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Research Article

NEW CHALLENGES OF “RETAIL BANKING” PRACTICES IN INDIA

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ABSTRACT

“Retail banking” is usually 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. 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. The prospects of retail banking system in India are Customer focus, Segment focus, Product focus, Employee focus, Quality service and Quickness in delivery, Introduction of new delivery channels, Detail market research, Business process out-sourcing, Tie-up arrangements, Strong credit assessment Capability, Sound documentation, Regular constant follow-up, Skilled human resource, Technological support Etc., challenges of retailing banking in India are Generation Next segment, Rural segment, Cross selling and up selling, Housing loan has large potential, Brand building, Product innovation and renovation, Educational Loan, IPO Loans, Bancassurance, RBI is repeatedly cautioning banks to exercise due diligence, 'People with right soft skill', PDC management, Consumer credit and fair practices code, Sale of impaired assets, Travel Loan or Holiday loan, “Entrepreneurship development”: unemployment, Women Entrepreneurship, Industrial development Etc., suggestions for effective functioning of retailing banking in India is to enlist the "unbanked" segment of the society by the service providers, create customer-specific products. Banker in the role of a Financial Engineer, minimum deposit requirement for opening new accounts, Allow the earlier facilities to sink into the culture of the customers. It concludes that 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. It is a great challenge for the banks. Managing service quality warrants a perfect understanding of customer need, designing products which customer appreciates, developing and monitoring the process that delivers the service or product, training sales people and measuring customer satisfaction. This is possible only when day-to-day experiences are critically analyzed and products and policies are aligned to market demand.

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INTRODUCTION

Retail banking is increasingly viewed by banks as an attractive market segment with opportunities for growth with profits. The growth in retail banking has been facilitated by growth in banking technology and automation of banking processes to enable extension of reach and rationalisation of costs. ATMs have emerged as an alternative banking channel which facilitates low-cost transactions *vis-a-vis* traditional branches. It also has the advantage of reducing the branch traffic and

enables banks with small networks to offset the traditional disadvantages by increasing their reach and spread. The increased use of ATMs by foreign banks and private sector banks has helped these banks to compete with PSBs by enabling them to expand their reach and to contain costs. The use of ATM technology is quite low in the case of PSBs and the old private sector banks. Given the fact that the PSBs are in the process of rationalisation of staff strength, introduction of ATMs would help facilitate improved customer service by these banks. Some of the factors which inhibit the rapid growth

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of the ATMs are absence of a shared payments network, the high cost of ATM cards and machines and poor telecommunication infrastructure. On the other hand, the financial services market is highly over-leveraged in India. Competition is fierce, Hence the challenge for various banks is to tap the underlying potential of the tapped and specifically the untapped market by developing sophisticated financial behaviour and spreading the scope to all over the country.

Retail banking: Concept

It may also be used to refer to a division of a bank dealing with retail customers and can also be termed as Personal Banking services. "**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 "Retail banking is a banking service that is geared primarily toward individual consumers". "Banking services for individual customers" Retail banking is usually made available by commercial banks, as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking entities provide a wide range of personal banking services, including offering savings and checking accounts, bill paying services, as well as debit and credit cards. Through retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses. Today much of retail banking is streamlined electronically via Automated Teller Machines (ATMs), or through virtual retail banking known as online banking. 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.

Today's retail banking sector is characterized by three basic characteristics like

- Multiple products
- deposits, credit cards, insurance, investments and securities
- Multiple channels of distribution
- call centre, branch, internet
- Multiple customer groups
- consumer, small business, and corporate

Prospects of Retail Banking System in India

Even in India, banks are raising the bar on deposits. Some Banks have even increased the minimum balance in Savings accounts so that they are out of reach of the small man.

Customer Focus: All along, the word "Customer" used to denote any person who is having an account with a branch of a Bank or using the services of a Branch. Now, we are seeing a new, customer is no more a customer of the Branch; he is the customer of the BANK. With the advent of anytime, anywhere anyhow banking the new definition of customer has become relevant. Technology enables the customer to "help himself" through Internet Banking, ATM Banking, Telephone Banking, Online Banking, Mobile Banking, or e-Banking, etc. The concept like Know Your Customer (KYC) reinforced when Reserve Bank of India urged banks to improve customer focus as a strategic initiative for effective management of profitability, risk and customer satisfaction as well as customer delight.

