CHAPTER III

GROWTH OF RETAIL BANKING IN INDIA
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3.1 INTRODUCTION

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 essence of retail banking lies in individual customers. In retail banking, all the banking needs of the individual customers are taken care of in an integrated manner. Retail banking portfolio encompasses deposit and assets linked products as well as other financial services offered to individuals for the personal consumption. This chapter discusses the conceptual exhibit of retail banking in India and its present status with the support of financial data. As such, this chapter is descriptive in nature based on the secondary data collected from the Report on Trend and Progress of Banking in India and other magazines, journals and books.

3.2 RETAIL BANKING – A CONCEPTUAL EXHIBIT

Bankers rarely think of their branches as retail stores. They view them as secured and convenient locations for financial transactions. Whereas best retailers use their stores to woo customers with tailored products, promotions and services that are offered flair and style. They also use them to experiment relentlessly to find new ways of keeping their customers engaged. Banks can learn important lessons from these retailers.

Banking in India has witnessed remarkable changes and development since the onset of the processes of liberalization, globalization and privatization. The challenges ahead for banks have greatly increased with increasing competition and the growing demand for a greater variety and
superior quality of banking services. The growth of the retail banking industry is an area which has generated a lot of interest primarily because of the entry of many private sector banks and foreign banks, resulting in the availability of a wide variety of innovative products and services for the customers.

The customer orientation of the banking sector has significantly increased in recent times. The introduction of a variety of new products and services with an emphasis on quality of service clearly indicates how banks address the issue of customer needs and requirements through a customer centric approach.

Traditionally, banks have tended to focus on transactional efficiency rather than service and sales. If the bank uses a retailer approach to transform its business, it must gain a deep understanding of its customers, use it to build relationship by developing solutions that customer value and constantly test those solutions to ensure that they remain relevant. A great retail bank would use customers to win referral and drive sales. In fact, existing clients represent so much potential that banks must start there when seeking for a change. But to exploit this huge potential, banks must develop a far keener ability to listen to and learn from their customers.

An aspiring banking retailer must observe the five commandments to achieve retail success:

- Keep the mass market offering simple and clear
- Be consistent and respectful in all dealings with customers
- Know and outdo the competition.
• Listen to customers carefully and continually

• Tie compensation to performance measures.

Sales force effectiveness – moving up the middle and managing new prospects. Good sales force offer substantial performance improvement in today’s increasingly complex financial industry. An efficient and quality salesforce allows a financial institution to grow faster than its competitors by maximizing revenue from existing customers and also systematically identifies and manages new prospects as well. To achieve profitability and growth, financial service companies need to deepen their customer relationships, reduce attrition among their existing customers and improve how they identify and secure new customers. Thus, it is the new orientation that requires complete understanding of customer and customer needs. By understanding the needs of the customers, the banker can transform their operations towards customers. The variety of products and services has also made the banking into retail banking.

“Retail banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other entities.”

“Retail banking deals with lending money to consumers. This includes a wide variety of loans, including credit cards, mortgage loans and auto loans, and can also be used to refer to loans taken out at either the prime rate or the subprime rate.”

“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”

“Pure retail banking is generally conceived to be the provision of mass market banking services to private individuals. It has been expanded over the years to include in many cases services provided to small and medium sized businesses. Some banks may also include their private banking business (i.e. services to high net worth individuals) in their definition of retail banking.”

The definitions of retail banking as discussed above bring out the following characteristics:

1. Banking facilities targeted at individual customers.
2. Focused towards mass market segment covering a large population of individuals.
3. Offer different liability, asset and a plethora of service products to the individual customers.
4. The delivery model of retail banking is both physical and virtual i.e. services are extended through branches and also through technology driven electronic off-site delivery channels like ATMs, Internet Banking and Mobile Banking.
5. Extended to small and medium size businesses.

The concept 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.

Retail banking sector is characterized by three basic characteristics:

✓ Multiple products (deposits, credit cards, insurance, investments and securities)

✓ Multiple channels of distribution (call center, branch, internet)

✓ Multiple customer groups (consumer, small business, and corporate).

Retail banking offers considerably better, net interest Margins or spread of 3-4% compared to very thin spread available to banks in case of corporate ranging between 0.5 to 1.5 per cent.

Retail banking is about providing banking services to individuals and join individuals as opposed to wholesale or corporate banking, which focuses on industry and institutional clients. The essence of retail banking lies in individual customers while Retail Banking and Retail Lending are often used synonymously, but as a matter of fact, the latter is just one side of the retail banking. Retail banking products are for depositors in various segments, like children, housewives, salaried class, professional technologists, pensioners etc., and borrowers in various segments like women’s, salaried class, professionals, technologists and traders etc. Due to liberalization, increase in economic activities and enhanced purchasing power of the consumers along with low interest rates on advances have increased the market of retail loans.
3.3 ORIGIN OF RETAIL BANKING

The evolution of retail banking is traced back to the opening of foreign banks in India. The PSBs were generalized banks and there was no specific demarcation as retail and wholesale banking - Foreign banks that started functioning, set the trend and in the later 1970s and early 1980s came out with their consumer banking models with mixed-liability and asset products specifically targeted at the personal segment. Such initial foreign banks were standard and chartered bank, Grindlays bank and Citibanks. Among Indian banks, State Bank of India, Indian Overseas Bank, Bank of India, Bank of Baroda and Andhra Bank developed and marketed asset products and card products to cater to retail segment. The entry of new generation private sector banks in early 1990s created a new approach to retail banking by banks. With the advantage of technology right from start, these banks had a clear positioning for retail banking and created new markets for the retail segment. Public Sector Banks, with technology initiatives and redefined business model for retail had aggressively entered the market space creating a retail war and capture their share of the pie in the liberalized economy. Strong economic fundamentals, growing urban population, higher disposable incomes, rise in young population, emergence of new customer segments and risk in the mass affluent space, explosion of service economy in addition to manufacturing space have widened the scope for retail banking business in India. Of late banks, especially foreign banks and new generation private banks viz. ICICI Bank / HDFC Bank / Axis Bank are seriously looking at the bottom of the
customer pyramid and re-engineering their retail strategies to develop independent and exclusive strategies for this segment. The NBFCs have also started at the ‘Bottom of the Pyramid’ segment.

Retail banking in India during 1999 to 2004 had maintained annual growth rate of 30.5% and this percentage has increased in the last 5 years. The total size of retail banking assets which was $66 bn. in 2005 has reached to $300 bn. in 2010. Even with this higher growth rate retail banking has the potential for growth. The contribution of retail assets to Gross Domestic Product (GDP) in India is 6% as against 15% of China. This indicates the lower level of penetration of retail banking in India and strengthens the strategies of retail bankers.\(^1\)(O.P. Agarwal, (2012), “Fundamentals of Retail banking”, pp No:8,9)

The retail banking portfolio encompasses deposit and asset-linked products as well as other financial services offered to individuals for personal consumption. Retail banking is increasingly viewed by banks as an attractive market segment with opportunities for growth with profits. The products offered in the retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. The loan values could typically range between Rs. 20 thousand and Rs.100 lakh. The loans are generally for the duration of 5 to 7 years with housing loans granted for a longer duration of 15 years. Credit card is another rapidly growing sub-segment of this product group.
The growth in retail banking has been facilitated by growth in banking technology and automation of banking processes to enable extension of reach and nationalization of costs. ATMs have emerged as an alternative banking channel which facilitates low-cost transactions *vis-à-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 nationalization of staff strength, introduction of ATMs would help facilitate improved customer service by these banks. Some of the factors which inhibit the rapid growth of the ATMs are absence of a shared payments network, the high cost of ATM cards and machines and poor telecommunication infrastructure.

