CHAPTER-III

In chapter III the researcher discussed about the theoretical background of retail banking and an overview of retail banking in other countries. An attempt was made to focus on retail banking in various countries and laws that regulate the retail banking.

Introduction to Retail Banking:
Since last three decades the banking service has become too competitive especially when the countries have opened the doors to foreign banks to operate in their countries. The change brought in by foreign established banks and also technology up gradation has changed the bank to customer relationship and at times it is unknown what the customer wants. Whatever the discussions had been in this regard there is overall consensus that efficient customer service and real understanding of the client’s business is absolutely vital. There is no doubt that all banks recognize the importance of high customer service but still there is gap in the services rendered and how the customer is satisfied. Customer service has great significance in all industries especially the service industries like Banking. Globally, Banking has become largest financial service provider. The coverage of banking products is increasing so fast that there is failure of soaring demands of the clients\(^{173}\) (Padmalatha, 2010).

Thus issue of retail banking has significance. Since last two decades globally, retail lending has been a spectacular innovation in the commercial banking sector. The growth of retail lending, especially, in developing economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors. Being a developing country India too experienced a surge in retail banking. Retail loan is estimated to have accounted for nearly one-fifth of all bank credit. Housing sector is experiencing a boom in its credit. The retail loan portfolio became buyer’s market from seller’s market. There were old times when the Indian banks before 1983 were facing credit crunch and to get the retail loan was somewhat cumbersome. All these emphasise

\(^{173}\) Suresh Padmalatha(2010), Management Of Banking And Financial Services
the momentum that retail banking is experiencing in the Indian economy in recent years\textsuperscript{174} (Shyamala Gopinath, 2005).

Banking can be divided into various categories as follows:

- Retail Banking
- Investment Banking
- Both combined
- Islamic Banking.

Retail banking deals with the individuals and small businesses providing services like mid-market business which corporate banking etc is directed at large business entities. The following definitions explain the salient features and aspects of retail banking:

Naile Booker (2001) defined “Retail Banking” as “any loan given to an individual whether secured or unsecured, credit cards or mortgages. Loans to small and medium enterprises are corporate products”.\textsuperscript{175}

According to CMD, Bank of Baroda (2001) “ Retail Banking is core of retail transaction with an individual”.\textsuperscript{176}

Neeraj Swarup(2001) opined that “ Retail Banking is retail business which includes all individuals as well as small businesses especially the lower end of small and medium enterprises”.\textsuperscript{177}

Kamat (CEO, ICICI Bank) (2001) defined Retail Banking as a transaction at individual level.\textsuperscript{178}

Aditya Puri, MD, HDFC Bank(2001) explained Retail Banking as Retail Assets which include loans given to individuals, small business and self-employed people”.\textsuperscript{179}

\textsuperscript{174} Shyalama Gopinath(2005), rbi.org.in.


Almeidia (2003) describes the term “concept of retail Banking” as one which encompasses retail deposit schemes, retail loans, credit cards, debit cards, mutual funds, insurance products, depository services including remote facilities and a host of other services catering to the needs of the individual customer. Retail banking includes various financial services and products forming part of the assets as well as the liabilities segment of the banks.  

Gujral (2003) observed in his study that 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 later is just one side of retail banking. In retail banking all banking needs of the individual customers are taken care of in an integrated manner.

Sood (2003) offered a formal definition of Retail Banking. “As the term retail banking could be catering to the multiple banking requirements of individuals relating to deposits advances and associated services, the retail banking portfolio of a bank encompassed deposits and asset linked products as well as other financial services to individual for personal consumption”.

Retail banking is very broad in nature. It deals with commercial banks, individual customers on assets and liabilities side of its balance sheet. Various types of savings like fixed deposits, current accounts, savings account, etc., on liabilities side and different kinds of loans and mortgages like personal loans, housing loans, educational loans, vehicle loans, etc., on assets side. And the other most important ancillary products that are offered are credit cards, debit cards, depository services, various kinds of insurance, etc.