Segment focus: Banks are finding that they too need to segment and target High Net worth Individuals (HNIs) and companies if they have to satisfy the needs of their stakeholders. Therefore, Banks are generally moving towards products that are focused on their targeted end customers. And this target is specifically the high end customers; as they do not find any leverage from the small accounts. But there is a strong trend in terms of consolidation in terms of the business segmentation. The general pattern of the banks is to cater to all segments - from agriculturists to high net worth individual to corporate banking to international banking. An analysis of the current scenario indicates that in future, each bank will decide on its core competency and cater only to selected segment. For example, the Deutsche Bank in India operates only in the corporate banking and it has turned as a market leader in this segment.

Product focus: Banks have been offering various products to satisfy the customers' general need, like fixed amount loans or running Cash Credit / Overdraft accounts or Fixed Deposit or Cumulative Deposit or Recurring Deposit as liability products. The time has come that when the customer demand product that is not currently available in the Banker's kitty and the Bank has to literally create customer-specific product. Here comes the Banker in the role of a Financial Engineer with International Financial Markets as well. RTGS, as a settlement process will minimize settlement risks by settling individual payments in real time in the books of accounts held by the RBI. RTGS will be a mode for large value Inter-Bank settlement, to be widely used, for enhancing risk control measures, for faster and efficient settlement of liabilities for better customer services for the ultimate users in the value chain RTGS would eliminate the time lag between the debit to an account of customer and its corresponding credit to another customer in a different bank. RTGS' requires implementation of a 2 Level Gateway- one at the individual bank level and the other at the RBI level. Significant contribution made by Institute for Development and Research in Banking Technology (IDRBT), Hyderabad in this regard is commendable.

Employee focus

Earlier, there were premises where the branch of a Bank is located and there were three categories of staff to attend to the

customers' viz., supervisory, clerical and sub-ordinate staff. The role of supervisory staff would increase and not in the sense of controlling the staff working with them but in different areas of delivering-competitive services, awareness about productivity, customer focus, competition, grievance/complaint redresses, market surveys, etc among the bank staff has gone up very high. The VRS scheme introduced in the year 2000 by the Banks was to reduce the redundant staff consequent to computerization. It is felt that one more VRS would be needed for the Banks to shed their excess flab and make them fit and trim. Henceforth, the role for clerical staff would have to undergo a sitting under the roof in a branch moving into the field and market various financial services offered by their Bank and attract new customers and retain existing clientele but also retrieve the customers lost to competitors. In a nutshell the trend is towards sophisticated well trained customer orientation.

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. 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.

Quality service and quickness in delivery

As most of the banks are offering retail products of similar nature, the customers can easily switchover to the one, which offers better service at comparatively lower costs. The quality of service that banks offer and the experience that clients have, matter the most. Hence, to retain the customers, banks have to come out with competitive products satisfying the desires of the customers at the click of a button.

Introduction of New delivery channels

Retail customers like to interface with their bank through multiple channels. Therefore, banks should try to give high quality service across all service channels like branches, Internet, ATMs, etc. Tapping of unexploited potential and increasing the volume of business. This will compensate for the thin margins. The Indian retail banking market still remains largely untapped giving a scope for growth to the banks and financial institutions. With changing psyche of Indian consumers, who are now comfortable with the idea of availing loans for their personal needs, banks have tremendous potential lying in this segment. Marketing departments of the banks be geared up and special training be imparted to them so that banks are successful in grabbing more and more of retail business in the market.

Detail market research

Banks may go for detail market research, which will help them in knowing what their competitors are offering to their clients. This will enable them to have an edge over their competitors

and increase their share in retail banking pie by offering better products and services.

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.

Tie-up arrangements

In the present regime of falling interest and stiff competition, banks are aware that it is finally the retail banking which will enable them to hold the head above water. Hence, banks should make all out efforts to boost the retail banking by recognizing the needs of the customers. It is essential that banks would be imaginative in predicting the customers' expectations in the ever-changing tastes and environments. It is the innovative and competitive products coupled with high quality care for clients will only hold the key to success in this area. In short, bankers have to run very fast even to stay where they are now. It is the survival of the fastest now and not only survival of the fittest.

