RETAIL BANKING IN INDIA – AN OVERVIEW

The previous chapter discussed in detail the research problem in all its aspects pertaining to Retail Banking in India. A review of the available and published literature related to the work so far done in the area has been made. While introducing the Retail Banking Industry and the research problem, the details of the work to be carried out under this study have also been explained. The research methodology adopted as well as the objectives and hypothesis of the study have also been clearly stated and the framework for this study has been made to construct the path ahead to proceed with the work and bring the study to a logical conclusion. This chapter is devoted to present an overview of the Indian Banking industry with an elaborate discussion on the concept of Retail Banking. It traces the history of Indian banking industry after independence and the challenges faced by Indian banking industry since 1991. Also, a full description of the evolution of retail banking in India and its present status is discussed in this chapter.

3.1 INDIAN BANKING INDUSTRY

Banks are among the main participants of the financial system in India. Banking offers several facilities and opportunities. Banking in India originated in the last decades of the 18th Century. The oldest bank in existence in India is the State Bank of India, a government owned bank that traces its origin in June 1806. It is the largest commercial bank in the country today.

There are three different phases in the history of banking in India.

1. Pre – Nationalization Era
2. Nationalization Stage
3. Post liberalization Era
3.1.1 Pre – Nationalization Era:

In India the business of banking and credit was practiced even in very early times. The remittance of money through Hundies, an indigenous credit instrument was very popular. The hundies were issued by bankers known as Shroffs, Sahukars, Shahus or Mahajans in different parts of the country.

3.1.1.1 Organizational Structure of Banks in India

In India banks are classified in various categories according to different criteria. The following charts indicate the banking structure.

![Organizational Structure of Banking in India](image)

**Fig.3.1. Organizational Structure of Banking in India**

3.1.1.2 Broad classification of banks in India:

1. The RBI: The RBI is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the
country. It keeps the reserves of all scheduled banks and hence is known as the “Reserve bank”.

2. Public Sector Banks:
   - State Bank of India and its Associates (8)
   - Nationalized Banks (19)
   - Regional Rural Banks sponsored by Public Sector Banks (196)

3. Private Sector Banks:
   - Old generation private banks (22)
   - Foreign new generation private banks (8)
   - Banks in India (40)

4. Co-operative sector banks:
   - State cooperative banks
   - Central co-operative banks.
   - Primary agriculture credit societies
   - Land development banks.
   - State land development banks

5. Development banks

Development banks mostly provide long term finance for setting up industries. They also provide short term finance (for export and input attitude)

   - Industrial finance cooperation of India (IFCI)
   - Industrial Development Bank of India (IDBI)
   - Industrial Investment Bank of India (IIBI)
   - Small Industrial Development Bank of India (SIDBI)
   - National Bank for Agriculture and Rural Development (NABARD)
➤ Export Import Bank of India.

During the early part of the 19th Century, the volume of foreign trade was relatively small. As the trade expanded, the need for banks of the European type was felt and the government of the East India Company took interest in having its own bank. The first banks were the general banks of India, which started in 1786, and the Bank of Hindustan, both of these are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the name of Bank of Calcutta in June 1806. It almost immediately became the Bank of Bengal and included as one of the three Presidency Banks. The other two being the Bank of Bombay and the Bank of Madras. All the three banks were established under charters from the British East India Company. For many years the Presidency Banks acted as quasi-central banks, as did their successors. The three banks were merged in 1925 to form the Imperial Bank of India, which later on became the State Bank of India. The swadeshi movement witnessed the birth of several indigenous banks including the Punjab National Bank, Bank of Baroda and Canara Bank. In 1955, the Reserve Bank of India was established under the Reserve Bank of India Act as the Central Bank of India.

3.1.2 Nationalization Stage:

After Independence in 1951, the All India Rural Credit Survey Committee recommended nationalization of the Imperial Bank of India. In 1955 the Imperial Bank of India was nationalized and established as the State bank of India. The main objective of establishing SBI by nationalizing the Imperial Bank of India was “to extend banking facilities on a large scale more particularly in the rural and semi-urban areas and to diverse it for other public purposes.
In 1959, the SBI (Subsidiary Bank) Act was proposed and the eight state–associated banks were taken over by the SBI as its subordinates. With effect from 1st January 1963, these subsidiary banks formed the State Bank of India group.