Retail banking in the present scenario is characterised by three important basic characteristics:

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1. Multiple products (deposits, credit and debit cards, insurance, investment and securities)
2. Multiple distribution channels like call centres, branch internet, Kiosk.
3. Multiple group of customers (individual customers, small business customers and corporate)

**Scope of retail banking:**

- An all round increase in the economic activity results in increase in scope for demand for retail banking products.
- There is an opportunity to market the retail banking products as there is increase in the purchasing power of the rural people at their disposal.
- Around 90% of the savings comes from the household sector because 200 million houses holds and 400 million middle class populations are there in India. And as a result of reduction in the interest rates there is shift in the attitudes of people from saving more to spending less. Thus opportunity for retail banking market.
- Not only increase in the large savings but also the need for large number of banking services to be provided is increasing day by day due to the concept of nuclear family.
- Tax benefits given by the government on the retail banking products encourage the people to use these products and thus resulting in the market for these retail banking products. For example: On housing loans the borrowers can avail tax benefits for the loan repayment and on the interest charged on the loan.

**Types of Retail Banking:** The retail banks are generally classified into

1. **Commercial Bank:** It is a normal bank that distinguishes from an Investment Bank. The US congress after the Great Depression required banks that are engaged only in banking activities, which is different from Investment Bank that is limited to capital market activities. Some people use the term commercial bank for a bank or a branch of bank that deals mostly with loans and deposits from corporate and large businesses.

2. **Community Bank:** The financial institutions that operates locally and empower the employees to make local decisions in order to serve their customers and the other partners.

3. **Community Development Bank:** The regulated banks that serve the underserved markets or population with various financial services.
4. **Postal Savings Bank**: The national postal system that offers services related to savings banking.

5. **Private Bank**: The banks that basically manage the high net worth individual’s assets.

6. **Offshore Bank**: Banks those are located in the jurisdiction with low tax rates and regulation. Generally many offshore banks are private banks.

7. **Savings Bank**: Savings Banks have its roots into 18th or early 19th century. The basic objective of savings bank was to offer easy accessible savings products and services to all categories of public. The savings banks were created on public initiation in some parts of the world where as they were started by some socially committed individuals to put in place the necessary infrastructure. These days’ European savings banks started focusing on retail banking: payments, savings products, credits and insurance for individual customers, small and medium-sized enterprises. These savings banks differ from commercial banks not only in focus on retail banking but also by their decentralised distribution network, which provide local and regional outreach and by their social responsible approach to business and society.

8. **Building Societies**: These are the organisations which just conduct retail banking.

9. **Ethical Banks**: The banks that give more importance to the transparency of all the operations and make only social-responsible investments.

**Retail Banking in India:**

Retail banking is not a new concept in India. It was prevailing in India in various forms. During the last few years, retail banking has been considered synonymously with the mainstream banking by many banks.

The most important and classic products that are offered by the Indian retail banks are housing loans, auto loans, personal loans, consumption loans for the purchase of durables, credit cards, debit cards, educational loans, insurance, etc., These products are marketed by attractive brand names to differentiate the products offered by different banks. These loans are generally for a period of five to seven years except the housing loans which are for a higher duration of around 15 years. In this group of products offered by retail banks, Credit cards are a very rapidly growing sub-segment.

In recent past retail lending has turned out to be a key profit driver for banks with retail portfolio constituting 21.5 per cent of total outstanding advances as on March 2004. The
overall impairment of the retail loan portfolio worked out much less than the Gross NPA ratio for the entire loan portfolio.\textsuperscript{183}

In the retail banking segment, the less gross asset impairment is for housing loans. In the banking sector, more business is possible with retail products. Even though the private banks are in better position to create a niche in this regard, public sector banks did not lag behind. Instead public sector banks are in a position to acquire more market share when compared to the private sector banks with their vast branch network. The Indian retail banking is having more scope in the international markets. When compared to other countries in India the retail loans constitute very small portion of GDP (7\%) where as in Asian economies (35\%), South Korea (55\%), Taiwan (52\%), Malaysia (33\%) and Thailand (18\%). There is probability that the growth numbers get somewhat exaggerated as the retail banking in India is still in the growing state from the modest base. Thus, prudence implementation in interpreting the growth of retail banking in India is required.

