CHAPTER V

BANK GROUP WISE PERFORMANCE OF COMMERCIAL BANKS UNDER RETAIL CREDIT IN KARNATAKA AND INDIA: AN ANALYSIS
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PERFORMANCE OF COMMERCIAL BANKS UNDER RETAIL CREDIT IN KARNATAKA AND INDIA: AN ANALYSIS

Introduction

In this chapter the secondary data on retail credit extended by commercial banks Karnataka is compared with that of India for the past one decade (2002-2011). Such analysis is made by the researcher under the five heads as listed below:

1. Retail loans – Global and Indian Scenario
2. Performance of Commercial Banks under Retail Credit: Karnataka vis-à-vis India
3. Drivers of Growth in Retail Credit in India
4. SWOT Analysis of Retail Credit in India
5. Issues in Retail Credit in India

5.1 Retail loans – Global and Indian Scenario

The history of consumer finance in India has been a story of growth - in variety, in access, and in freedom of choice. There has been a steady increase in household income and wealth resulting in a higher demand for many products and services, including financial products and services. Banks have responded with innovations which offer consumers more choices, like electronic banking (i.e., direct deposit of paychecks and ATM transactions), credit and debit cards, mutual funds, and complex mortgages. The increasing variety of products was accompanied by broadened access.

Across the globe, retail lending market covers the mortgage and consumer credit market. The number of individual customers in this market is too many and this
diminishes the buyer’s power, as the impact of losing one customer and the resultant financial loss is not significant. The differences in the services and products offered by the retail lending institutions is almost negligible. Since switching costs are often low, consumers are not loyal but opt for the best available rates. In the case of mortgages switching costs are high due to exit fees and other charges, so switching over is slow and cautious. Mortgages are of greater prominence in more developed economies.

The global retail lending market grew by 3.8% in 2011, to reach a value of $32,916.3 billion, representing a compound annual growth rate (CAGR) of 2.7% for the period spanning 2007-2011. Mortgage lending forms the largest segment within the global retail lending market, contributing to over 75% of the market’s total value. The performance of the market is expected to accelerate with an anticipated CAGR of 5.2% for the five year period 2010 - 2015, which is expected to drive the market to a value of $40,389.3 billion by the end of 2015. Comparatively, the European and Asia-Pacific markets will grow at CAGRs of 4.6% and 8.8% respectively, over the same period, to reach $10,566.7 billion and $11,557 billion respectively in 2015. (Datamonitor, 2011)

Earlier to 1990s, the focus of Bank credit in India was on credit to agriculture, industry, and commerce and not on retail lending. Moreover there were many restrictions on retail lending like limits on total amount of housing loans and loans to individuals. Banks were allowed to lend only a specified small percentage of their total lending to individuals for non-productive purposes, within the strict norms of rate of interest, margin stipulation and maximum repayment period. But, this situation changed when the Indian Banking scenario underwent a major makeover with the introduction of the financial sector reforms that started in 1990s. Since then, retail
lending gathered momentum and has grown in leaps and bounds. The share of retail loans in total bank credit in the country increased from 8.3 per cent at end-March 1993, to 13% at end-March 2002 and to 16% at end-March 2011 (Banking Statistics - Basic Statistical Returns, RBI).²

There are 67 banks operating with 6617 branches in Karnataka in 2011. Population served per branch in Karnataka is 11,000 in March 31, 2011 and this is less than the national average population per branch of 13000. This highlights the concentration of banking in the state of Karnataka.

With retail credit booming in India, the state of Karnataka is also experiencing the growth phase of retail credit by banks. Retail loans which stood at 19% of the total bank credit in the state in the year 2002 increased to 23% of the total bank credit by March 2011.

5.2 Performance of Commercial Banks under Retail Credit: Karnataka vis-à-vis India

Performance of Commercial Banks under Retail Credit: Karnataka vis-à-vis India has been studied under the following four heads:

1. Percentage Share of Retail Credit to Total Credit.
2. Composition of Retail Credit.
3. Market Share of Scheduled Commercial Banks of Karnataka under Total Credit and Retail Credit.
4. Bank Groupwise Market Share of Scheduled Commercial Banks under Retail Credit.