To gauge the evolving importance of retail banking, one would ideally examine a single, comprehensive measure of retail banking activity that could be calculated for individual banks and for the industry as a whole. Potential candidates might be the share of revenue or profit derived from retail activities or the share of risk capital allocated to these business units. Both measures are holistic in that they condense the full range of retail activities—both those that generate balance-sheet positions and those that do not—into a single measure that is comparable across business lines in the firm. Unfortunately, only a small
number of large banks include in their annual reports and other public financial statements the figures on revenue, profits, and risk capital for identifiable retail business lines. Such information is not readily available for most banks.

To generate consistent measures of retail banking activity, we turn to an alternative source: data from regulatory reports. The advantage of using such data is that they are available on a consistent basis for all banks over a relatively long period. We focus on three primary indicators of retail activity: retail lending (one-to-four-family mortgages, home equity lending, Credit card loans, and other consumer loans), retail deposits (Now accounts, savings accounts, and small time deposits), and the number of bank branches.

3.4 RETAIL BANKING IN INDIA

Banking which is done with individuals by banks with hybrid liability and asset products specifically targeted at the personal segment. New private sector banks in 1990’s created a new approach to retail banking string economic fundamentals, growing urban populations, higher disposable incomes, rise in young population, emergence of new customer segments and rise in the mass affluent space, explosion of service economy have catapulted the scope for retail banking business. Retail banking business has been growing @30% annual growth rate. The contribution of retail assets to Gross Domestic product (GDP) in India is about 6%.

Banking operations are basically divided into two segments. One is Corporate banking or wholesale banking and the other is Retail banking. Corporate banking serves the financial needs of corporate houses, companies
and other financial institutions. On the other hand, retail banking is a form of mass banking where financial needs of individuals like professionals, salaried persons, self-employed, housewives, students, technologists, pensioners etc., are met. Include Fixed Deposit Accounts, Savings Banks Accounts, Recurring Deposit Accounts and Other Short Term Deposits. Banks are coming out with more and more features to add value to retail banking products and services. Few value-added services being offered by banks are

- Free collection of specified member of outstation instruments per month.
- Instant credit of outstation Cheques
- Concession in commission / exchange for issuance of pay orders of demand drafts.
- Issuance of free cheques books.
- Issuance of free ATM cards.
- Issuance of free Add-on cards to members of the cardholder’s family.
- Execution of standing instructions of customer.
- Free investment advisory services.

Other retail banking services offered by banks include:

- Payment of utility bills like electricity, telephone and water bills on due dates.
- Payment of monthly/quarterly education fees of children.
- Payment of insurance premium of due dates.
- Demating of shares, debentures and bonds
- Selling of insurance products.
- Housing finance

The two things which distinguish corporate banking and retail banking are the size of the customer account and the number of customers. In wholesale banking or corporate banking, the customer is not a living entity but is an association of people. The directors of the company operate the corporate account on behalf of the shareholders. The size of the account is very big and may sometimes run into billions of dollars. The services offered under corporate banking include cash management, general banking and trade finance. Banks are subjected to high risk when offering credit facility to corporate customers. Hence, where the amount of loan is very large, banks form a consortium to finance the projects.

On the other hand, retail banking deals directly with individual customers who manage their accounts all by themselves. The products and services under retail banking are designed to meet the financial needs of target customers. The size of the account is very small but the number of such accounts is very large when compared to corporate accounts. The small size of the accounts is less risky and the large number of such accounts is more profitable for the banks. The features and characteristics of retail banking products and services are based on the customer needs and marketing strategies adopted by banks in different countries.

Retail banking in India has fast emerged as one of the major drivers of the overall banking industry and has witnessed enormous expansion. In retail
banking, all the banking needs of the individual customers are taken care of in an integrated manner. Retail banking portfolio encompasses deposit and assets linked products as well as other financial services offered to individuals for personal consumption.

3.5 DRIVERS OF RETAIL BANKING SERVICES

Drivers’ forces mean the forces which have contributed positively for the growth of retail banking.

➢ Economic prosperity and the consequent increase in purchasing power have given a fillip to a consumer boom. During the 10 years after 1992, India’s economy grew at an average rate of 6.8 percent and continues to grow almost at the same rate.

➢ Changing consumer demographics indicate vast potential for growth in consumption both qualitatively and quantitatively. India is one of the countries with a very high proportion (70%) of the population below 35 years of age (young 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 India.

➢ Technological factors play a major role. 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 relating to the increased use of credit/debit
cards ATMs, direct debits and phone banking have contributed to the growth of retail banking in India.

➢ The treasury income 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 decades. In such a scenario, retail business provides a good vehicle of profit maximization. Considering the fact that retail’s share in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.

➢ Drivers shift in the pattern or GDP from the hitherto traditional and agriculture and manufacturing sectors to service sector

3.6 PRACTICES OF THE RETAIL BANKING

Retail banking is a highly attractive and increasingly profitable business. The fast growing and profitable business has attracted aggressive newcomers to retail banking. These newcomers are attacking established institutions more and more, luring away deposits and customers by targeting the most profitable and promising parts of the retail banking franchise: deposits, credit cards and mortgages.

For retail banks, the best defense is offense. Big and high performing retail banks can adopt and adapt the practices of newcomers to meet the new challenges that confront them. They start with the realistic view of their current position, carefully evaluating their strengths and weaknesses and develop specific strategies to protect their large profitable businesses. They
then take a proactive approach to improving their retail business, focusing on five areas:

- First, they concentrate on cost efficiency and on improving their sales and margins.
- Secondly, leaders today focus on sensible innovations that attract and retain customers and their deposits.
- Third, top players are making inroads into online banking soliciting their customers’ bill payment business and using it to attract transactions and deposits.
- Forth, the winners in retail banking develop and implement special strategies that set them apart from their competitors and allow them to build highly profitable specialized businesses.
- Fifth, successful incumbents manage their pricing strategies wisely, identifying the products that their competitors are using as loss leaders.

### 3.7 RETAIL BANKING PRODUCTS

Retail banking is an individual customer market. There are two ways to look at bank products that are offered to customers. The traditional products and new products. The website of any of the banks in India would typically show the following products in the retail banking segment:

1. Deposits
2. Cards
   a. Debit and Credit Cards
   b. Global card
c. Festival cards

3. Loans
a. Housing loans
b. Vehicle loans
c. Personal loans
d. Gold loans
e. Educational loans
f. Consumption loans

4. Online Services
a. Loans for payment of bills of electricity –phones-mobiles on monthly basis
b. Mobile banking
c. Online banking
d. Fund Transfers
e. Balance enquiry

5. Demat services
a. Shares and debentures loans etc.,

Retail banking products for depositors in various segments like flexi deposit accounts, saving banks accounts, recurring deposits, other short term deposits and banks are coming out with more and more features to add value to retail banking services.
3.7.1 Deposit

It means to keep something in safe custody of someone whom one trusts or for the purpose of generating trust, to be given back when the need arises for the same by the depositor, or when the purpose of the depositee has been served by the depositor.