On 19th July 1969, the nationalization of 14 major scheduled commercial Banks each having deposits worth Rs 50 crores and above came into effect. It was a turning point in the history of commercial banking in India.

Later the government nationalized six more commercial private sector banks with deposit liability of not less than Rs 200 crores on 15th April 1980. These banks were:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriented Bank of Commerce
5. Punjab and Sindh Bank
6. Vijaya Bank

In 1969, the lead Bank Scheme was introduced to extend banking facilities to every corner of the country. Later in 1975, Regional Rural Banks were set up to supplement the activities of the commercial banks and especially to meet the credit needs of the weaker sections of the rural society.

Nationalization of banks paved way for Retail Banking and as a result there has been an all round growth in the branch network, the deposit mobilization, credit disposals and employment.

The first year after nationalization witnessed the total growth in the agriculture loans and the loans to SSI by 87% and 48% respectively. The overall growth in the
deposits and the advances indicates the improvement that has taken place in the banking habits of the people in the rural and semi-urban areas where the branch network has spread. Such credit expansion enabled the banks to achieve the goals of nationalization.

3.1.2.1 Consequences of Nationalization:

- The quality of credit assets fell because of liberal credit extension policy.
- Excessive political interference.
- Poor performance appraisal policy
- The credit facilities extended to the priority sector at concessional rates.
- The high level of low yielding SLR investments adversely affected the profitability of the banks.
- The rapid branch expansion adversely affected the profitability of banks due to increase in the fixed costs.
- Downward trend in the quality of services and efficiency of the banks.

3.1.3 Post-liberalization Era- Thrust on quality and profitability;

The need for restructuring the banking industry was felt greater with the initiation of the real sector reform process in 1992. The reform process has enhanced the opportunities and challenges for the real sector making them operate in a borderless global market place. However, to harness the benefits of globalization, there should be an efficient financial sector to support the structural reform taking place in the real economy. The root causes for the lack luster performance of banks, formed the elements of the banking sector reforms. Some of the factors are:

- Regulated interest rate structure
- Lack of focus on profitability
• Lack of transparency in the bank’s balance sheet

• Lack of competition

• Excessive regulation on organization structure and managerial resources.

• Excessive support from government.

In this context, the recommendations made by a high level committee on functional sector, chaired by M. Narasimhan, laid the foundation for the banking sector reforms. These reforms tried to enhance the viability and efficiency of the banking sector. The Narasimhan committee suggested that there should be functional autonomy, flexibility in operations, dilution of banking strangulation, reduction in reserve requirements and adequate financial infrastructure in terms of supervision, audit and technology. The committee further advocated introduction of prudential norms, transparency in operations and movements in productivity, which aimed at liberalizing the regulatory framework but also to keep them in tune with international standards. The emphasis shifted to efficient and prudential banking linked to better customer care and customer services.

3.2. Current Scenario:

The current scenario in India is that banking industry is highly developed yet, Indian banking is still way down from achieving world standards in size as well as products and services. As the economic growth continues, the demands on the banking sector to cater to the needs of the economy are also growing consistently. The growth in economic activities has increased wholesale as well as retail banking in the country. Higher income levels among the households and a changing lifestyle that has accepted spending on white goods have accelerated credit take off and increased activities in the retail banking sector. This is apart from the increase in the activities of the
wholesale/corporate banking sector due to the acceleration in industrial production and other factors on the production side.

The overall demands for banking products and services has led to the innovation of new products and a more customer friendly approach through the introduction of customized products by the banks. This sustained demand has also led to increasing pressure on the banks to be more competitive to retain customers. The technological drive, that has become imperative for the banks to deliver the products and services, that are part of new age banking, needs substantial investments. In this context, the smaller banks find it difficult to fund projects aimed at improving the service delivery/distribution mechanisms. This brings in the mergers and consolidation in the banking industry. Indian banks have also realized that with organic growth there is a need to grow inorganically as well, to be competitive with other players in the market. For example, the State Bank of India, India’s largest bank, has acquired 76% stake in the Kenyan Bank, Giro Commercial Banks. ICICI Bank, Bank of India, Bank of Baroda has also followed the same route. Bank of Punjab has been merged with Centurion Bank to form Centurion Bank of Punjab Ltd. Many such instances have started growing in the Indian banking industry. The most important thing for the Indian Banking industry is to compete and sustain in the global Banking environment. To meet these challenges of growing inorganically, Indian Banks are going global. The banks have also started following international norms. There has been an increase in the transparency in the system. The use of technology in the banking industry has changed things a lot, thus creating faster processes, addressing customer problems in a more efficient way. India has also
complied with the core principles of effective banking supervision of the Basel committee.

