

Retail Banking In India Challenges And Opportunities



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Introduction

A sound and evolved banking system is essential for sustained economic development. India is one of the fastest growing economies after financial and banking sector reforms since 1991. Banking sector evolution and growth has gone through innumerable twists and turns in the post independence era. Retail banking in the banking industry has always been important in India where banks were nationalized with the objective of reaching the masses. However, the growth in retail banking has been quite prominent retail in the recent years. Retail banking has been facilitated by growth in banking technology and automation of the banking process. Technological development has been hugely responsible for the rapid growth and spread of retail banking. There is also an expansion in the nature and products offered under retail banking. Retail banking has vast opportunity as well as challenges in a growing economy like India. A.T. Kearney, a global management-consulting firm, recently identifies India as the second most attractive retail destination of 30 emergent markets. As the growth story gets unfolded in India, retail banking is going to emerge a major driver. The major policy issues relevant to retail banking are financial capability, consumer protection, regulation and responsible lending.

In this paper, our basic aim is to focus on the following aspects: -

- * To study the retail banking scenario in India.
- * To study the various challenges and opportunities of retail banking in India.
- * To suggest certain measures for the future growth of retail banking in India.

In order to achieve the above objectives, the present study is based on the secondary data relating to the retail banking. The paper contains three Sections. Section-I explains the concept and scenario of retail banking in India. The challenges and opportunities of retail banking in India are covered in Section-II. The suggestions and conclusion are incorporated in Section-III.

Retail Banking-indian Scenario

Retail banking is the innovation of the 21st Century. India has experienced a rapid growth in retail

banking Retail banking is a banking service that is geared primarily toward individual customer It focuses strictly on consumer markets. Retail banking is a mass-market banking where individual customers use local branches of larger commercial banks. The services offered by retail banking includes saving and checking accounts, mortgages, personal loans, debit cards, credit cards etc. It takes care of the diverse banking needs of an individual customer. It provides banking products and services to individuals. Retail banking contains feature like multiple products, channels and customer groups. Most of the Indian banks have been retail banks in their business composition. Retail banking in India is growing and the same expected in the future. The various reasons for the growth of retail banking in India are:

- * Technology.
- * Introduction Private and foreign banks.
- * Increased competition.
- * Innovation in banking products and services.
- * Economic growth.
- * Deregulation of interest rates.
- * Consumerism.
- * Changes in life style of working/middle class.
- * Focus on productivity and profitability.
- * Drive towards low NPAs.
- * Changing consumer demographics.

Retail banking segment in the banking industry is continuously undergoing innovations, product reengineering, adjustments and alignments. Indian retail banking segment includes:

- * Cards- credit, debit and ATM.
- * Housing loans.
- * Personal loans
- * Consumption loans
- * Education loans
- * Vehicle loans.
- * Insurance.
- * Demat services.
- * Online services.

Retail lending is the buzzword in India. Most banks has retail as of around 20% of their total lending portfolio and these \ are growing at an unnatural rate of 30 to 35% per annum, Retail lending has been the key profit driver and spectacular innovation in the banking sector in

recent times. Retail banking used to be synonymous with savings account and fixed deposits with cheque based/deposit slip based transactions. Retail loans were usually restricted to housing loans. This has changed considerably in the last decade, especially in India. The RBI's report on Trend and Progress of India (2003-04) has shown that the retail lending ranges between Rs.20000 to Rs. 100 Lakh, which are generally for the duration of 5-7 years with housing loans granted for H5 years. It reveals some new trends in growth of credit.

There 'is upsurge in retail credit as against corporate advances, which may reveal itself in accumulating NPAs in * banking sector and may accentuate the indebtedness of households in the medium term. However, with several counter-cyclical measures in place and a vigilant central bank, there is little need for alarm, as per Minna Kumar of Sify Finance in his study titled "retail lending takes the lead' in November 2004. Economic growth, which is cited as one of the important propellers of the growth of retail banking in India, is reflected in the income of the households.

Income can be mainly divided into consumption and savings. Both provide fuel to the engine of retail banking. It is now undeniable that the face of the Indian consumer is changing. This is reflected adequately 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. The promise of lower transaction costs increased sales productivity and more convenient service has lured banks into setting up new delivery channels.