3.7.1.1 Savings Account

These accounts maintained by retail financial institutions that pay interest but cannot be used directly as money (for example, by writing a check). These accounts let customers set aside a portion of their liquid assets while earning a monetary return. For the bank, money in a savings account may not be callable immediately and therefore often does not incur a reserve requirement freeing up cash from the bank's vault to be lent out with interest.

3.7.1.2 Recurring Deposit Account

Recurring Deposits are a special kind of Term Deposits offered by banks in India which help people with regular incomes to deposit a fixed amount every month into their Recurring Deposit account and earn interest at the rate applicable to Fixed Deposits. It is similar to making a certain amount in monthly installments.

3.7.1.3 Current Account

Unlike savings account, current account cannot be opened by every individual. For opening a current account a letter of introduction is required which testifies the character and conduct of the persons who intend to open the current account. This letter of introduction can be given either by another
current account holder of the same branch or by a well reputed person known to the banker or by an employee not below the rank of an officer of the same bank. If a current account is opened without the letter of introduction, it will be an offence and the banker will lose statutory protection.

3.7.1.4 Fixed Deposit Account

When a customer deposits certain sum of money to be kept with the banker for a fixed period, it is called a fixed deposit account. The banker will issue a receipt which is called fixed deposit receipt. This receipt is non-transferable. This means that the amount is payable on maturity only to that deposit holder in whose name the deposit receipt stands. Thus, a fixed deposit account can be opened even in the name of minor. The deposit amount is payable along with the interest at the rate as agreed upon. But a customer has the option to foreclose the deposit even before the date of maturity. In such a case, the customer will not be entitled to the agreed rate of interest.

Table 3.1 shows the financial data related to different types of deposits mobilized by the Scheduled commercial banks in India.
### TABLE 3.1

Types of Deposits Mobilized by the Scheduled Commercial Banks in India

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Demand Deposit ₹</th>
<th>Savings Bank Deposit ₹</th>
<th>Term Deposit ₹</th>
<th>Total Deposits ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-2005</td>
<td>2,30,709</td>
<td>4,43,052</td>
<td>11,48,123</td>
<td>18,21,884</td>
</tr>
<tr>
<td>2</td>
<td>2005-2006</td>
<td>2,92,932</td>
<td>5,42,830</td>
<td>13,28,714</td>
<td>21,64,477</td>
</tr>
<tr>
<td>3</td>
<td>2006-2007</td>
<td>3,51,998</td>
<td>6,31,651</td>
<td>17,13,330</td>
<td>26,96,980</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>4,42,055</td>
<td>7,44,051</td>
<td>21,33,947</td>
<td>33,20,054</td>
</tr>
<tr>
<td>5</td>
<td>2008-2009</td>
<td>4,72,578</td>
<td>8,74,539</td>
<td>27,16,084</td>
<td>40,63,203</td>
</tr>
<tr>
<td>6</td>
<td>2009-2010</td>
<td>5,71,019</td>
<td>11,09,915</td>
<td>30,71,522</td>
<td>47,52,456</td>
</tr>
<tr>
<td>7</td>
<td>2010-2011</td>
<td>6,41,939</td>
<td>13,51,782</td>
<td>36,22,712</td>
<td>56,16,432</td>
</tr>
<tr>
<td><strong>Average Growth Rate</strong></td>
<td><strong>18.81%</strong></td>
<td><strong>20.49%</strong></td>
<td><strong>21.26%</strong></td>
<td><strong>20.67%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India

It is observed from Table 3.1 that among the three deposit schemes, the term deposit scheme has recorded the highest mean growth rate of 21.26%, while the saving deposit has got 20.49%. The growth rate of the total deposit accounts is 20.67%. It is to be noted that the deposit position in 2004-05 has become three fold in 2010-11.

### 3.7.2 Housing Loan

Housing loans are granted for purchase of plot of land for construction of a house on the said plot, purchase of a flat/house for self residing or for letting the house for rental purpose. Banks also provide additional finance for alterations/ additions and repairs to house/flat financed by them already or
freshly. Minimum ₹ 5 lakhs and for Maximum no ceiling. For repairs not
more than Rs. 10 lakhs. Margin of 20 to 25% of the cost of the house, Loans
are granted for 5 years to 20 years depending on the request of the borrower.
Depending upon their earning and repaying capacity, Interest varies between at
10.60 per cent to 13 per cent. Table 3.2 presents interest rate details

**TABLE 3.2**

**Interest Rate of Housing Loan**

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Upto 5 years</th>
<th>6 to 10 years</th>
<th>11 to 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto ₹30 lakh</td>
<td>10.00%</td>
<td>10.25%</td>
<td>10.60%</td>
</tr>
<tr>
<td>₹ 30 lakh to ₹ 50 lakh</td>
<td>10.60%</td>
<td>10.75%</td>
<td>12.25%</td>
</tr>
<tr>
<td>Above ₹ 50 lakh</td>
<td>12.00%</td>
<td>12.25%</td>
<td>13.00%</td>
</tr>
</tbody>
</table>

Source: http://www.housingindia.info/NHBHomeLoanRates.aspx

It is noted that interest rate ranges from 10.6% to 13% when the loan is
repayable upto 20 years. It is between 10% and 12% when the loan is for upto
5 years.

Table 3.3 shows the amount of housing loan given by the commercial
banks for the period 2004-05 to 2010-11.
TABLE 3.3
Housing Loan given by the Scheduled Commercial Banks in India
(₹ in Crores)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Amount ₹</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-2005</td>
<td>134653</td>
<td>---</td>
</tr>
<tr>
<td>2</td>
<td>2005-2006</td>
<td>179116</td>
<td>33.02%</td>
</tr>
<tr>
<td>3</td>
<td>2006-2007</td>
<td>224481</td>
<td>25.33%</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>252932</td>
<td>12.67%</td>
</tr>
<tr>
<td>5</td>
<td>2008-2009</td>
<td>263235</td>
<td>4.07%</td>
</tr>
<tr>
<td>6</td>
<td>2009-2010</td>
<td>315862</td>
<td>19.99%</td>
</tr>
<tr>
<td>7</td>
<td>2010-2011</td>
<td>367364</td>
<td>16.31%</td>
</tr>
<tr>
<td></td>
<td><strong>Average Growth Rate</strong></td>
<td>---</td>
<td><strong>18.565%</strong></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India

It is noted from Table 3.3 that in respect of housing loan given by the scheduled commercial banks, that highest growth rate is found during 2005-06, while the lowest is found in 2008-09. As regards the average growth rate, it has recorded a rate of 18.565%. It is to be noted that the amount of loan given in 2004-05 has become three fold in 2010-2011.

3.7.3 Educational Loan

India has got the biggest advantage as regards its population and comprises a good percentage of youth who will take our country forward to make it as a super power. This advantage which our country enjoys is called the “Demographic Dividend”. Education is the important tool for empowering youth and to realize this, a simple and hassle-free educational loan scheme was devised. By this scheme, nationalized banks were advised to implement a
model educational loan framed by Indian Banks Association to make available educational loans to all the eligible students under the scheme. Studies in India for professional courses like Engineering, Medical, Agriculture, Veterinary, Law, Dental, Management, Computer etc. computer certificate courses accredited to Department of Electronics or affiliated to University, ICWA, CA, CFA, IIM, IIT, XLR, NIFT, other courses leading to diploma or degree approved by UGC, Government, AICTE, AIBMS, ICMR etc. The maximum amount is Rs.10 lakhs for studies in India and for studies in abroad the maximum amount is Rs. 20 lakhs. The margin studies in India is 5% and abroad 15%. Table 3.4 shows the amount of educational loan given by the Scheduled commercial banks for the period 2004-05 to 2010-2011.