For increasing the size of banking industry and international recognition, Indian Banks have started entering into the cut through competition. But still India has only 22 Banks that figure in the Global top 1000 and only 5 Banks in the top 500. The table 3.1 has shown the total assets of Indian banks.

**Table 3.1: Top Indian Banks by Total Assets**

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Total Assets (Rs. mn)</th>
<th>No. of Branches</th>
<th>No. of Employees</th>
<th>Total Income (Rs. mn)</th>
<th>Net Profit (Rs. mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>4938695</td>
<td>9143</td>
<td>198774</td>
<td>431836</td>
<td>44067</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>253890</td>
<td>557</td>
<td>25479</td>
<td>187676</td>
<td>25401</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>1452674</td>
<td>4066</td>
<td>58047</td>
<td>108153</td>
<td>14393</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>1328219</td>
<td>2532</td>
<td>46893</td>
<td>100890</td>
<td>13432</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>1133925</td>
<td>2687</td>
<td>38737</td>
<td>82917</td>
<td>8270</td>
</tr>
</tbody>
</table>

*Source: India’s Top Banks 2007 by Dun & Bradstreet India (D&B India)*

Currently India has 222 scheduled commercial banks, of which 133 are regional rural banks. There are 71,777 bank offices spread across the country, of which 43% are located in rural areas, 22% in semi-urban areas, 18% in urban areas and the rest 17% in the metropolitan areas. The major bank groups (as defined by RBI) functioning during the reference period of the report are State Bank of India and its seven associate banks, 19 nationalized bank and the IDBI Ltd, 19 old private sector banks, 8 new private sector banks and 29 foreign banks.

Now, commendable growth has been witnessed in the financial system of India over the past few years. With chain of more than 65000 branches, Indian
banking system is one of the largest banking networks in the world. There has been a considerable growth in the retail-banking sector in India, which makes up for about 1/5th of the overall bank credit. The retail banking industry encompasses the services such as credit cards, housing loans, educational loans and auto loans etc.

3.3. RETAIL BANKING – AN INTRODUCTION

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. Banking industry includes a number of businesses such as corporate banking, investment banking, wealth management, capital market etc. Retail banking is another segment of the banking industry. It is a typical mass-market banking characterized by a large customer base and a large volume of transactions. There is a high level of co-operation between banks, retailers, customers and consumers in this segment.

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. In India the Retail Banking scenario has been the market changing from a seller’s market to a buyer’s market.
Chapter 3: Retail Banking in India-An Overview

Retail banks offer services like account opening, credit card, debit card, ATM, internet banking, phone banking, insurance, investment, stock broking and so on.

Retail banking refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed/current/saving accounts on the liabilities side, and mortgages loans (e.g., personal, housing, auto and educational on the assets side, are the important products offered by banks. Related ancillary services include credit cards or depository services. Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. This is in contrast to whole sale banking where the customers are large, often multinational companies, governments and government enterprises and the financial institution deal in small number of high value transaction. 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.

Retail banking in the country is characterized by multiple products, multiple channels and multiple customer groups. This multiplicity of the roles to be played by
the retail bankers adds to the excitement as well as the challenges faced by the bankers.

### 3.3.1. Multiple Products

The products included in retail banking are--

- Various types of deposits/accounts.
- Credit and debit cards
- Loans (Personal, Auto, Housing etc.)
- Insurance, mutual funds etc.

### 3.3.2. Multiple channels of distribution

- Internet banking
- Mobile banking
- Call centers

### 3.3.3. Multiple Customer Groups

- Individual customers
- Petty businesses
- Small and Medium Enterprises (SMEs)

The Indian Banks are competing with one another to grab a piece of the retail banking sector, which has tremendous potential as retail loans constitute only 8% of GDP in India, whereas their percentage is about 35 in other Asian economies.

Retail banking environment today is changing fast. The changing customer demographics demands to create a differentiated application based on scalable technology, improved service and banking convenience. Higher penetration of technology and increase in global literacy levels has set up the expectations of the
customer higher than never before. Increasing use of modern technology has further enhanced reach and accessibility.

