**Retail banking in India: Importance, Challenges and Overcome in Indian Economy**

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**ABSTRACT**

Retail banking refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. The evolution of retail banking in India can be traced back to the entry of foreign banks. Globally the retail banking space had a great growth trajectory and the emergence of the new remote channels has changed the distribution paradigm of banks. Alternate channels have gained prominence to meet the growing customer demands Services offered include savings and transactional accounts, mortgages, personal loans, debit cards, and cards. Today, retail banking is being considered as one of the most innovative financial services provided by the various commercial Public Sector Banks (PSBs), private sector and foreign banks. Retail banking has a huge potential considering the growing demand for its products namely, term deposits, consumer durable loans, auto loans, debit card, credit cards, ATM facilities, insurance, online banking, etc. The growing sector of retail lending has contributed significantly to the development of the economy. Like other developed countries, India too, has a developed retail banking sector which accounts for one-fifth of all banks credit. This article attempts to highlight the importance ,various challenges of retail banking in India.

**Keywords**

Retail banking, public sector bank, Indian economy, deposit product, credit products

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**INTRODUCTION**

In a recent book, retail banking has been described as “hotter than *vindaloo*” (DiVanna *et al* 2004). Considering the fact that *vindaloo*, the Indian-English innovative curry available in umpteen numbers of restaurants of London, is indeed very hot and spicy, it seems that retail banking is perceived to be the in-thing in today’s world of banking. All over the world, there is a shift in the economy from the manufacturing to the service sector. The contribution of banking to the service economy is duly recognized.

 Retail banking as a concept in India has been initiated by PSBs and nurtured by the foreign banks and new generation private sector banks. Retail banking in India has fast emerged as one of the major drivers of the overall banking industry and has witnessed enormous growth in the recent past. The Retail Banking Report encompasses extensive study & analysis of this rapidly growing sector. It primarily covers analysis of the present status, current trends, major issues & challenges in the growth of the retail banking sector. This report helps in Banks, financial institutions, MNC Banks, academicians, consultants and researchers to have a better understanding of the booming opportunities in retail banking in India. Retail banking can be defined as,

“*Retail banking is typically 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”.*

The concept of Retail Banking is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Retail banking and retail lending are often used as synonyms but in fact, the later is just the part of retail banking. In retail banking all the needs of individual customers are taken care of in a well – integrated manner.

**OBJECTIVE**

1. To study of Retail banking.
2. To find the impact of retail banking on Indian economy.
3. To study the various challenges and overcome of retail banking in India
4. **STUDY OF RETAIL BANKING**

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)
* Multiple customer groups (consumer, small business, and corporate)
1. **Multiple Product in retail banking**
* **Deposit products**

The deposit products can be classified into saving deposits, current deposit and term deposits. Saving deposits are offered mainly as a simple product for inculcating the habit of savings and routine the saving transactions in that account. Current Deposits are offered mainly for carrying out business and trade transactions. Term Deposits are offered to the customers as a high interest yielding product for the deposit held with the bank for a definite period with interest depending upon the period of deposit.(Fig:1)

**Fig 1: Types of Deposit product**

* **Credit products**

Home loans, personal loans, auto loans and credit card receivables are some of generic credit schemes. (Fig: 2)

**Fig 2: Types of Credit Product**

* **Credit Cards**

Credit card as a product has a generic name but within the generic concept a number of sub brands which have a different characteristics exit. The following are the main types of cards issued by banks. Credit limits, cash withdrawal limits and other facilities will depend on the type of cards. There are different terms used in credit card operations spelt out by card issuing banks for the various usage patterns. The important terms used in the credit card operations with regard to Fees, Charges and Interest etc. (Fig: 3)

**Fig 3: Types of Credit Cards**

* **Remittance Products**

Remittances are important and integral part of retail banking. Retail electronic and card based payments registered a quantum jump in the past some years mainly due to introduction of RTGS and NEFT.

* **National Electronic Funds Transfer (NEFT)**

**The objects of the NEFT system are**

* To establish an electronic funds transfer system to facilitate an efficient, secure, economical, reliable and expeditious system of funds transfer and clearing in the banking sector throughout India.
* To relieve the stress on the existing paper based funds transfer and clearing system.
* **Real Time Gross Settlement System (RTGS)**

 Real Time Gross Settlement System (RTGS) is a remittance product that has drastically changed the complexion of the remittances scenario in financial services. The volume and the value of transactions through RTGS had more than doubled, though wholesale remittances constitute a major proportion of RTGS transaction.