5.2.1 Percentage Share of Retail Credit to Total Credit

The RBI’s ‘Report on Currency and Finance’ provides a working definition for Retail Credit as 'Retail or household credit comprises mainly of housing loans,
advances to individuals against fixed deposits, credit card, educational loans and loans for purchase of consumer durables.

Retail credit is emerging as a major component of the total credit both in the country and in the state of Karnataka. The share of retail loans in total bank credit in the country, which was 8 per cent on March 31, 1993 has doubled to 16 per cent at the end of March 2011. In the state of Karnataka also the percentage of retail loans to total credit has increased by 4% in the last decade.

Percentage Share of Retail Credit to Total Credit of Scheduled Commercial Banks in Karnataka vis-a-vis India from 2002 to 2011 is depicted in Table.5.1 and Fig. 5.1
Table 5.1
Percentage Share of Retail Credit to Total Credit of Scheduled Commercial Banks in Karnataka vis-a-vis India from 2002 to 2011
(Rs. in crore)

<table>
<thead>
<tr>
<th>Year (End March)</th>
<th>Total Credit (Rs.)</th>
<th>Retail Credit (Rs.)</th>
<th>Percentage share of Retail Credit to Total Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Karnataka</td>
<td>India</td>
<td>Karnataka</td>
</tr>
<tr>
<td>2002</td>
<td>43,363</td>
<td>6,55,993</td>
<td>8,449</td>
</tr>
<tr>
<td>2003</td>
<td>53,540</td>
<td>7,55,969</td>
<td>11,511</td>
</tr>
<tr>
<td>2004</td>
<td>64,623</td>
<td>8,80,312</td>
<td>17,526</td>
</tr>
<tr>
<td>2005</td>
<td>86,648</td>
<td>11,52,468</td>
<td>25,885</td>
</tr>
<tr>
<td>2006</td>
<td>1,24,508</td>
<td>15,13,842</td>
<td>37,373</td>
</tr>
<tr>
<td>2007</td>
<td>1,70,833</td>
<td>19,47,099</td>
<td>45,696</td>
</tr>
<tr>
<td>2008</td>
<td>1,97,630</td>
<td>24,17,006</td>
<td>51,107</td>
</tr>
<tr>
<td>2009</td>
<td>2,12,325</td>
<td>40,29,077</td>
<td>54,677</td>
</tr>
<tr>
<td>2010</td>
<td>2,33,046</td>
<td>33,45,169</td>
<td>55,050</td>
</tr>
<tr>
<td>2011</td>
<td>2,65,228</td>
<td>40,75,647</td>
<td>61,264</td>
</tr>
<tr>
<td>Average</td>
<td>1,45,174</td>
<td>19,62,011</td>
<td>36,854</td>
</tr>
<tr>
<td>CAGR</td>
<td>19.85%</td>
<td>20.04%</td>
<td>21.91%</td>
</tr>
</tbody>
</table>

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Fig 5.1
Percentage Share of Retail Credit to Total Credit of Scheduled Commercial Banks in Karnataka vis-a-vis India from 2002 to 2011

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Table 5.1 and Fig. 5.1 are explained as follows:

(1) Throughout the period under study (2002 to 2011), there is a quantum leap in both Total Credit and Retail Credit of Scheduled Commercial Banks of Karnataka as well as India. Between 2002 and 2011, the quantum of Total Credit of commercial banks has increased by 6.12 times in Karnataka against 6.22 times in India. During the same period, the extent of increase in Retail Credit is 7.25 times in Karnataka and 8.12 times in India. To be precise, during the period under study, the extent of increase in both Total Credit and Retail Credit is more in India than in the state of Karnataka.

(2) Between 2002 and 2011, the percentage share of Retail Credit to Total Credit has increased by 3.62% in Karnataka and 3.86% in India.

(3) The percentage share of Retail Credit of Scheduled Commercial banks is on the increase from 2002 to 2006 and since 2007 it is on the decline, both in Karnataka as well as India.

(4) Retail credit has accounted for 17% of the total credit on an average for the decade (2002 to 2011) in India and 25% of the total credit on an average for the decade (2002 to 2011) in Karnataka.