The market today gives us a challenge to provide multiple and innovative contemporary services to the customer through a consolidated window so as to ensure that the bank’s customer gets “Uniformity and Consistency” of service delivery across time and at every touch point across all channels. The pace of innovation is accelerating and security threat has become prime of all electronic transactions. High cost structure rendering mass-market servicing is prohibitively expensive. Present day tech-savvy bankers are now more looking at reduction in their operating costs by adopting scalable and secure technology thereby reducing the response time to their customers so as to improve their client base and economies of scale.

The solution lies to market demands and challenges lies in innovation of new offering with minimum dependence on branches — a multi-channel bank, and to eliminate the disadvantage of an inadequate branch network. Generation of leads to cross sell and creating additional revenues with utmost customer satisfaction has become focal point worldwide for the success of a Bank. Traditional lending to the corporate are slow moving along with high NPA risk, treasure profits are now losing importance; hence Retail Banking is now an alternative available for the banks for increasing their earnings. Retail Banking is an attractive market segment having a large number of varied classes of customers. Retail Banking focuses on individual and small units. Customized and wide ranging products are available. The risk is spread and the recovery is good. Surplus deployable funds can be put into use by the banks. Products can be designed, developed and marketed as per individual needs.
Currently retail banking is helping the banks in boosting their profit. As reported in Financial Express, ‘the banking sector witnesses during the period ended June 2010, with their growth rising at 54.8%’. A rise in commercial and retail lending rates, growth in fee-based income and lower provisioning helped banks boost their profits.

3.4. FEATURES OF RETAIL BANKING

One of the prominent features of Retail Banking products is that it is a volume driven business. Further, Retail Credit ensures that the business is widely dispersed among a large customer base unlike in the case of corporate lending, where the risk may be concentrated on a selected few plans. Ability of a bank to administer a large portfolio of retail credit products depends upon such factors:

3.4.1. Strong credit assessment capability

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

3.4.2. Sound documentation

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

3.4.3. Strong possessing capability

Since large volumes of transactions are involved, today transactions, maintenance of backups is required.

3.4.4. Regular constant follow-up

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

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

3.4.6. Technological support

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

3.5. OPPORTUNITIES IN RETAIL BANKING

Retail banking has immense opportunities in a growing economy like India. As the growth story gets unfolded in India, retail banking is going to emerge a major driver.

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. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to India’s retail banking segment.

The combination of above factors promises substantial growth in retail sector, which at present is in the nascent stage. Due to bundling of services and delivery channels, the areas of potential conflicts of interest tend to increase in universal banks and financial conglomerates. Some of the key policy issues relevant to the retail-banking sector are: financial inclusion, responsible lending, and access to finance,
long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

3.6. SCOPE FOR RETAIL BANKING IN INDIA

1. All round increase in economic activity.
2. Increase in the purchasing power. The rural areas have the large purchasing power at their disposal and this is an opportunity to market Retail Banking.
3. India has 200 million households and 400 million middleclass population more than 90% of the savings come from the house hold sector. Falling interest rates have resulted in a shift. “Now People Want To Save Less And Spend More.”
4. Nuclear family concept is gaining much importance which may lead to large savings, large number of banking services to be provided are day-by-day increasing.
5. Tax benefits are available, for example, in case of housing loans the borrower can avail tax benefits for the loan repayment and the interest charged for the loan.

3.7. SIGNIFICANCE OF RETAIL BANKING

3.7.1. RESOURCE SIDE

- Retail deposits are stable and constitute core deposits.
- They are interest insensitive and less bargaining for additional interest.
- They constitute low cost funds for the banks.
- Effective customer relationship management with the retail customers built a strong customer base.
- Retail banking increases the subsidiary business of the banks.
3.7.2. ASSETS SIDE

- Retail banking results in better yield and improved bottom line for a bank.
- Retail segment is good revenue for funds deployment.
- Consumer loans are presumed to be of lower risk and NPA perception.
- Helps economic revival of the nation through increased production activity.
- Improves lifestyle and fulfils aspirations of the people through affordable credit.
- Innovative product development credit.
- Retail banking involves minimum marketing efforts in a demand — driven economy.
- Diversified portfolio due to huge customer base enables bank to reduce their dependence on few or single borrower.
- Banks can earn good profits by providing non fund based or fee based services without deploying their funds.