Strong Credit Assessment Capability

Because of large volume good infrastructure is required. If the credit assessment itself is qualitative, than the need for follow up in the future reduces considerably.

Sound Documentation

A latest system for credit documentation is necessary pre-requisite for healthy growth of credit portfolio, as in the case of credit assessment, this will also minimize the need to follow up at future point of time.

Regular Constant Follow- Up

Ideally, follow up for loan repayments should be an ongoing process. It should start from customer enquiry and last till the loan is repaid fully.

Skilled Human Resource

This is one of the most important pre-requisite for the efficient management of large and diverse retail credit portfolio. Only highly skilled and experienced man power can withstand the river of administrating a diverse and complex retail credit portfolio.

Technological Support

This is yet another vital requirement. Retail credit is highly technological intensive in nature, because of large volumes of business, the need to provide instantaneous service to the customer large, faster processing, maintaining database, etc.

Challenges of Retailing Banking In India

"Generation Next" segment: (426 million young Indian between age group of 15-34 years see life and life-style very differently)- This is going to be the target in immediate future. It is currently urban phenomenon but it would not be too long when it will emerge in rural India also. They are tech-savvy and prefer electronic channel. They seek financial information from variety of sources and are very fickle shoppers. Banks will have to leverage technology and develop E-based products

to tap this segment

"Rural segment" is one from where fresh demand of retail loan is being generated. PSBs are in real advantage as they have good network of rural and semi-branches where competition is less and opportunities are more.

Cross selling and up selling: is a very successful way of improving volumes. As a strategy existing customers should be offered products where profit margins are more e.g. offering car loan, furnishing loan etc. to existing housing loan customers. Further based on contribution of the customers to bank, differential-pricing strategies such as discount in interest, as relationship waiver has to be evolved.

Housing loan has large potential -: House today is better affordable through loan. Tax breaks have spurred credit demand. RBI move to cover home loan up to Rs. 20 lakhs under priority sector has made the banks to push harder the home loan product. The SARFAESI Act has increased level of comfort as bank can now go for foreclosure of loan without intervention of court. HDFC who is market leader has clocked 40% growth in 2003-04 whereas the industry is growing by average 41% in past six years. ICICI Bank has clocked disbursement of Rs. 52,457 crores in housing finance during 2012-13. Fresh housing loan disbursed by banks during April 2013 to January 2014 amounted to Rs. 28,743 crores. Rural and Semi-Urban sector is almost untapped. So far PSBs have attracted business by offering low rate of interest. But the situation has now changed. The interest rates are now on rise. To meet competition focus will have to shift on customer's convenience and tailor made products to garner larger share of housing loan pie.

Brand building: "Brand building" for wider reach and product affinity is a strategic tool. Brand in broad term includes all means of identifying a product by way of log, or punch lines or product name. Brands communicate a value proposition to the customer and consequently strategy should be to strengthen the brand with appropriate investment Retail manager should be trained to project brand value (competitive advantage in pricing, less paper work, speedy sanction etc.) to the customers. They should avail of each and every opportunity to explain products features to develop customer brand affinity. Remember that one satisfied customer brings eleven new customers.

Product innovation and renovation- Replication of product is very easy. Retail loan managers will have to be market sensitive and they will have to seize each and every opportunity to redesign a product as per market need or to introduce new one with minimum of time. For this regular interaction of marketing team and corporate planner is essential.

Educational Loan - Loan to students for pursuing based on feed back innovation and renovation is done on regular basis. Remember that first mover will always have advantage over followers. Freebies and add-ons like zero processing fees, free insurance with car or housing loan, no prepayment penalty, concession in interest and charges to loyal customers etc. are other innovative ways to captivate customers. Higher education is fast emerging retail loan segment. As per survey (Economic Times 20.09.2013) as much as 63% students- largely from lower and middle class families-are now funding their

education through loan. Easy availability, collateral free, tax break on loan repayment and inclination to self-finance the study are cited as reasons of the popularity of this product. For banks loan provide the opportunity to catch customer when they are young and that too for the lifetime.

IPO Loan- with capital market at its peak and number of IPOs on line, banks have started aggressively selling IPO loan to retail customers. It is upcoming segment and has immense potential.