(4) Throughout the period under study (2002 to 2011), the percentage share of Retail Credit to Total Credit in Karnataka has followed the same pattern as that of India.

(5) In the period under study (2002 to 2011) the Compounded Annual Growth Rate of Retail Credit was 21.91% in Karnataka and 23.30% in India.

In short, commercial banks in the state of Karnataka have focused attention on Retail Credit as in the whole of India.
5.2.2 Composition of Retail Credit

Retail Credit of Commercial banks may take three forms viz., a) Housing loans, b) Loans for consumer durables and c) Other retail loans. The composition of Retail Credit extended by Commercial banks in Karnataka vis-à-vis India from 2002 to 2011 is depicted in Table 5.2 and Fig. 5.2 and Fig. 5.3.

Table 5.2
Composition of Retail Credit Extended By Commercial Banks in Karnataka Vis-À-Vis India from 2002 To 2011 (in percentage)

<table>
<thead>
<tr>
<th>Year (End March)</th>
<th>Housing Loans</th>
<th>Loans for Consumer Durables</th>
<th>Other Retail Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Karnataka*</td>
<td>India**</td>
<td>Karnataka*</td>
</tr>
<tr>
<td>2002</td>
<td>38</td>
<td>40</td>
<td>1</td>
</tr>
<tr>
<td>2003</td>
<td>46</td>
<td>43</td>
<td>1</td>
</tr>
<tr>
<td>2004</td>
<td>53</td>
<td>48</td>
<td>1</td>
</tr>
<tr>
<td>2005</td>
<td>55</td>
<td>50</td>
<td>1</td>
</tr>
<tr>
<td>2006</td>
<td>59</td>
<td>52</td>
<td>1</td>
</tr>
<tr>
<td>2007</td>
<td>62</td>
<td>53</td>
<td>1</td>
</tr>
<tr>
<td>2008</td>
<td>60</td>
<td>51</td>
<td>1</td>
</tr>
<tr>
<td>2009</td>
<td>61</td>
<td>43</td>
<td>1</td>
</tr>
<tr>
<td>2010</td>
<td>62</td>
<td>55</td>
<td>1</td>
</tr>
<tr>
<td>2011</td>
<td>61</td>
<td>52</td>
<td>1</td>
</tr>
<tr>
<td>Average</td>
<td>56</td>
<td>49</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues

Note: * Percentage share to Total Retail Credit extended by Commercial banks in Karnataka
    ** Percentage share to Total Retail Credit extended by Commercial banks in India
Fig. 5.2
Composition of Retail Credit Extended By Commercial Banks in Karnataka from 2002 to 2011

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Fig. 5.3
Composition of Retail Credit Extended By Commercial Banks in India from 2002 to 2011

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Inferences from Table 5.2, Fig. 5.2 and Fig. 5.3 are given below

(1) Throughout the period under study (2002 to 2011), there is an increasing trend in the percentage share of housing loans in total retail credit of commercial banks in Karnataka (except 2008 and 2011) as well as in India (except 2008, 2009 and 2011). Between 2002 and 2011, the percentage share of housing loans has increased by 23% in Karnataka and 12% in India.

(2) Throughout the study period (2002 to 2011), the percentage share of loans for consumer durables in total retail credit of commercial banks is on the declining trend in India. It has declined from 4% in 2002 to 1% in 2011. Throughout the period under study, Karnataka based commercial banks maintained a status quo level at 1% in the consumer loan segment.

(3) Throughout the period under study (2002 to 2011), there is a gradual decline in the percentage share of other retail loans in total retail credit in Karnataka (except 2008) and India (except 2008, 2009 and 2011). Between 2002 and 2011, the percentage share of other retail loans has declined by 21% in Karnataka against a decline of 9% in India.

(4) Throughout the study period (2002 to 2011), the percentage share of housing loans to total retail credit of commercial banks is more in Karnataka than in India except during 2002. The trend is reversed in other retail loans. To be precise, among the various components of retail credit, commercial banks in Karnataka and in India prefer housing loans since the second of the 2000s.