3.8. RETAIL BANKING ACTIVITIES

Banks' activities can be divided into retail banking, dealing directly with individuals; business banking, providing services to mid-size business; corporate banking dealing with large business entities; private banking, providing wealth management services to High Networth Individuals; and investment banking, relates to helping customers raise funds in the Capital Markets and advising on mergers and acquisitions. Banks are now moving towards Universal Banking, which is a combination of commercial banking, investment banking and various other activities including insurance.

Technology has brought about strategic transformation in the working of banks. With years, banks are also adding services to their customers. The Indian
banking industry is passing through a phase of customers market. The customers have more choices in choosing their banks. With stiff competition and advancement of technology, the service provided by banks has become more easy and convenient.

3.8.1. Internet Banking (E-Banking)

Internet banking (or E-banking) means any user with a personal computer and browser can get connected to his banks website to perform any of the virtual banking functions. In internet banking system the bank has a centralized database that is web-enabled. All the services that the bank has permitted on the internet are displayed in menu. Any service can be selected and further interaction is dictated by the nature of service. The traditional branch model of bank is now giving place to an alternative delivery channels with ATM network. Once the branch offices of bank are interconnected through terrestrial or satellite links, there would be no physical identity for any branch. The Reserve Bank of India constituted a working group on Internet Banking. The group divided the internet banking products in India into 3 types based on the levels of access granted. They are:

3.8.2. Information Only System

General purpose information like interest rates, branch location, bank products and their features, loan and deposit calculations are provided in the banks website.

3.8.3. Fully Electronic Transactional System

The system provides customer-specific information in the form of account balances, transaction details, and statement of accounts. This system allows bi-directional capabilities. Transactions can be submitted by the customer for online update. This system requires high degree of security and control.
3.8.4. **Automated Teller Machine (ATM)**

ATM is designed to perform the most important function of bank. It is operated by plastic card with its special features. The plastic card is replacing cheques, personal attendance of the customer, banking hour’s restrictions and paper based verification.

3.8.5. **Credit Cards/Debit Cards**

The Credit Card holder is empowered to spend wherever and whenever he wants with his Credit Card within the limits fixed by his bank. Credit Card is a post paid card. Debit Card, on the other hand, is a prepaid card with some stored value.

3.8.6. **Smart Card**

Banks are adding chips to their current magnetic stripe cards to enhance security and offer new service, called Smart Cards. Smart Cards allow thousands of times of information storable on magnetic stripe cards.

3.8.7. **Core Banking Solutions**

Core Banking Solutions is new jargon frequently used in banking circles. The advancement in technology especially internet and information technology has led to new way of doing business in banking. The technologies have cut down time, working simultaneously on different issues and increased efficiency. The platform where communication technology and information technology are merged to suit core needs of banking is known as Core Banking Solutions. Here computer software is developed to perform core operations of banking like recording of transactions, passbook maintenance, and interest calculations on loans and deposits, customer records, balance of payments and withdrawal are done.
3.8.8. Real Time Gross Settlement (RTGS)

RTGS is an electronic settlement system of Reserve Bank of India without involvement of papers. To facilitate an Efficient, Secure, Economical, Reliable and Expeditious System of Fund transfer and clearing in the Banking sector throughout India. Real time gross settlement systems (RTGS) are a funds transfer mechanism where transfer of money takes place from one bank to another on a "real time" and on "gross" basis.

3.8.9. Electronic Clearing Service

Electronic Clearing Service is another technology enhancement happened in the banking industry. The customer willing to use this facility is required to fill in the mandate form from the corporate/any utility service institution for ECS mode of credit and debit. The customer needs to prepare the payment date and submit it to the “sponsor Bank” and after that everything happened electronically. So customers can thereby make payments as well as receive all incomes electronically.

3.8.10. Mobile banking

Mobile banking (also known as M-Banking, e-banking, SMS Banking etc.) is a term used for performing balance checks, account transactions, payments etc. via a mobile device such as a mobile phone.

3.9. Challenges to Retail Banking in India

- The issue of money laundering is very important in retail banking. This compels all the banks to consider seriously all the documents which they accept while approving the loans.
- The issue of outsourcing has become very important in recent past because various core activities such as hardware and software maintenance, entire
ATM set up and operation (including cash, refilling) etc., are being outsourced by Indian banks.