**TABLE 3.4**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Amount ₹</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-2005</td>
<td>5119</td>
<td>----</td>
</tr>
<tr>
<td>2</td>
<td>2005-2006</td>
<td>10057</td>
<td>96.46%</td>
</tr>
<tr>
<td>3</td>
<td>2006-2007</td>
<td>15208</td>
<td>51.22%</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>20532</td>
<td>35.01%</td>
</tr>
<tr>
<td>5</td>
<td>2008-2009</td>
<td>28579</td>
<td>39.19%</td>
</tr>
<tr>
<td>6</td>
<td>2009-2010</td>
<td>33777</td>
<td>18.19%</td>
</tr>
<tr>
<td>7</td>
<td>2010-2011</td>
<td>39965</td>
<td>18.32%</td>
</tr>
<tr>
<td><strong>Average Growth Rate</strong></td>
<td><strong>----</strong></td>
<td><strong>43.065%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India
It is observed from Table 3.4 that in respect of educational loan given by the scheduled commercial banks, the highest growth rate is found during 2005-06, while the lowest is found in 2009-10. As regards the average growth rate, it has recorded a rate of 43.065%.

3.7.4 Consumer Durable Loan

Consumer durable loans are also usually given for smaller amounts depending on the nature of the durable goods. However, the loans are repayable between 12 and 36 months. There are no collateral securities called for in respect of consumer durable loans. The interest rates are varied depending on the seasonality and there is also flat processing fee. These loans help customers buy consumer durables like Fridges, TVs, Microwave-ovens and the like. Table 3.5 shows the amount of consumer durable loan given by the Scheduled commercial banks for the period from 2004-05 to 2010-11.

**TABLE 3.5**

**Consumer Durable Loan given by the Scheduled Commercial Banks in India**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Amount ₹</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-2005</td>
<td>3,810</td>
<td>----</td>
</tr>
<tr>
<td>2</td>
<td>2005-2006</td>
<td>4,469</td>
<td>17.30%</td>
</tr>
<tr>
<td>3</td>
<td>2006-2007</td>
<td>7,296</td>
<td>63.26%</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>4,802</td>
<td>-34.18%</td>
</tr>
<tr>
<td>5</td>
<td>2008-2009</td>
<td>5,431</td>
<td>13.10%</td>
</tr>
<tr>
<td>6</td>
<td>2009-2010</td>
<td>3,032</td>
<td>-44.17%</td>
</tr>
<tr>
<td>7</td>
<td>2010-2011</td>
<td>4,555</td>
<td>50.23%</td>
</tr>
<tr>
<td><strong>Average Growth Rate</strong></td>
<td><strong>----</strong></td>
<td><strong>10.923%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India
It is seen from Table 3.5 that in respect of consumer durable loan given by the Scheduled commercial banks, the highest growth rate is found during 2006-07, while the lowest is found in 2009-10. As regards the average growth rate, it has recorded a rate of 10.923%.

3.7.5 Auto Loan

The approach for sanctioning of car loans differs from banks to bank. Private sector banks and foreign banks approach it aggressively while public sector banks generally are not very aggressive in car loans but for a very few banks. Private sector banks adopt a model involving the manufacturer, dealer and the financier (bank). The pricing is structured after a combined approach to pricing by all the three involved factoring the manufacturer’s pricing, dealer margin, volume of sales etc. This mechanism results in finer pricing by private banks and foreign banks. In addition, manufacturers themselves float their financing arms and through dealers they extend finance to their own cars through their dealer network. To take the competition on, private and foreign banks go aggressively on the marketing side and conduct special and seasonal campaigns jointly with the dealers to push up the off take of vehicle loans.

Auto loans given for purchase of a new two wheeler, motor cycle, four wheelers, truck, passenger bus, auto rickshaw etc., for not more than 60 months (two wheelers) and 84 months for 4 wheelers. Second hand or used auto loans are also given for vehicles which are not more than 3 years old. Quantum of loan is upto 85% of the total cost of the vehicle including registration and accessories. Table 3.6 gives the details as regards interest rate on auto loan.
TABLE 3.6

Interest Rate on Auto Loan

<table>
<thead>
<tr>
<th>Rate of interest varies between</th>
<th>New Cars</th>
<th>Old Cars</th>
</tr>
</thead>
<tbody>
<tr>
<td>If paid within 3 years</td>
<td>13.75%</td>
<td>16.75%</td>
</tr>
<tr>
<td>After 3 years, old cars</td>
<td>14.25%</td>
<td>17.25%</td>
</tr>
</tbody>
</table>


It is noted that the rate of interest ranges from 13.75% to 14.25% in respect of the new cars, while it ranges from 16.75% to 17.25% in the case of old cars.

Table 3.7 shows the amount of auto loan given by the Scheduled commercial banks for the period from 2004-05 to 2010-11.

TABLE 3.7

Auto Loan given by the Scheduled Commercial Banks in India

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Year</th>
<th>Amount ₹</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-2005</td>
<td>35,043</td>
<td>----</td>
</tr>
<tr>
<td>2</td>
<td>2005-2006</td>
<td>61,369</td>
<td>75.12%</td>
</tr>
<tr>
<td>3</td>
<td>2006-2007</td>
<td>82,562</td>
<td>34.53%</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>87,998</td>
<td>6.58%</td>
</tr>
<tr>
<td>5</td>
<td>2008-2009</td>
<td>83,915</td>
<td>-4.64%</td>
</tr>
<tr>
<td>6</td>
<td>2009-2010</td>
<td>78,346</td>
<td>-6.64%</td>
</tr>
<tr>
<td>7</td>
<td>2010-2011</td>
<td>100155</td>
<td>27.84%</td>
</tr>
<tr>
<td></td>
<td>Average Growth Rate</td>
<td>-----</td>
<td>22.131%</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India
It is clear from Table 3.7 that in respect of auto loans given by the Scheduled commercial banks, the highest growth rate is found during 2005-06, while the lowest is found in 2009-10. As regards the average growth rate, it has recorded 22.131%. It is to be noted that the amount of loan given in 2005-2011.

3.7.6 Personal Loan

Personal loans are loans advanced to individuals. These could be to meet marriage expenses, hospitalization/Medical costs, costs for holiday or for some other needs, medical expenses, education, family function and domestic function. Personal loans are basically unsecured in nature and are backed by personal guarantees only. As credit risk and delinquency rates are more in this segment, public sector banks tread cautiously in this segment and private banks do it aggressively. Personal loans can be grouped under two segments one is Big Ticket personal loans. They are loans in which the ticket size (amount of loan) is above Rs. 50000 and an average ticket size of about Rs. 125000. The other one is Small Ticket personal loan. These loans are less than Rs.50000 and an average ticket size of Rs.23000. Small ticket personal loans are mostly extended by non banking financial companies, repayable within 12 to 24 months. Rate of interest varies between 15 to 18%. The persons over 21 years age with sufficient disposable income to repay the loan in EMIs are eligible. Loans are not given to those who are going to retire in next one or two years. Table 3.8 shows the amount of personal loans given by the Scheduled commercial banks for the period from 2004-05 to 2010-11.
TABLE 3.8

Personal Loan given by the Scheduled Commercial Banks in India

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Year</th>
<th>Amount ₹</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-2005</td>
<td>85,077</td>
<td>----</td>
</tr>
<tr>
<td>2</td>
<td>2005-2006</td>
<td>118,351</td>
<td>39.11%</td>
</tr>
<tr>
<td>3</td>
<td>2006-2007</td>
<td>155,204</td>
<td>31.14%</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>197,879</td>
<td>27.50%</td>
</tr>
<tr>
<td>5</td>
<td>2008-2009</td>
<td>211,294</td>
<td>6.78%</td>
</tr>
<tr>
<td>6</td>
<td>2009-2010</td>
<td>203,947</td>
<td>-3.48%</td>
</tr>
<tr>
<td>7</td>
<td>2010-2011</td>
<td>253,243</td>
<td>24.17%</td>
</tr>
<tr>
<td></td>
<td><strong>Average Growth Rate</strong></td>
<td>----</td>
<td><strong>20.87%</strong></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India

It is noted from Table 3.8 that in respect of personal loan given by the commercial banks, the highest growth rate is found during 2005-06, while the lowest is found in 2009-10. As regards the average growth rate, it has recorded a rate of 20.87%.