5.2.3 Market Share of Scheduled Commercial Banks of Karnataka under Total Credit and Retail Credit

This analysis is done to throw light on how much of the total credit and retail credit of India is from the State of Karnataka. Table 5.3 and Fig. 5.4 exhibit the market
share of Scheduled Commercial Banks in Karnataka under Total Credit and Retail Credit from 2002 to 2011

Table 5.3
Market Share of Scheduled Commercial Banks in Karnataka under Total Credit and Retail Credit from 2002 to 2011
(in percentage)

<table>
<thead>
<tr>
<th>Year (End March)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Credit</td>
</tr>
<tr>
<td>2002</td>
<td>6.61</td>
</tr>
<tr>
<td>2003</td>
<td>7.08</td>
</tr>
<tr>
<td>2004</td>
<td>7.34</td>
</tr>
<tr>
<td>2005</td>
<td>7.52</td>
</tr>
<tr>
<td>2006</td>
<td>8.22</td>
</tr>
<tr>
<td>2007</td>
<td>8.77</td>
</tr>
<tr>
<td>2008</td>
<td>8.18</td>
</tr>
<tr>
<td>2009</td>
<td>5.27</td>
</tr>
<tr>
<td>2010</td>
<td>6.97</td>
</tr>
<tr>
<td>2011</td>
<td>6.51</td>
</tr>
<tr>
<td>Average</td>
<td>7.88</td>
</tr>
</tbody>
</table>

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Fig. 5.4
Market Share of Scheduled Commercial Banks in Karnataka under Total Credit and Retail Credit from 2002 to 2011

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Table 5.3 and Fig. 5.4 reveal the following:

(1) Throughout the study period (2002 to 2011), the market share of commercial banks in under Total Credit is on the increasing trend except during three years viz., 2008, 2009 and 2011.

(2) Throughout the period under study (2002 to 2011), the market share of commercial banks in Karnataka under Retail Credit is on the declining trend except during three years viz., 2005, 2006 and 2010.

(3) Throughout the period under study (2002 to 2011), the market share of commercial banks in Karnataka is more in retail credit than in total credit.

(4) During the period under study (2002 to 2011) the market share of commercial banks Karnataka ranges from 5.27% to 8.77% in Total Credit and 6.89% to 10.58% in Retail Credit.

(5) During the study period (2002 to 2011), the average market share of commercial banks in Karnataka stood at 7.88% in Total Credit and 10.66% in Retail Credit.

5.2.4 Bank Groupwise Market Share of Scheduled Commercial Banks under Retail Credit

Scheduled commercial banks in India can be broadly grouped under five categories viz., 1) State Bank Group, 2) Nationalised Banks, 3) Regional Rural Banks, 4) Private Sector Banks and 5) Foreign Banks. An attempt has been made to study the market share of each group of commercial banks under retail credit in India and in Karnataka. This will reveal the concentration of retail lending operations of each group of commercial banks in Karnataka and in India. Bank groupwise market share
of scheduled commercial banks under retail credit in Karnataka and India during the period under study is given in Table 5.4, Fig. 5.5 and Fig. 5.6.

Table 5.4

Bank Groupwise Market Share of Scheduled Commercial Banks under Retail Credit in Karnataka Vis-à-vis India from 2002 to 2011

(in percentage)