The banking organizations are seeking ways to increased automated access to a wider range of products. The technological advancement has led to increase in off-site and on-site delivery channels, which brings new product development speed of transaction processing and reduction in transaction cost like ATM, Telephone banking \ and Internet banking.

ChallengesAnd Oppurtunities

Retail banking in India has vast opportunities and challenges. The rise of the middle class is an important contributory factor in this regard. Improving consumer purchasing power, coupled with more liberal attitudes toward personal debt is contributing to India's retail banking segment. Increase in purchasing power of the younger population would give an immense opportunity. It has been found that younger generation is more comfortable in acquiring debt than the previous generation, thereby improving-purchasing power and liberal attitude towards personal debt, and contributing to India's retail segment. The SEZs will also provide growth opportunity for retail banking. The combination

of these factors promises growth in the retail sector, which at present is in the nascent stage. As retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. The retail banks have to market their products aggressively. The challenge is to design and innovate the financial products which cater to the target segment needs. In future, retail banking scenario will see a huge proliferation of products. This will in turn require devising product which is easy to understand and at the same time meet the financial goals of the customers. The entry of new generation private sector banks has changed the entire scenario. The retail segment, which was earlier ignored, is now the the most important of the lot, with the banks jumping over one another to give out retail loans. With supply far exceeding demand it has been a race to the bottom, with the banks undercutting one another. The nimble footed new generation private sector banks have been losing business to the private sector banks in this segment. PSBs need to figure out the means to generate profitable business from this segment. Another major challenge in retail banking is attraction as well as retention of customers.

In fact, the retention is more difficult in this competitive environment. Customer retention favorably affects the profitability. According to a research by Reich held and Sasser in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business, 50% in insurance and brokerage, and 125% in the consumer credit card market. Thus, banks need to focus on customer retention. Sustainability is another issue, which is becoming increasingly vital with respect to the growth of retail banking in India, due to excessive concentration on the top-line without regard to the quality of growth of the top-line, increasing market share by increasing risk appetite and entering the markets where a bank may not have a competitive advantage.

Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and rapid movement of money. However this dependency on the network has brought IT departments additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. The network challenges includes proper functioning of distributed networks in support of business objectives. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers. Another issue of concern is the rising indebtedness, which could affect the future growth of retail banking. The banks will also have to shore up the image of their brand. A bank has to build its brand

by clearly communicating what it stands for and ensure that the brand image is consistently conveyed to its customers. This would call for seamless integration of all channels to ensure optimum customer satisfaction, regardless of the channel being used. Most of the retail banks are witnessing a tremendous expansion in their customer base. However, on the other hand there is increasing menace of hacking, phishing and farming through which scamsters are creating havoc indulging in cyber crimes on a large scale.

In a service industry the value can be delivered at the moment of interaction with the customers. Banks, in a drive to carry on with tremendous expansion in terms of customer base, need to have requirements of the employees who are well informed about the products as well as have the necessary soft skills to deal and satisfy the customers. It challenges for the bank to upgrade their existing manpower and retention or lock in the best talents for having competitive advantage in terms of human resources.

Conclusion and Suggestions

The conventional scenario of banks is fast changing. Retail banking has gained enormous momentum in the Indian banking sector during last five years. There is vast opportunity as well as challenges for retail banking in India. The changing portfolio of retail banking in India has many dimensions. There is a need of constant innovation in retail banking. Banks need to use retail segment as a growth trigger. There is a notice-

able change in the number and nature of products being tossed up along with the way in which banking services are being offered. Banks requires product development and differentiation, innovation and business process re-engineering, micro planning, marketing, prudent pricing, customization, technological upgradation and cross selling. The competitive advantage in retail banking that would help each bank to reach out and retain the customer. The product differentiation will provide a bank with an edge over competition.

Efforts should be made to ensure customer delight, which is essential in order to retain the customers in the open competitive business. There should be operational transparency while dealing with the customers. CRM must be used to make customer delight. The delivery channels require comprehensive approach to ensure convenience and reliability.

The retail segment can survive only if it is competitive. These challenges demand a well planned and implemented strategy to cope with the changing business environment. These challenges can be converted into opportunities by enhancing the internal capabilities and providing the innovative products and services fulfilling the diverse needs of the customers. The future growth of the retail banking sector would be the outcome of the strategies of today. Given the size advantages, diverse customer base and scope for future expansion, there is need for evolving a systematic approach to retail banking.

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