1. **Multiple channels of distribution**

Multi channel distribution is the practice adopted by almost all banks for total customer experience. Each channel either direct or remote has its plusses and minuses and also depends on the customer segments using the different channels. Direct channels most suitable for conservative customers whereas young generation prefer remote channels. ( Fig: 4)

**Fig 4: Retail banking -delivery channels**

1. **Multiple Customer Group**
* Individual customer
* Small and Medium Enterprises
* HUF, Trust, Societies
1. **IMPACT OF RETAIL BANKING ON INDIAN ECONOMY**
* Retail banking plays an important role in the overall growth dynamics. As per RBI Annual Report 2014-15 nearly 80 per cent of the incremental credit off-take during 2014-15 took place in the second half of the year, reflecting the improving economic environment(RBI Annual Report 2014-15).
* Retail banking has immense opportunities in a growing economy like India. The rise of 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.
* 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.
* In recent years, commercial banks have witnessed development in the form of retail lending, all over the world. The growth in the field of retail lending is primarily because of the speedy advancement in the IT sector, evolving macroeconomic environment, numerous micro level demand and supply side factors and financial market reform. This criterion is based on the market research report on retail banking.
* Retail banking act as an **Engine of economic growth**.Retail banks play a critical role in their **home economies**, and their activities have implications for the **global economy** as well. They offer critical credit functions, which largely fuel the engine of economic growth.
* The higher growth of retail lending in emerging economies can be attributed to the rapid growth of **personal wealth**, favorable **demographic profile**, rapid development in **information technology**, the conducive macroeconomic environment, **financial market** reforms and small micro-level supply side factors. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and **rapid movement of money.**
* Retail banking has brought in a drastic make over in the overall banking scenario in India. The exceptional improvement in the banking system in India is a result of strong initiatives taken up by both the government and private companies.
* Retail Banking has been the new focus of the banking industry across the world. The emergence of new economies and their rapid growth has been the most important contributing factor behind this resurgence in Retail Banking. Changing lifestyles, fast improvement in information technology, other service sectors and increasing levels of income have contributed to the growth of retail banking in countries like India that are developing at a good pace. ( Fig: 5)

**Fig 5: Impact of retail banking on Indian Economy**

1. **CHALLENGES AND ITS OVERCOME**
* **Challenges**
* Though retail banking as a segment has a number of advantages, the segment suffers from challenges also such as problems in managing large numbers of clients’ especially **IT systems** are not sufficiently robust. Rapid evaluation of products can lead to IT complications.
* **The cost** of maintaining branch networks and handling large numbers of low value transactions tend to be relatively high. For this reason banks are encouraging clients to use cheaper distribution channels, such as ATMs, the telephone or internet for these transactions and reserve the branches for higher added value transactions.
* Other challenges include **unsecured retail loans and credit** **card receivables**.
* **Retention of customers** also one of the major challenge of retail banking. According to a research by Reichheld and Sasser in the Harvard Business Review, 5 per cent increase in customer retention can 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. Thus, banks need to emphasize retaining customers and increasing market share.
* **Rising indebtedness** affect retail banking. 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. (Reserve bank of India, Mid-term Review of Annual Policy, 2004-05)
* **Difficulty** in maintaining and optimizing the performance of retail banking networks.
* **KYC** Issues and **money laundering** risks in retail banking 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. 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 Reserve Bank has issued details guidelines on application of KYC norms in November 2004.
* A major challenge to retail banking surfaced in late 2008. Retail banks as well as commercial banks had provided **sub-prime mortgages** to consumers who were not qualified for the size of the loans they received. Although this process generated much of the housing boom of the early 21st century, eventually the loans became too cumbersome for borrowers to pay back. This problem led to loan defaults across the United States and led to many bank failures, not only in the United States but around the world. It produced serious deterioration in the global economy and led to the economic and financial crisis that dominated the political landscape in early 2009 (Dr. R. Srinivasa Rao, 2014).
* The penetration level of retail banking in India is still very low as compared to the other Asian countries like China, Malasia, Thailand etc. Retail banking what’s been good for Indian banks hasn’t been good enough for the country scorching pace of growth since liberalization: CAGR of around 30% to touch a figure of INR 9700 Billion. Bankable households are growing at a CAGR of 28% (2007-11) what’s powering this growth? Economic prosperity and growth rate Young population (70%<35 years).Technology channels: ATM, POS, Web, Mobile Retail loans constitute 7% of our economy versus 35% in other Asian countries.
* Retail assets are at only 25% of total banking assets 41% of India’s adult population is un-banked Number of loan accounts. ( Fig: 6)

**Fig 6: Various Challenges in Retail banking**

* **Overcome**
* Different strategies, market with Unique Selling Propositions, proper positioning and branding strategies can be adopted by banks to improve the profit.
* There is a need of constant innovation in retail banking. This requires product development and differentiation, innovation and business process reengineering, micro-planning, marketing, prudent pricing, customization, technological up gradation, home /electronic / mobile banking, cost reduction and cross-selling.
* According to the Report’s Customer Experience Index, which surveyed over 18,000 bank customers across 35 markets, 10% of retail banking customers is likely to leave their banks in the next six months while an additional 41% say they are unsure if they will stay or go.
* To re-build the customer-bank relationship, the Report finds banks can become more customer-centric more personal interactions.
* ATM machines and Internet Banking, many consumers still prefer the personal touch of their neighborhood branch bank. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and rapid movement of money for stock transfer.
* Retail banking now encompasses not just branches, but also anywhere that banking services can be conveniently provided to consumers. Whether it means a service kiosk in a train station, a mini-branch in a grocery store, a premium branch in a central business district, or a bank-on-wheels that visits corporate workplaces, proximity to targeted customers ultimately matters more than having a traditional bank façade.
* Flexibility and agility will provide a competitive advantage for bank.

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