<table>
<thead>
<tr>
<th>Year (End March)</th>
<th>State Bank Group</th>
<th>Nationalised Banks</th>
<th>Regional Rural Banks</th>
<th>Private Sector Banks</th>
<th>Foreign banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Karnataka</td>
<td>India</td>
<td>Karnataka</td>
<td>India</td>
<td>Karnataka</td>
</tr>
<tr>
<td>2002</td>
<td>23</td>
<td>27</td>
<td>40</td>
<td>45</td>
<td>5</td>
</tr>
<tr>
<td>2003</td>
<td>22</td>
<td>28</td>
<td>45</td>
<td>43</td>
<td>4</td>
</tr>
<tr>
<td>2004</td>
<td>20</td>
<td>24</td>
<td>43</td>
<td>39</td>
<td>3</td>
</tr>
<tr>
<td>2005</td>
<td>20</td>
<td>26</td>
<td>37</td>
<td>34</td>
<td>2</td>
</tr>
<tr>
<td>2006</td>
<td>20</td>
<td>24</td>
<td>39</td>
<td>34</td>
<td>1</td>
</tr>
<tr>
<td>2007</td>
<td>20</td>
<td>23</td>
<td>39</td>
<td>34</td>
<td>2</td>
</tr>
<tr>
<td>2008</td>
<td>21</td>
<td>24</td>
<td>36</td>
<td>31</td>
<td>2</td>
</tr>
<tr>
<td>2009</td>
<td>22</td>
<td>24</td>
<td>39</td>
<td>27</td>
<td>3</td>
</tr>
<tr>
<td>2010</td>
<td>28</td>
<td>32</td>
<td>40</td>
<td>36</td>
<td>2</td>
</tr>
<tr>
<td>2011</td>
<td>30</td>
<td>32</td>
<td>39</td>
<td>37</td>
<td>2</td>
</tr>
<tr>
<td>Average</td>
<td>22.6</td>
<td>26.4</td>
<td>39.7</td>
<td>36</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Fig. 5.5
Bank Groupwise Market Share of Scheduled Commercial Banks under Retail Credit in Karnataka from 2002 to 2011

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Fig. 5.6
Bank Groupwise Market Share of Scheduled Commercial Banks under Retail Credit in India from 2002 to 2011

Source Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues
Table 5.4, Fig. 5.5 and Fig. 5.6 help to infer the following points:

(1) During the period under study period (2002 to 2011) the market share of commercial banks in Karnataka under Retail Credit ranges from

- 20% to 30% in State Bank group
- 36% to 45% in Nationalised Banks
- 1% to 5% to Regional Rural Banks
- 8% to 31% in Private Sector Banks
- 5% to 23% in Foreign Banks

(2) During the study period (2002 to 2011) the market share of commercial banks in India under Retail Credit ranges from

- 23% to 32% in State Bank group
- 27% to 45% in Nationalised Banks
- 2% to 5% to Regional Rural Banks
- 9% to 34% in Private Sector Banks
- 5% to 14% in Foreign Banks

(3) During the period under study (2002 to 2011), in extending retail credit the performance of Nationalised Banks, Regional Rural Banks and Foreign Banks is encouraging in Karnataka than the whole of India. The performance of State Bank group and Private Sector Banks in providing retail credit is comparatively poorer in Karnataka than in India.

(4) During the study period (2002 to 2011), the average percentage share of Public Sector Banks and Private Sector Banks under retail credit is 22% and 18% in Karnataka and 22% and 17% in India.

Public Sector Banks dominate in extending retail credit both in Karnataka and India.
5.3 Drivers of Growth in Retail Lending in India

In the following pages the researcher has made an attempt to analyse the factors which are influencing the growth of retail credit in India.

1. Economic prosperity

During the decade 2002 to 2011 India grew at an average rate of 6.8 % and this trend is continuing and the economy has recorded growth rate of more than 7% in the year 2012. This growth is reflected in the emergence of the consumer driven markets. More job opportunities have emerged resulting in increase in the level of income. The thin line of demarcation between metros, cities and towns is slowly disappearing. The effective rate of interest has reduced owing to tax incentives for interest paid and principal repayments.

The economic growth has resulted in the increase in per capita income especially for the younger generation. Increased middle-income segment and increase in their income levels is another important factor for the present growth level in retail lending operations.

2. Changing Consumer Demographics

Growth of the Indian economy is reflected in both qualitative and quantitative terms. More of than 70% of the India’s population is below 35 years (Revathy, 2012). Increasing literacy levels and adaptability to technology are the two factors which have helped retail lending to grow. Improved consumer purchasing power, coupled with more liberal attitudes of the younger generation towards personal debt has contributed to the growth of retail banking segment. The attitude of the average Indian has changed from "save and buy' principle to `buy and repay' principle.

Growing concept of nucleus family which has replaced the traditional joint family, has increased the demand for more housing units and other household
consumer durables. Dual income families have resulted in higher income and savings. The migration from rural/semi-urban areas to urban/metro areas for employment has increased the demand for housing. Urban convenience and social status has also increased the demand for housing units, cars and other consumer durables.

