio doesn't use them for rating the product. This issue will be gaining more importance in the future. While retail banking offers extraordinary opportunities for growth, the challenges are equally daunting. How the retail banking can guide the growth of the banking system in the future would rely upon the capacity building of the banks to satisfy the challenges and make use of the opportunities profitably. However, the type of technology used and the potency of operations would supply the abundant required competitive edge for fulfillment in the retail banking sector.

SUGGESTIONS TO EXPAND THE INDIAN RETAIL MARKET

To expand the retail in banking business and market in India the following suggestion may not be conclusive but can play a vital role in the retail banking segment.

1. To enlist the “unbanked” section of the society by the service suppliers could be a technique to expand the retail market. It is this underserved section ought to become the focus for the banks.
2. Rural Credit or Agricultural Credit may be a section 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 returned for the client to demand a product that's not presently offered within the Bankers kitty and the Bank must virtually produce the customer-specific product. The banker is expected to assume the role of a Financial Engineer.
4. Banks ought to lower the minimum deposit demand for gap new accounts as declared by run batted in. To reach better financial insertion, 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 the population.
5. Banks ought to enable the sooner facilities to sink into the culture of the shoppers before any new facilities area unit launched. Also, the sooner facilities ought to be embedded with services in order that customers not solely appreciate new technology, but are also able to operate.
6. For the economic management of an oversized and various retail portfolio, the most important pre-requisite is the skilled and well-versed employees. Only experienced manpower can withstand the rigor 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. A data warehouse is important for fulfillment in retail banking.
8. A full-fledged promoting department/division would facilitate in evolving a whole strategy, address the matter of alienation from the upwards mobile, high internet price client cluster and improve the recall value of the establishment and its product by impressive the trend of obtaining receded from public memory.
9. it's time to interrupt the parable that public sector banks aren't client friendly. Banks ought to follow a client-friendly approach to boost the promoting of their retail banking product. Banks ought to deliver the product and services apace in an exceedingly dynamic market.
10. Banks ought to leverage effectively on multiple delivery channels (internet, ATMs, etc.) to reduce the cost of operations. Banks ought to guarantee innovative product to suit the requirements of various varieties of customers. With the effective usage of 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 the delivery of client service happening on reduced client touch-points area unit of the essence to boost the sale of retail banking product.
12. There is a requirement for constant innovation in retail banking. In bracing for tomorrow, a paradigm shifts 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 currently ought 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 during hard-hitting regulations of the apex body. Globalization, consolidation, and wish of experience are drastically redefining the banking taxonomy. Thus, the participants, be it an Indian monetary player or a distant entrant within the retail sector should adopt a distinct 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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