3.7.7 Professional and Self-Employed Persons

A self-employed person is defined as an independent worker, who works independently of an employer, in contrast with an employee, who is subordinate to and dependent on an employer. However, insofar as the concept of employee implies an element of economic dependence, in that employees are dependent for subsistence paid by the employer. Self-employed workers
may be a little different, though as no less dependent economically on their work for subsistence, though paid by their clients or customers.

Loan produced specially designed to offer security based and hassle free financial assistance to professionals and self-employed persons. The target groups of the product are professionals and self-employed individuals, like, Doctors, Chartered Accountants, Interior Decorators, Architects, practicing Company Secretaries, Travel Agents, Institutions providing education / training / running coaching classes, Dentists, Cost accountants, Lawyers, Solicitors, Engineers, Architects, Surveyors, Construction contractors or Management Consultants or to a person trained/qualified/skilled in the chosen vocation/field in which employed, etc. "the bank extends finance under its own facilities and even under the Govt. sponsored schemes. Amount issued Depending upon the assessed requirement considering financial viability, repayment capacity etc. margin of generally 25%, which can vary according to requirement and assessment.

3.7.9 Micro, Small and Medium Enterprises (MSME)

Micro, small and medium enterprises (MSME) sector has been recognized as an engine of growth all over the world. The sector is characterized by low investment requirement, operational flexibility, location wise mobility, and import substitution. In India, the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 is the first single comprehensive legislation covering all the three segments. In accordance with the Act, these enterprises are classified into two:- (i) manufacturing enterprises
engaged in the manufacture or production of goods pertaining to any industry specified in the first Scheduled to the Industries (Development and regulation) Act, 1951. These are defined in terms of investment in plant and machinery;

(ii) service enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

India has a vibrant micro and small enterprise sector that plays an important role in sustaining the economic growth, by contributing around 39 per cent to the manufacturing output and 34 per cent to the exports in 2004-05. It is the second largest employer of human resources after agriculture, providing employment to around 29.5 million people (2005-06) in the rural and urban areas of the country. Their significance in terms of fostering new entrepreneurship is well-recognized. This is because, most entrepreneurs start their business from a small unit which provides them an opportunity to harness their skills and talents, to experiment, to innovate and transform their ideas into goods and services and finally nurture it into a larger unit.

Over the years, the small scale sector in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro wave components, electro medical equipments, etc. The process of economic liberalization and market reforms has further exposed these enterprises to increasing levels of domestic and global competition. The formidable challenges so generated for them have led to a novel approach of cluster development for the sector. As a result, private and public sector institutions,
both at the Central and State levels are increasingly undertaking cluster development initiatives.

Clusters are defined as sectoral and geographical concentration of enterprises, particularly, small and medium enterprises, faced with common opportunities and threats which give rise to external economies; favour the emergence of specialized technical, administrative and financial services; create a conducive ground for the development of inter-firm cooperation to promote local production, innovation and collective learning. Clustering and networking has helped the small and medium enterprises in boosting their competitiveness. India has over 400 SME clusters and about 2000 artisan clusters.

It is estimated that these clusters contribute 60 per cent of the manufactured exports from India. Almost the entire gems and jewellery exports are from the clusters of Surat and Mumbai. Some of the small scale enterprise clusters are so big that they account for 90 per cent of India's total production output in selected products. For example, the clusters of Chennai, Agra and Kolkata are well known for leather and leather products.

The Government has been encouraging and supporting the sector through policies for infrastructural support, technology upgradation, preferential access to credit, reservation of products for exclusive manufacture in the sector, preferential purchase policy, etc. It has been offering packages of schemes and incentives through its specialized institutions in the form of assistance in obtaining finance; help in marketing; technical guidance; training
and technology upgradation, etc. Advances to Micro & Small Enterprises having total limits (Fund + Non fund) upto Rs.25.00 lakhs, rate of interest 0.50 to 11.00 per cent

3.8 TECHNOLOGY IN RETAIL BANKING

The technology platform for retail banking plays a major role in the retail banking initiatives of banks. In today’s scenario, technology is the backbone of the process and delivery efficiencies of banks. The technology models basically adopted by banks are In house process, Outsourced process, Partially In house and partially outsourced process. Decider of the effectiveness of the process.

Technology and Retail Banking are inseparables. Technology is the foundation on which the retail banking edifice is built across the globe. Technology is the enabler for building and translating a customer database into retail banking business. Banks adopt different technology platforms in line with the global trends. The levels or technology implementation in PSBs started from stand alone Automated Ledger Posting Machines (ALPMs) in the early days of computerization and graduated to total branch automation and regional networked hubs. New Private banks started with technology advantage of single server environment which gave them the edge over other banks. PSB banks have reengineered their technology initiatives and started implementing core banking solutions networking the customers and accounts in a single platform. Some banks have almost completed the core banking solutions process while in other banks the level of implementation is at various stages.
The level of implementation of core banking will directly increase the chances of availability of customer database across products and will increase the scope for cross selling and up selling. Core banking gives clues about the level to which the database is horizontally or vertically organized. Horizontal or vertical organized refers to whether data is available product wise on a stand alone basis or data is available customer wise on an integrated basis.

3.8.1 Electronic Delivery Channels – Automated Teller Machines (ATMs)

It is the facility started in early 1990’s by foreign banks like City Bank, HSBC. It is made to work 24 hrs a day. For the purpose of withdrawing cash from ATM machine, plastic currency and debit cards are used. The account number and credit limit of customers are magnetically embedded on a strip, of the tape on the back of card. ATM enables the user to perform banking transactions by actually interacting with the human teller. This is one of the unattended or unmanned devices usually located on or off the bank’s premises. Its function is to receive and dispense cash and to handle routine financial transactions. The operation mechanism is that the card is inserted into the ATM, the terminal reads and transmits the tape data to processes. Which activates the accounts? According to the instructions, the details are displayed on the screen and by checking a few keys of the keyboard, the user can direct the computer to carry out the financial transactions.

Automate Teller Machines (ATMs) have completely revolutionized the service delivery paradigm of banks. ATMs are the starting point of remote
channels that moved the customers away from the branch. The online objectives of banks to set up ATMs are

a) To offer convenience to customers an additional choice to withdraw money during any time of the day according to their will and pleasure.

b) To move the customers away from the counters as service cost is comparatively less through ATMs than across the counters at the branch.

c) Personal identification number (PIN) change.

d) Online account balance enquiry.

e) Transfer of funds between accounts linked to one’s card.

f) Request for account statement.

g) Request for cheque book.