3. Technology

Technology has revolutionized banking industry with the concept of ‘fingertip banking’ through internet and mobiles. Retail banking experience is now ‘anywhere banking’ with alternate delivery channels in the form of plastic cards, ATMs, Internet and phone banking. Customer Relationship Management has also augmented the growth of retail lending. Innovations in banking technology and automation of banking processes have enabled extensive extension of reach and rationalization of costs.

4. Government Initiatives

Government has included housing loans and educational loans within the priority sector. Housing loans, up to Rs.25 lakh in metropolitan centres with population above ten lakh and Rs.15 lakh in other centres and educational loans upto Rs. 10 lakh for studies in India and Rs.20 lakh for studies abroad are included under priority sector advances. Banks have stretched repayment periods of retail loans from 15 to 20 years, besides quoting fixed/ variable rates of interest based on their asset liability management structure and study of behavioral pattern of demand and time deposits. Deregulation of interest rate with the option to quote fixed/ variable interest rate and also continuous reduction in bank rate resulted in reduction in lending rates. Foreign investment in India both direct and indirect has created ample liquidity. The inflation risk premium has come down resulting in decline in both nominal and real interest rates, which in turn, had a positive impact on the demand for retail loans.
5. Bank Focus

Financial sector reforms in the 1990s opened more avenues for corporates to raise funds. This has compelled banks to shift their focus to retail assets to look to alternate avenues of lending. Housing loans and other retail loans are comparatively high yielding in terms of interest spread and safety. Risk is diversified among a large number of individuals across the geographic dimensions. Hence the average risk associated with retail loans is lower than corporate loans and risk adjusted return on retail loans is significantly higher. The declining cost of incremental deposits has enabled the Banks to reduce their interest rates on housing loans as well as other retail segments loans.

Banks offer easy and affordable access to retail loans through a wide range of options / flexibility. They finance even cost of registration, stamp duty and other associated expenditures such as furniture and fixtures in case of housing loans and cost of registration and insurance, etc. in case of auto loans. Banks have changed the term of retail loans from that of 3 years to 15/20 years as against their earlier term of 5-7 years. Banks are making borrowing attractive, with provision of value added services and waiver of processing fees / administration fees, prepayment charges, etc. and cost of retail lending is restricted to the interest costs.

6. Other Factors

The consumer goods/ automobile manufacturers too have also started taking up initiative to push up finance schemes through market tie-up with banks with a view to increase their market share. The retail boom has not only pulled the domestic players but even the foreign banks are looking for a share in the pie. The Germany-based Deutsche Bank opened its first Asian retail branch in India in the year 2005 year and entered the credit card segment in 2007. The bank has a lot of expectations
from the sub-continent. Kenneth Borda, Chief Executive (Asia-Pacific, excluding Japan), Deutsche Bank had remarked that India will be the destination outside their home markets.

5.4 SWOT Analysis of Retail Credit in India

The retail lending strategies of banks are undergoing major transformation, as banks adopt a mix of strategies like organic growth, acquisitions and alliances. This has resulted in a paradigm shift in the marketing strategies of banks. Public Sector Banks are adopting aggressive strategies, leveraging their rural branch network and their customer base to earn a larger share of the retail pie. Banks are also going in for innovative strategies like cross selling, packaged selling of retail products and technology based banking. At the same time, new foreign players are also entering this high growth sector.

In retail lending operations, the typical products offered in India are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. The loans are marketed under attractive brand names to differentiate the products offered by different banks. As per the ‘Report on Trend and Progress of India, 2010-11, RBI, the quantum of retail loans of commercial banks typically range between Rs.20,000 to Rs.100 lakhs. The loans are generally for duration of five to seven years with housing loans granted for a longer duration of 15 years. Credit card is another rapidly growing sub-segment in this product group. In the current scenario, banks have been thriving on retail lending.

Given below is a SWOT analysis of retail lending operations of commercial banks in India.
Strengths

(1) Retail banking clients are generally loyal to the bank due to the length of the loan and do not change over to another bank during the tenure of the loan. So customer retention is ensured throughout the tenure of the loan.

(2) Quantum of individual retail loan is relatively small as compared to term loans but more in number spread over a large geographical area. Hence the credit risk of the bank is spread and diversified.