Bancassurance offer opportunities of cross selling of retail loan products by bundling with insurance products. Bancassurance has started taking strong roots in our country and there are expectations that average collection through banking channel will rise to 63% in next five years. This product offers vast cross selling opportunity to banks by bundling with their own financial products besides building fee-based income.

RBI is repeatedly cautioning banks to exercise due diligence in appraisal and sanction of retail loans. Instances of resorting to multiple financing by unscrupulous borrowers are very common. Instances of housing loan on the basis of fake documents and impersonation have also been reported. To safe guards from frauds, sanctioning/dispersing officials are required to meticulously follow KYC policies of customer acceptance and identification and other systems of internal control. It is interesting to learn that a PSB has recently unveiled its plan to use credit verification agencies to improve due diligence of retail loans.

'People with right soft skill' is the requirement of retail banking. They should have not only complete knowledge of the products but must have pleasing attitude and genuine concern of customers' problem. Regular training of retail people is essential to make them successful sales person.

PDC management-Banks to take recourse of Section 138 of Negotiable Instrument Act are taking PDC in all retail loans. From timely presentation of cheques to timely and prompt legal action, it is necessary that awareness in legal aspects be created among managers so that provisions of the act are fully harnessed for benefit of the bank. Physical handling of huge volume of cheques is compelling banks to consider alternate like electronic fund transfer(EFT) facility to receive monthly installments'. With amendment in Negotiable Instruments Act, 1882 enabling cheque truncation and E-cheque and with technology taking rapid strides, banks are exploring to substitute paper Techniques with E-cheques to handle large volumes in timely and effective manner.

Consumer credit and fair practices code- With RBI insisting on banks to put in place anti-tying measures, there is growing demand that lender do not resort to unfair trade practices. It is, therefore, essential that interest rate, method of compounding, penal interest, pre-payment penalty, rebate for prompt payment, right of borrowers like copy of loan documents, statement of account, right of privacy i.e. not sharing his personal profile to business associate/other agencies should be explained to prospective customer and bank should put in place a grievance redressal mechanism to sort out problem.

Sale of impaired assets- ARCs deal only with purchase of high value assets. The retail loan portfolio, which consists of

housing and car loan, necessitates setting up of ARCs to deal with impaired assets of retail loans.

Travel Loan or Holiday loan - Banks have now cashing on people's urge spurge on foreign holidays by offering 'Travel loan'. Till now, it was prerogative of few foreign banks, but lately public sector banks have also started granting such loan. Banks are tying up with travel companies to tap potential travellers.

"Entrepreneurship development": unemployment is a one of the social-economic problem in Indian scenario, for generating employment opportunities to the unemployed youth encourage entrepreneurial skills, abilities among them. To focus on this aspect the retail banking sector must create necessary mechanism is mandatory.

Women Entrepreneurship: At present, there is a dominance of women forever in almost all sectors of the economy and are compete with opposite genders. Other side, women is multidimensional role playing character for conducting affairs.

Industrial development: financial ,developmental institutions like SIDBI, IDBI, IFC, ICICI, IIC, IRBI, Nationalised banks, occupies 67% dominant financial market In india.so it is the relevance instrument for developing retail sector.

Suggestions

- 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 that is now becoming the focus for some of the large financial institutions. 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.
- Now, the time has come for the Customer to demand a product that is not currently available in the Banker's kitty and the Bank has to literally create customer-specific products. Here comes the Banker in the role of a Financial Engineer.
- Lowering the minimum deposit requirement for opening new accounts as announced by RBI. To achieve greater financial inclusion, all banks need to make available a basic banking 'no frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population.
- 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.
- With the effective usage of the cell phone technology, coupled with web developments service providers can innovate and offer feature-rich, user-friendly mobile banking applications.

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. In the years to come, customers will be more demanding, competition will be more intense and dealings need to be more transparent. While the delivery is not going to be a major challenge, surely the quality maintenance will be. It is a great challenge for the banks. Managing service quality warrants a perfect understanding of customer need, designing products which customer appreciates, developing and monitoring the process that delivers the service or product, training sales people and measuring customer satisfaction. This is possible only when day-to-day experiences are critically analyzed and products and policies are aligned to market demand.

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