There are basically two types of ATMs to deliver services to retail customers.

1. On Site ATMs and

2. Off Site ATMs.
TABLE 3.9

Number of ATMs of Scheduled Commercial Banks
(as on 31st March 2011)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank Group</th>
<th>On-site ATMs</th>
<th>Off-site ATMs</th>
<th>Total no of ATMs</th>
<th>Off-site ATMs (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public Sector Bank</td>
<td>29795</td>
<td>19692</td>
<td>49487</td>
<td>39.8</td>
</tr>
<tr>
<td>2</td>
<td>Nationalized Banks</td>
<td>15,691</td>
<td>9,145</td>
<td>24,836</td>
<td>36.8</td>
</tr>
<tr>
<td>3</td>
<td>SBI Group</td>
<td>14,104</td>
<td>10,547</td>
<td>24,651</td>
<td>42.8</td>
</tr>
<tr>
<td>4</td>
<td>Private Sector Banks</td>
<td>10,648</td>
<td>13,003</td>
<td>23,651</td>
<td>55.0</td>
</tr>
<tr>
<td>5</td>
<td>Old Private Sector Banks</td>
<td>2,641</td>
<td>1,485</td>
<td>4,126</td>
<td>36.0</td>
</tr>
<tr>
<td>6</td>
<td>New Private Sector Banks</td>
<td>8,007</td>
<td>11,518</td>
<td>19,525</td>
<td>59.0</td>
</tr>
<tr>
<td>7</td>
<td>Foreign Banks</td>
<td>286</td>
<td>1,081</td>
<td>1,367</td>
<td>79.1</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>40729</strong></td>
<td><strong>33776</strong></td>
<td><strong>74505</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India

The success of ATMs as a delivery channel is highlighted by the following figures. The number of ATMs in Scheduled commercial banks has moved up to 74505 of which 40729 are on-site ATMs and 33776 are off-site ATMs as on 31 March 2011.

Table 3.10 presents the data relating to a number of ATMs located at various locations.
TABLE 3.10
Number of ATMs of Scheduled Commercial Banks Located at Various Locations

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank Group</th>
<th>Rural</th>
<th>Semi-Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public Sector Bank</td>
<td>5,872</td>
<td>13,278</td>
<td>16,186</td>
<td>14,151</td>
<td>49,487</td>
</tr>
<tr>
<td>2</td>
<td>Nationalized Banks</td>
<td>2,718</td>
<td>5,680</td>
<td>8,132</td>
<td>8,306</td>
<td>24,836</td>
</tr>
<tr>
<td>3</td>
<td>SBI Group</td>
<td>3,154</td>
<td>7,598</td>
<td>8,054</td>
<td>5,845</td>
<td>24,651</td>
</tr>
<tr>
<td>4</td>
<td>Private Sector Banks</td>
<td>1,262</td>
<td>4,784</td>
<td>7,576</td>
<td>10,029</td>
<td>23,651</td>
</tr>
<tr>
<td>5</td>
<td>Old Private Sector Banks</td>
<td>332</td>
<td>1,339</td>
<td>1,401</td>
<td>1,054</td>
<td>4,126</td>
</tr>
<tr>
<td>6</td>
<td>New Private Sector Banks</td>
<td>930</td>
<td>3,445</td>
<td>6,175</td>
<td>8,975</td>
<td>19,525</td>
</tr>
<tr>
<td>7</td>
<td>Foreign Banks</td>
<td>21</td>
<td>20</td>
<td>300</td>
<td>1,026</td>
<td>1,367</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>7,155</td>
<td>18,082</td>
<td>24,062</td>
<td>25,206</td>
<td>74,505</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India

It is understood from Table 3.10 that out of the total number of 74505 ATMs in scheduled commercial banks, 7155 are located at rural areas, 18082 at the semi-urban areas, 24062 at the urban areas, 25206 ATMs are located at the metropolitan cities. ATMs located at both urban and metropolitan areas come to 49268, which forms the largest share in the total area.

3.8.2 Debit Card

A debit card (also known as a bank card or check card) is a plastic card that provides the cardholder electronic access to his or her bank account(s) at a financial institution. Some cards have a stored value with which a payment is made, while most relay a message to the cardholder's bank to withdraw funds
from a designated account in favour of the payee's designated bank account. The card can be used as an alternative payment method to cash when making purchases. In some cases, the cards are designed exclusively for use on the Internet, and so there is no physical card.

In many countries the use of debit cards has become so widespread that their volume of use has overtaken or entirely replaced the cheque and, in some instances, cash transactions. Like credit cards, debit cards are used widely for telephone and Internet purchases.

However, unlike credit cards, the funds paid using a debit card are transferred immediately from the bearer's bank account, instead of having the bearer pay back the money at a later date.

Debit cards usually also allow for instant withdrawal of cash, acting as the ATM card for withdrawing cash and as a cheque guarantee card. Merchants may also offer cash back facilities to customers, where a customer can withdraw cash along with their purchase. Table 3.11 shows the number of debit cards issued by the scheduled commercial banks during the period from 2006-07 to 2010-11.
### Table 3.11

Debit Cards Issued by the Scheduled Commercial Banks

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public Sector Bank</td>
<td>44.09</td>
<td>64.33</td>
<td>91.7</td>
<td>129.69</td>
<td>170.34</td>
</tr>
<tr>
<td>2</td>
<td>Nationalized Banks</td>
<td>19.24</td>
<td>28.29</td>
<td>40.71</td>
<td>58.82</td>
<td>80.27</td>
</tr>
<tr>
<td>3</td>
<td>SBI Group</td>
<td>24.85</td>
<td>36.04</td>
<td>50.99</td>
<td>70.87</td>
<td>90.07</td>
</tr>
<tr>
<td>4</td>
<td>Private Sector Banks</td>
<td>27.19</td>
<td>34.1</td>
<td>41.34</td>
<td>47.85</td>
<td>53.58</td>
</tr>
<tr>
<td>5</td>
<td>Old Private Sector Banks</td>
<td>3.94</td>
<td>5.34</td>
<td>7.09</td>
<td>9.81</td>
<td>12.44</td>
</tr>
<tr>
<td>6</td>
<td>New Private Sector Banks</td>
<td>23.25</td>
<td>28.76</td>
<td>34.25</td>
<td>38.04</td>
<td>41.14</td>
</tr>
<tr>
<td>7</td>
<td>Foreign Banks</td>
<td>3.70</td>
<td>4.02</td>
<td>4.39</td>
<td>4.43</td>
<td>3.92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>75</strong></td>
<td><strong>102</strong></td>
<td><strong>137</strong></td>
<td><strong>182</strong></td>
<td><strong>228</strong></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India

It is understood from Table 3.11 that in the case of public sector banks, the number of debit cards issued by the banks amounted to 44.09 during 2006-07 and it has become four fold during 2010-11. In the case of private sector banks, 27.19 during 2006-07 and it has become two fold during 2010-11. In the case of foreign banks, the number of cards issued during 2006-07 was 3.70, while it was 3.92 during 2010-11.