(3) There is less volatility in demand and credit cycle of retail loan as compared to loans to large corporate. Corporate loans are usually credit facilities which keep fluctuating or long term loans of huge amounts, fewer in number.

(4) Housing loans and loans against consumer durables and automobiles which form a major part of the retail loans are relatively safe as they are, in fact, mortgage loans.

(5) Retail credit augments economic development of the nation through increased production activity, due to increase in demand for housing, consumer durables and automobiles.

(6) Affordable and convenient credit enables people to purchase houses and consumer durables, which would otherwise remain a dream thereby improving their lifestyle.

(7) The existing competition initiates banks to evolve new credit products and processes to keep pace with their counterparts.

(8) The diversified portfolio reduces the dependence of the bank on a few borrowers.

(9) There is enough room for non-fund based or fee based services within the retail lending sector.
(10) ATMs, direct debit, e-banking and phone banking makes banking convenient. The customers do not have to be physically present at the bank premises to conduct their transactions.

(11) Large client base facilitates mass marketing and data mining.

Weaknesses

(1) Designing own and new financial products and processes is very costly and time consuming for the bank.

(2) There can be problems in managing large number of clients, especially if Information Technology systems adopted are not sufficiently robust.

(3) Customers are attracted towards other financial products like mutual funds etc.

(4) Banks have to spend heavily on human resource development to monitor and follow up the large number of retail loan borrowers.

(5) In the absence of proper follow-up probability of long term loans like housing loan becoming Non Performing Assets is more.

(6) The small size of individual loans makes it impossible for banks to earn huge profits from a single customer.

(7) The cost of maintaining branch networks and handling large number of low-value transactions tend to be relatively high.

Opportunities

(1) In India the penetration of retail loan products is still very low. Only eight of every 1,000 Indians, own a car, while almost 500 of every 1000 persons own a car in developed countries (Jairam Sridharan, 2011).

(2) Indian Economy is a growing economy with wide scope for banking expansion.
(3) There is still a large amount of untapped market in small towns and rural areas for retail lending.

(4) The increasing movement of middle-income households to high-income households.

(5) There is an improved consumer purchasing power, coupled with more liberal attitudes of the youth towards borrowings.

(6) Increased use of plastic money

**Threats**

(1) Increase in foreign banks coupled with their state of art technological offerings.

(2) Too many players in the market make retention of customers a daunting task.

(3) Increasing trend in loan melas.

(4) Rapid evolution of products can lead to Information Technology complications

(5) Unregulated behavior of Direct Selling Agents

(6) The US subprime crisis may impact sectors which are dependent on overseas orders. If salaries are reduced and jobs pruned, demand for retail credit will reduce. Moreover to meet expenditure on necessities and to pay the EMIs of loans contracted earlier, individuals may resort to credit cards.

### 5.5 Issues in Retail Lending

**1. Customer Retention**

Retention of customers is the major challenge. According to a research by Reichheld and Sasser (1990), 5 per cent increase in customer retention will increase profitability by 35 per cent in banking business, 50 per cent in insurance and
brokerage, and 125 per cent in the consumer credit card market. Thus, banks need to emphasise in retaining customers and increasing market share.

2. Transparency

There is an urgent need to recognize and the associated responsibilities in the area of transparency in the services provided. There is a growing concern that retail customers are being subject to a bundle of hidden costs, which constitute a staggering component of banks’ revenues.

In view of this RBI has issued guidelines for credit card operations of banks, addressing the issues of transparency in interest rates, wrongful billing, protection of customer rights and privacy, fair practices in debt collection transparency in their operations. RBI has also set up an independent Banking Codes and Standards Board of India to ensure a comprehensive code of conduct for fair treatment of customers.

3. Cyber crimes

Even though technology lends a supportive hand to the overall development of the banking sector through internet banking, phone banking, ATMs, Credit and Debit cards etc., cyber-crimes are also on the rise. It is very difficult to keep a check on these crimes.

4. Customer Information

In retail banking, sharing credit history information of households is extremely important. Credit Information Report by bureaus like Credit Information Bureau (India) Limited (CIBIL) is a pre-requisite for sanctioning bank loans. At the same time banks must exercise due diligence before declaring the borrower as a defaulter.

