ABSTRACT

Indian banking system is passing through a tough time with the increasing level of stress in balance sheet of almost all the banks. The major contributor to the stressed balance sheet is wholesale credit i.e. corporate credit and this has made a dent in the profitability of the banks thereby losing the confidence of all the stakeholders. However, retail sector has continued its marathon performance towards growth in the top line as well as bottom line of the banks. India is one of the most attractive retail destinations of emergent markets. The rise of the Indian middle class is an important contributory factor in this regard as they are moving from cash to credit concept which promises substantial growth in the retail sector which will decide the future of banking. With the lot of players in the market coupled with increasing use of technology, competition has become severe in the retail space resulting into lot of opportunities for the customers. However it has also thrown lot of challenges and opportunities for the banks which if understood and met properly can result into long lasting benefits not only for the Banking system but for the economy as a whole also.

Keywords: Retail Banking

INTRODUCTION

As we would all agree, the global Financial Crisis has proved to be landmark in the history of finance. The scale of the crisis is unprecedented in the sense that it has affected all the economies of the world in one way or another. The severity of the shock and its after-effects has been of differing magnitude for different pockets of the world. The regulatory reforms are aimed at making the financial sector a more stable arena. The first and foremost of these measure have sought to curb the high risk activities undertaken by the wholesale banking divisions of the banks through structural measure for controlling systemic risk. The crisis also highlighted a heightened need for inclusive growth as a means to ensure financial stability. There was also massive outcry about imprudent market practices and an utter disregard for consumer protection by the banking system prompting moves by several jurisdictions to establish new regulatory/supervisory authorities for specifically looking at customer protection issues. We all must remember that financial sector is viewed as the ‘least-trusted’ industry by the people hence as the main stakeholders it is our bounden duty to aim at restoring the lost credibility of banking profession.

OBJECTIVE OF PAPER

1. To study and analyze the meaning of Retail Banking.
2. To ascertain the challenges being faced by Retail Banking.
3. To recognize the opportunities for the growth of Retail Banking.
4. To analyze how the challenges which are being faced by Retail Banking can be converted to the opportunities.
What Is Retail Banking?

Retail Banking refers to provision of banking products and services offered to individual customers, typically for non-entrepreneurial purpose. Retail banking is usually made available by commercial banks, as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer market. The term Retail Banking encompasses various financial products viz. different types of deposit accounts, housing loan, vehicle loan, consumer loan, mortgage loan and other types of loan accounts, demat facilities, insurance, mutual funds, credit cards, debit cards, ATMs and other technology based services, stock-broking, payment of utility bills, reservation of railway tickets etc. On the liability side, banking has invariably always been ‘retail’ i.e. the banks have raised resources from a large number of retail depositors. In that sense when we talk about retail banking, our focus is on the asset side i.e. lending to the retail segment. Thus, on the whole, retail banking involves offering of products both sides of the balance sheet e.g. fixed, current/saving accounts on the liability side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the asset side. Typically, retail banking caters to diverse banking needs of an individual.

Characteristics of Retail Banking

The product and services under retail banking are supposed to be standardized. In other words, they are “off-the-shelf” products without any customization for individuals. For comparison sake we would equate them to products offered at a branded retail store. At retail stores, we pay for what we see and what is mentioned on the price tag. There is uniformity, transparency and non-discrimination about the products and services offered. Hence, the products offered by retail banks also should have similar characteristics. Further, retail banking products are offered across multiple channels and at multiple places (branch, internet, ATM, telephone). The banks have to aim at delivering these services in most efficient manner. As the retail banking involves reaching out to a group of individuals, the banks also need to have appropriate system, structure, manpower and process on place to deal with the group, group characteristics, and group behavior and group dynamics for the target clientele. Today’s retail banking sector is characterized by three basic characteristics:

- Multiple products (deposit, credit cards, insurance, investment and securities)
- Multiple channels of distribution (call centre, branch, Internet and kiosk) and
- Multiple customer groups (consumers, 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, adjustment and alignments.

Opportunities and Challenges of Retail Banking In India

As the growth story gets unfolded in India, retail banking is going to emerge astonishingly. India is one of the most attractive retail destinations of 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 household is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned; they are more comfortable than the earlier generations. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to India’s retail banking segment. The combination of the above factors promises substantial growth in the retail sector, which at present is in nascent stage. Due to bundling of services and delivery channel, the areas of potential conflicts of interest tend to increase in universal banks and financial conglomerates. The second development that has provided a boost to retail banking aspiration of banks is the availability of enabling technology. Since retail banking has also received a thrust from the regulators/policymakers push for inclusive growth in wake of the global financial crisis. The governments across the world view banks as the key component in furthering the cause of financial inclusion. The last, but not the least of the reasons for growing interest in retail banking is the banks’ quest for new source of revenue and new channel for profit The banks
have realized that the commerce for the poor anywhere in the world is more viable than the commerce for the rich and hence they view the excluded masses as a potential source of profit in the long-run. Commercial banks cannot ignore the adage that the “Future of Banking is Retail Banking.”