In its total approach, the growth of debit cards has a three fold dimension.
3.8.3 Credit Card

A credit card is a small plastic card issued to users as a system of payment. It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

A credit card is different from a charge card: a charge card requires the balance to be paid in full each month. In contrast, credit cards allow the consumers a continuing balance of debt, subject to interest being charged. A credit card also differs from a cash card, which can be used like currency by the owner of the card. Table 3.12 shows the number of credit cards issued by the scheduled commercial banks.
**TABLE 3.12**

**Credit Cards Issued by the Scheduled Commercial Banks**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public Sector Bank</td>
<td>4.14</td>
<td>3.93</td>
<td>3.44</td>
<td>3.26</td>
<td>3.08</td>
</tr>
<tr>
<td>2</td>
<td>Nationalized Banks</td>
<td>0.75</td>
<td>0.72</td>
<td>0.72</td>
<td>0.73</td>
<td>0.78</td>
</tr>
<tr>
<td>3</td>
<td>SBI Group</td>
<td>3.39</td>
<td>3.21</td>
<td>2.72</td>
<td>2.53</td>
<td>2.30</td>
</tr>
<tr>
<td>4</td>
<td>Private Sector Banks</td>
<td>10.68</td>
<td>13.29</td>
<td>12.18</td>
<td>9.5</td>
<td>9.32</td>
</tr>
<tr>
<td>5</td>
<td>Old Private Sector Banks</td>
<td>0.03</td>
<td>0.04</td>
<td>0.06</td>
<td>0.06</td>
<td>0.04</td>
</tr>
<tr>
<td>6</td>
<td>New Private Sector Banks</td>
<td>10.65</td>
<td>13.25</td>
<td>12.12</td>
<td>9.44</td>
<td>9.28</td>
</tr>
<tr>
<td>7</td>
<td>Foreign Banks</td>
<td>8.31</td>
<td>10.33</td>
<td>9.08</td>
<td>5.57</td>
<td>5.64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23.13</strong></td>
<td><strong>27.55</strong></td>
<td><strong>24.7</strong></td>
<td><strong>18.33</strong></td>
<td><strong>18.04</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India

It is noticed from Table 3.12 that in respect of public sector banks, the sector has witnessed decline in the growth of credit cards from 4.14 in 2006-07 to 3.08 in 2010-11. So also in the case of private sector banks, there is no growth. Issued, it has declined from 10.68 in 2006-07 to 9.32 in 2010-11. It is understood that as it involves interest and service charges, the people have not shown any interest in availing credit through credit cards.

**3.8.4 Electronic Clearing Services (ECS)**

NEFT and RTGS have emerged as very fast remittance products in the recent post. An electronic Clearing service has stood the test of time as a dependable payment product. ECS introduced decades back has won instant
recognition from users as it has offered lot of convenience for the account holders to manage their routine payments. ECS is a mechanism to effect payments to a desired beneficiary on a periodical basis for the monies payable to them. Table 3.13 shows the retail electronic ECS debit and credit given by the Scheduled commercial banks for the period from 2004-05 to 2010-11.

**TABLE 3.13**

Retail Electronic ECS – Debit and ECS - Credit

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>ECS Credit ₹</th>
<th>Growth Rate</th>
<th>ECS Debit ₹</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-2005</td>
<td>20,180</td>
<td>-----</td>
<td>2,921</td>
<td>---</td>
</tr>
<tr>
<td>2</td>
<td>2005-2006</td>
<td>32,324</td>
<td>60.18%</td>
<td>12,986</td>
<td>344.57%</td>
</tr>
<tr>
<td>3</td>
<td>2006-2007</td>
<td>83,273</td>
<td>157.62%</td>
<td>25,441</td>
<td>95.91%</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>782,222</td>
<td>839.35%</td>
<td>48,937</td>
<td>92.35%</td>
</tr>
<tr>
<td>5</td>
<td>2008-2009</td>
<td>97,487</td>
<td>-87.54%</td>
<td>66,976</td>
<td>36.86%</td>
</tr>
<tr>
<td>6</td>
<td>2009-2010</td>
<td>1,176,13</td>
<td>20.64%</td>
<td>69,524</td>
<td>3.80%</td>
</tr>
<tr>
<td>7</td>
<td>2010-2011</td>
<td>1,816,86</td>
<td>54.48%</td>
<td>73,646</td>
<td>5.93%</td>
</tr>
<tr>
<td><strong>Average Growth Rate</strong></td>
<td>---</td>
<td><strong>174.121%</strong></td>
<td>---</td>
<td><strong>96.57%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India

It is understood from Table 3.13 that in respect of ECS credit, the highest growth rate is found during 2007-08, while it is the lowest in 2008-09. As regards the average growth rate, it has recorded a rate of 174.121. In the case of ECS debit, the highest growth rate is found during 2005-06, while the lowest growth rate is found in 2010-11. As regards the average growth rate, it has recorded a rate of 96.57.
3.8.5 National Electronic Funds Transfer (NEFT)

RBI has introduced an electronic funds transfer system called “The Reserve Bank of India National Electronic Funds Transfer System.” It is nation-wide system that facilitates individuals, firms and corporate to electronically transfer funds from any bank branch to any individual, firm or corporate holding an account with any other bank branch in the country. For being part of the NEFT funds transfer network, a bank branch has to be NEFT-enabled. As at end-September 2010, a little over 70000 branches/offices of 99 banks in the country (out of around 80000 bank branches) are NEFT-enabled. Table 3.14 shows the performance of EFT-NEFT in terms of the value of transaction.

**TABLE 3.14**

Retail Electronic EFT - NEFT

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Amount ₹</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-2005</td>
<td>54,601</td>
<td>----</td>
</tr>
<tr>
<td>2</td>
<td>2005-2006</td>
<td>61,288</td>
<td>12.25%</td>
</tr>
<tr>
<td>3</td>
<td>2006-2007</td>
<td>77,446</td>
<td>26.36%</td>
</tr>
<tr>
<td>4</td>
<td>2007-2008</td>
<td>140326</td>
<td>81.19%</td>
</tr>
<tr>
<td>5</td>
<td>2008-2009</td>
<td>251956</td>
<td>79.55%</td>
</tr>
<tr>
<td>6</td>
<td>2009-2010</td>
<td>409507</td>
<td>62.53%</td>
</tr>
<tr>
<td>7</td>
<td>2010-2011</td>
<td>939149</td>
<td>129.34%</td>
</tr>
<tr>
<td>Average Growth Rate</td>
<td>----</td>
<td>65.203%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India
It is understood from Table 3.14 that in respect of EFT-NEFT, the highest growth rate is found during 2010-11, while it is lowest in 2005-06. As regards the average growth rate, it has recorded a rate of 65.203%.

3.8.6 Real Time Gross Settlement System (RTGS)

Real time gross settlement system (RTGS) is regarded as the centre place of an integrated payments system. The core principles for systemically important payment systems, outlined by the committee on payment and settlement systems of the bank for international settlements, Basically, define payment system as a set of instruments, procedures and rules for the transfer of funds among system participants.

As per our payment system Bill, 2002, a payment system means a system that enables payment to be effected between a payer and a beneficiary and includes clearing, settlement or payment service.

The payment system has importance for the functioning and integration of financial markets. It influences the speed, financial risk, reliability and cost of domestic and international transactions. Payment system operates on the following principle. Anyone can make payments to whomsoever one likes, whenever on likes, in whatever type of currency one likes, at the cost of a few cents per transaction. There are no settlement delays or mountains of paperwork and value is received instantaneously. There are no distinctions in costs or delays between a domestic and a foreign currency transaction. Interest is computed real time rather than on a settlement day, a relic from the ancient
times, when accounting was done manually. Finally, privacy and security are guaranteed.