- Banks are expected to take utmost care to retain the ongoing trust of the public.

- Customer service should be the end-all in retail banking. Someone has rightly said, “It takes months to find as good customer but only seconds to lose one.” Thus, strategy of Knowing Your Customer (KYC) is important. So the banks are required to adopt innovative strategies to meet customer’s needs and requirements in terms of services/products etc.

- The dependency on technology has brought IT departments’ additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. The increasing use of ATMs and e-banking has placed enormous strain on the working of the systems and procedures followed. Banks have been forced to strike a fine balance between speed and security. The enormous amount of data that are to be fed into the systems calls for robust and very modern technologies and qualified professionals to manage the system. There has been a remarkable increase in speed in delivering services and providing facilities across the branch networks. This has also increased the dependency of banking operations on IT and separate departments to keep the systems continuously running have increased additional responsibilities. It is equally important that banks should maintain security to the advance level to keep the faith of the customer.
Chapter 3: Retail Banking in India—An Overview

- The efficiency of operations would provide the competitive edge for the success in retail banking in coming years.

- The customer retention is of paramount importance for the profitability of retail banking business, so banks need to retain their customer in order to increase the market share.

- One of the crucial impediments for the growth of this sector is the acute shortage of manpower talent of this specific nature, a modern banking professional, for a modern banking sector.

Retail banking has tremendous potential for growth, even though there are stiff challenges to be met. The banks have to judiciously use the available technological facilities to earn competitive advantage by creating successful products in their area of strength. If this is done successfully along with proper care for customers’ security and confidence, the potential in retail banking can be definitely realized.

3.10. STRATEGIES FOR INCREASING RETAIL BANKING BUSINESS

3.10.1. Constant product innovation to match the requirements of the customer segments

The customer database available with the banks is the best source of their demographic and financial information and can be used by the banks for targeting certain customer segments for new or modified product. The banks should come out with new products in the area of securities, mutual funds and insurance.

3.10.2. Quality service and quickness in delivery

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

3.10.3. Introduction of new delivery channels

Retail customers like to interface with their bank through multiple channels. Therefore, banks should try to give high quality service across all service channels like branches, Internet, ATMs, etc.

3.10.4. Tapping of unexploited potential and increasing the volume of business

This will compensate for the thin margins. The Indian retail banking market still remains largely untapped giving a scope for growth to the banks and financial institutions. With changing psyche of Indian consumers, who are now comfortable with the idea of availing loans for their personal needs, banks have tremendous potential lying in this segment. Marketing departments of the banks be geared up and special training be imparted to them so that banks are successful in grabbing more and more of retail business in the market.

3.10.5. Infrastructure outsourcing

This will help in lowering the cost of service channels combined with quality and quickness.

3.10.6. Detailed market research

Banks may go for detailed market research, which will help them in knowing what their competitors are offering to their clients. This will enable them to have an edge over their competitors and increase their share in retail banking pie by offering better products and services.
3.10.7. Cross-selling of products

PSBs have an added advantage of having a wide network of branches, which gives them an opportunity to sell third-party products through these branches.

3.10.8. Business process outsourcing

Outsourcing of requirements would not only save cost and time but would help the banks in concentrating on the core business area. Banks can devote more time for marketing, customer service and brand building. For example, Management of ATMs can be outsourced. This will save the banks from dealing with the intricacies of technology.

3.10.9. Tie-up arrangements

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

In the afore mentioned overall growth and development of Indian Economy, the banking sector headed by the RBI has played a pivotal role. The next section accordingly is devoted to a detailed description and discussion of growth and
development of retail banking sector, its organization, network penetration and reach to the Indian Economy.

The foregoing discussion and analysis lead to the conclusion that banking structure of India is full of potential for growth. Indian banking industry have registered considerable development with significant impact on growth of GDP, a spectacular rise in National income, increase in per capita income and expansion of financial sector of India. For future prospects retail banking has emerged as the showcase of innovation and development, through its various products like personal loan, home loans, educational loans, deposits, credit cards and depository services. Hence there is need of constant innovation of Retail banking, a paradigm shift in bank financing through innovative products and mechanism involving constant upgradation and revalidation of the banks internal system and processes.
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