Know Your Customer (KYC) and money laundering risks in retail banking is another important challenge in retail loans. Retail lending is often perceived to be a low risk area for money laundering on account of the amounts involved. In an attempt
to gain new business in the light of the stiff competition, KYC procedures are often being waived. Hence banks must clearly spell out the type of identification documents they will accept and other processes to be completed.

5. Debt Trap

The practice of allowing a credit card customer to pay just 5 per cent of the total outstanding every month looks very convenient but it is actually a strategy to lock him up in a debt trap as it attracts a 3.5 per cent monthly interest rate. The practice of sending unsolicited cards to the existing customer results in multiple cards with a customer with the aggregate credit limits much higher than his repayment capacity.

6. Outsourcing

Finally, outsourcing has become an important issue in the recent past. With the increasing market orientation of the financial system to cope with the competition and benefit from the technological innovations such as e-banking, banks are making increased use of 'outsourcing' as a means of both reducing costs and achieving better efficiency. While outsourcing does have various cost advantages, it has the potential to transfer risk management and compliance to third parties, who may not be regulated.

Direct Selling Agents (DSAs) have become the sole contact point for any prospective customer for retail loans. Even an existing customer cannot approach banks and the bank staff have been trained to deal with prospective customers via DSAs only. Banks do not bother about the business models that these DSA firms have adopted. Operating on a small fixed fee that they receive from banks, DSAs have begun indulging in false promises about the products, finding ways to circumvent banks' credit policies to increase their success rate, and intrude on the privacy of the
customers. The problem of privacy invasion by telemarketing calls had reached such a proportion as to necessitate setting up of a no-call-registry (Finsight Media, 2009).

Hence the key challenges in retail lending include: ensuring customer retention, transparency in the transactions especially in the area of charges levied, tackling cybercrimes, gathering relevant customer information, prevention of debt trap and effective outsourcing. The complexities and risks being induced by technology, competition and innovative products should be clearly understood and translated into the effective business strategies.

5.6 Summary

Retail Credit continues to be a significant component of the Total Bank Credit in India. It accounts for 16.44% of the total bank credit in India in 2011 standing second after Industrial Credit, which accounts for 40%. Agriculture credit is only 11%. Housing loans continue to dominate the Retail Loan Segment while the Consumer Durables Credit is almost negligible. This is because the size of individual consumer durable loan is much lower than housing loans. Other retail loans account for more than half of the retail credit. The major components in this segment are vehicle loans and credit cards. The boom in vehicle loans is attributed to advancement in technology and in credit cards to the ease of shopping.

Public Sector Banks were dominating the Retail Credit segment a decade ago. But now, Private Banks with their state of art technology based services and personalized approach have become the key players in this area. Public Sector Banks have to either adopt technology based strategies combined with human touch or be left behind in the race.

In Karnataka, Housing Credit continues to dominate in the Retail Credit of commercial banks. State Bank Group, Nationalised Banks and Private Banks have
cashed in on this opportunity. Foreign Banks on the other hand have identified the Credit Card segment as being lucrative and with their aggressive marketing strategies carved a niche for themselves in this area.

Overall growth rate of retail loans in India has been declining in the past few years. The main cause for the reduction in growth rate of retail credit has been the decrease in the growth rate of housing loans, which accounts for over 50 per cent of total retail loans. Most bankers attribute the slowdown in housing loans growth to rising interest rates on the one hand and rising property rates on the other. Some of the private sector banks had over 65 per cent of their total loans portfolio as retail loans. These banks had to apply brakes in the wake of rising defaults, which in turn, brought down the retail credit growth of the banking industry.

Inflation control measures by RBI has led to hardening of interest rates, and reduced availability of lendable funds with banks. In October 2008, the liquidity in global financial markets became scarce. In order to meet their commitments back home, foreign institutional investors began selling in Indian equity market, further aggravating the liquidity crunch. Corporates needed bank credit, and were no longer able to negotiate rates below prime lending rates, since all other avenues for raising funds have dried up. The shift from retail to wholesale credit has started.
References