3.8.7 Core Banking System

Core Banking is normally defined as the business conducted by a banking institution with its retail and small business customers. Many banks treat the retail customers as their core banking customers, and have a separate line of business to manage small businesses. Larger businesses are managed via the corporate banking division of the institution. Core banking basically is depositing and lending of money.

Nowadays, most banks use core banking applications to support their operations where CORE stands for "Centralized Online Real-time Exchange". This basically means that all the bank's branches access applications from centralized datacenters. This means that the deposits made are reflected immediately on the bank's servers and the customer can withdraw the deposited money from any of the bank's branches throughout the world. These applications now also have the capability to address the needs of corporate customers, providing a comprehensive banking solution.

A few decades ago it used to take at least a day for a transaction to reflect in the account because each branch had their local servers, and the data from the server in each branch was sent in a batch to the servers in the datacenter only at the end of the day (EoD).
Normal core banking functions will include deposit accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs, Internet banking, and branches.

### 3.8.8 Online Banking/Internet

A system allowing individuals to perform banking activities at home, via the internet. Some online banks are traditional banks which also offer online banking, while others are online only and have no physical presence. Online banking through traditional banks enable customers to perform all routine transactions, such as account transfers, balance inquiries, bill payments, and stop-payment requests, and some even offer online loan and credit card applications. Account information can be accessed anytime, day or night, and can be done from anywhere. A few online banks update information in real-time, while others do it daily. Once information has been entered, it doesn't need to be re-entered for similar subsequent checks, and future payments can be Scheduled to occur automatically. Many banks allow for file transfer between their program and popular accounting software packages, to simplify record keeping. Despite the advantages, there are a few drawbacks. It does take some time to set up and get used to an online account. Also, some banks only offer online banking in a limited area. In addition, when an account holder pays online, he/she may have to put in a check request as much as two weeks before the payment is due, but the bank may withdraw the money from the account the day that request is received, meaning the person has lost up to two weeks of interest on that payment. Online-only banks have a few additional drawbacks:
an account holder has to mail in deposits (other than direct deposits), and some services that traditional banks offer are difficult or impossible for online-only banks to offer, such as traveler's checks and cashier's checks.

3.8.9 Mobile Banking

The latest and most convenient delivery channel which has gained lot of interest in retail banking is mobile banking. To put it simply, banking can be done at your finger tips and right in the place where you are. It is convenient, simple and readily accessible. Mobile banking provides customer to access their account on mobile phone screen. Routine banking transactions can be performed by just punching a few letters on mobile. The use of mobile as a delivery channel in retail banking is a recent phenomenon. Globally, mobile banking initiatives were stared by Wachovia in 2005 and the full fledged mobile browser in 2007. Most US banks Viz. Bank of America, Citibank, Wells Fargo launched their mobile banking services in 2007. As on December,2010 there were about 75.21 crores mobile users in India and active user numbers were 54.86 crores mobiles as per VLR numbers. It indicates that above 50% of the population is using mobile. Mobile banking provides various kinds of services like balance enquiry of all such and current accounts, placing a stop payment on cheque, bill payment etc.

3.8.10 Tele Banking

Tele banking is another main service provided by Retail banking. Tele banking is a service where banks get various phone calls during their working hours. It helps the users to transact various transactions while remaining at
home. Under tele banking a customer is just supposed to call up a bank and than customer is asked to press a particular number for a particular type of service. This system works with the technology of the microprocessor. There is no need to have any software for this. It recognizes tone signal and pulse. Access to bank’s computer is possible with the help of phone or two way cable. The computer based or home banking system enables the users to check balance in their account, transfer between accounts, payment of bills etc.

Services provided by Tele banking:

- Account details
- Stop payment services
- Talk to phone banker
- Check status inquiries
- Cheque book/Account statement requests.

3.8.11 Electronic Cheques (E-CHEQUES)

E-cheque has been regarded as an important facility. As compared to the method of issuing paper cheque which involves various formalities, the issue of e-cheque has now become reality. E-cheque is a system which provides more security and reduction in overall cost. E-cheque facilitates on line payment which can be complemented with the paper cheque. But different account numbers are used for both cheques. E-cheque presentation can be synchronized with information in banks database to ensure that every detail is correct.
3.8.12 Electronic Fund Transfer (EFT)

Traditional method of transfer of funds involves lot of time and cost as related to use of paper work, checking of payment, bouncing of cheques etc. But now, e-banking has given a system of electronically transferring funded i.e. EFT which involves transfer of funds from bank account of one customer to bank account of another customer electronically. This is done through electronic data interchange (EDI) and this system involves only minimum amount of data interchange between two parties.

Under this facility, the customer has to provide the details of beneficiary account at other centre. In turn, the customer will then send the particulars to local clearing centre, which subsequently processes the transactions and will pass on the instructions of local bank in the bank’s network to credit the account of the respective beneficiaries. This electronic fund transfers millions of dollars per day.

3.9 PROBLEMS OF RETAIL BANKING

The following are the problems identified in the retail banking sector.

3.9.1 Lack of Efficient Employees

In retail banking the number of customers is very large and to service them, bank officials must be skilled and experienced. They should not only have all the professional qualities but must possess interpersonal skills to deal with individual account holders to build a strong customer relationship. Most officials working in Indian banks, unlike their counter parts in foreign
banks, lack the basic behaviour skills like being courteous and helpful to customers.

3.9.2 Higher NPA

In retail banking most loans taken are for consumption and not for production. Sometimes individual borrowers are unable to repay the loan partly or fully. Also, due to the large number of customers involved, accurate information on their creditworthiness is not gathered, which in turn may lead to an increase in NPAs.

3.9.3 Less Growth of Economy

There is no doubt the Indian economy is growing very rapidly with every segment showing growth whether in trade industry, services, manufacturing and farming. But in comparison with other development it is still low and the poverty level is high. Retail banking therefore has not fully developed yet.

3.9.4 Stiff Competition

The adoption of Liberalization, Privatization and Globalization has led to many private and foreign banks entering India thus creating competition for Indian banks. Now customers have several options. In such a scenario customers would naturally prefer banks that provide them the best services at low cost. Indian banks show high operating costs and this has been their main problem.
3.9.5 Low Level Technology

The introduction of technology can help in reducing the costs. Indian banks need to upgrade technology to compete effectively with foreign and private banks. However, upgrading technology requires adequate capital. With a low capital base, Indian banks find it difficult to modernize their operations. Since customers of most India banks are not familiar with technology, the banks tend to operate in the old system of entering data by hand. This increases the operating cost.

3.9.6 Wrong Estimation of Customer Expectations

Retail banking requires continuous study of customer tastes and needs. Indian banks are not adequately equipped to conduct surveys to gauge the changing tastes of their customers and adapt their strategy accordingly.

3.10 SUMMARY

Retail banking remains the dominant source of revenue for banks. At the same time, the retail banks are facing tougher competition continuously. To overcome this, the banks have to develop winning business models and requisite skills. The increasing use of modern technology has further enhanced reach and accessibility. The way in which the services are distributed is going to be a differentiator to increase the banks’ share in retail financing. Recently, banks are experimenting with technology based distribution channels like ATMs, internet banking, home banking, mobile banking in the hope of lowering cost and increasing efficiency. The role of branches is bound to undergo change in the next few years. Thus, this chapter has been descriptive in nature and has covered all aspects about retail banking in nutshell with the support of secondary data.
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