**Customer Retention**

Nowadays, people are increasingly seeking solution to their financial needs, and retail banks are the institutions facing these demands in a competitive environment where each financial services provider have understood the need and the benefit of developing long-lasting relationship with their customers. In this context, many banks decided to shift their managerial focus on customers, whose acquisition, development and more importantly, retention could improve the long-term profitability.

According to a research by Reich held and Sasser in the Harvard Business Review, 5 per cent increase in customer retention shall increase profitability by 35 per cent in banking business, 50 per cent in insurance and brokerage and 125 per cent in the consumer credit card market.

But retention of customers is going to be a major challenge. Long time ago, retailers, banks and insurance companies had close relationship with their customers. As they invest in getting to know their customers individually, they attempted to understand their needs and tried to satisfy them through personalized service. Such practice increased the loyalty of the customers and resulted in committed and often inherited relationship between customers and their banks. Soon after realizing that such system was inefficient and costly, the retail banks developed new marketing policies. These were product and transaction oriented, reactionary and focused on discrete rather than continuous activities. The philosophy of a mass market for the financial services was reflected in reduced variety of products and services offered lower prices and an increased use of anonymity.

The benefactors of such changes in the environment of retail banking are the customers, who receive an increased degree of power and control mostly due to tighter competition in the market place. Nowadays, the customers are no longer dependent on a single institution nor are ignorant in dealing with diverse financial issues. In contrast, they actively engage in the search for best deals, and are more and more demanding to be treated as individuals and to be given access to distribution channel from any place and at any time. The ability to satisfy the customer is crucial because some competitors are only a ‘click away’

**Pricing**

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 larger slice of the cake of the market, without much of a scientific study into the cost of funds involved, margin etc. Sometimes banks are forced to reduce their interest rate to compete with the market although the interest rate is not beneficial to the bank. 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.

**KYC / AML Issues**

KYC issues and money laundering risk in retail is yet another important issue. Retail lending is often regarded as a low risk area for money laundering because of the perception of the sums involved. Sometimes due to stiff competition banks waive the KYC procedure to get the new business. Many incidences of money laundering have occurred in recent times in different banks due to non-adherence to KYC compliance. Banks must consider seriously the type of identification documents they will accept and the process to be completed.

**Managing Risk**

The retail banking business involves dealing with a large number of customers who are scattered over different places through varied delivery channels thereby creating significant vulnerabilities across banking system. These vulnerability could be in the form of inadequacy of internal guidelines or non-
adherence by staff, inadequacy in the technology system supplied by vendors, fraudulent practices employed by customers, hackers etc. The banks have developed sufficient safeguards to deal with operational risk event associated with the traditional delivery channel; it is the emergence of the non-traditional delivery channels which are likely to be the pressure points for banks going forward. This is already evident in large number of technology related frauds that have occurred in Indian banks in the past few months.

Managing new information technology

Retail banking has been most impacted by information technology. Information technology poses both opportunities and challenges. Technologies have made it possible to deliver services throughout the bank branch network, providing instant updates and rapid movement of money. However, the dependency on the network has brought IT department’s additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. Further, since the internet is available on a “24by 7 “basis, the banks would have to substantially invest in appropriate technology and ensure the offerings are available round the clock with minimal downtime. While the use of technology – aided delivery channels has grown multifold, so has the scope for fraudulent transaction through impersonations and identity thefts. Banks would also need to quickly put in place latest technology-based solutions to thwart the effort of fraudsters and minimize the customer risks. Besides, there are network management challenges, whereby keeping these complex, distributed networks and applications operating properly in support of business objectives becomes essential.

Way Forward

There is little to differentiate between basic products and services offered by different retail banks. The banks would have to invest a lot in innovation, research and product design so as to keep their product and service offerings relevant to emerging customer needs.

As competition gradually brings down the spreads and the profitability, the banks have to continuously work towards improving their productivity and efficiency so as to maintain the profit .Towards this end, technology would be the key enabler. Technology can assist in all spheres of banking activities-right from planning strategy, processing, delivery, monitoring and follow up.

Across the globe, retail lending has been a spectacular innovation in commercial banking sector in recent years. The growth of retail lending, especially, in emerging economies, is attributed to the rapid advances in information technology, the evolving macroeconomics environment, financial market reform, and several micro-level demand and supply side factors.

The quality of services offered by the banks is going to be another key differentiator.

CONCLUSION

While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. 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 all the players of the financial market 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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