A vital component of the supply chain, customer interface was missing during the time when channel innovation has become the order of the day to motivate effective banking practices among the customers. After the liberalisation, the banking sector made a head fire up towards the best banking practices at every interaction point in the total supply chain.

**Multi channel distribution:**

With the technological advancement, the new distribution modes of the banking products have emerged. These days the customers have varied choice of products. Even the banks are trying to familiarize the customers with the new product range and facilities along with anticipation of reduced costs and ease of operations and flexibility to its customers. For example, the transaction cost of Rs35-45 is collected in the physical presence of the customer at the branch, Rs7 through a cheque and only Rs2 on the internet. The simplicity in transactions through different channels attracted people to the banks not only for banking products but also for the ancillary products like the payment of insurance premium, utility bills, railway reservations, etc. In India there are around 45000 ATMs and the cash movement through ATMs is between Rs70000- 75000 crores each year. When new channels are introduced, they should be integrated indicating the use of channels to enhance customer

information and value. Thus, for the survival of any bank, they need to think of integrating different channels that are bound to grow with time.

In order to get closer to the customers, the banks have picked up a shade by separating sales and service functions. The customer integration was stimulated by offering services through call centres. Even though the call centre services were appreciated, only few changes have been affected since then and they have been losing their effectiveness.

1. To change the database, improve and increase the call centres in and around the customers instead of product per se. Then the main objective would be to excavate the information about the products and service them in an instant without much delay.

2. By improving the technology banks can redefine the minimum waiting time of a caller before they terminate their call for want of service from the executives, towards upgrading the service levels of the banks.

Technology:
Both public sector and private sector banks are becoming tech savvy. This is taken as a competitive advantage among banks and for the real product differentiation. Banks are trying to venture into the new areas of cross selling the products through different channels by using the advanced technology. With the advent of advanced technology banks are in a position to provide quicker, cheaper and reliable services with coverage and higher cost savings. Nevertheless people should not get muddle with new technologies as the statistical information does not support the scheme of technological assault. Even today, before launching any new product or service or feature, the banks should allow the previous facilities to be submerged in the culture of the customers. The earlier facilities should be rooted with services so that customers welcome new technology and are ready to use it.

Rural exposure in retail banking:
Prior to appointment of Narasimham Committee in 1991, there was a drastic reduction in new branches in the rural areas due to lack of potential and infra structure in these areas. But later the Committee has forced the philosophy on markets and succeeded in building a stable financial system unique to the Indian economy.

During March1994- 2000 the number of branches in rural areas came down from 35329 to 32734, while the number of branches in semi-urban areas increased from 11890 to 14723. When it comes to the urban areas the number of branches rose to 10447 from 8745. In case of
metros the branches increased to 8557 from 5839. Still, around 98.5% of the rural borrowers prefer informal financing for loans below Rs.2 lakhs. Now the agricultural lending by commercial banks is on par with the outstanding personal loans of rural consumers.

**Drivers of retail business in India:**

The basic reasons for retail business in India are the economic prosperity and increase in purchasing power which has given zest to a customer boom. During the last 20 years from 1992, the Indian economy grew at an average growth rate of 6-8% and continues to grow almost in the same range, unlike many countries in the world. Even according to the BIRC report of the Goldman-Sachs, Brazil, Russia, India and China have bright future and also mentioned that Indian demographic advantage is an important positive factor for India. The changing customer demographics signify more prospective growth in the consumption both quantitatively and qualitatively. The reason for this is that around 70% of the population is in the age group of 30-40 years (young population). Along with these, another most important factor is the technological advancement. Convenient banking facilities like credit cards, debit cards, internet banking, phone banking, anytime and anywhere banking, etc., have attracted the new customers into the field of banking. The main contribution for the growth of retail banking in India is from the technological innovations such as increased usage of credit/debit cards, ATMs, phone banking, internet banking, etc.

**Duties of Retail Bankers:**

The duty of the retail bankers are complex and needs continuous improvement and for that they require committed staff to serve their customers. Their main duties are to provide the infrastructure facilities, adequate space, proper furniture, drinking water facility, special emphasis on pensioners and disabled persons. To provide separate enquiry counters to assist the customers for gathering general information. The bankers should take proper measures in providing indicator boards in bilingual as some of them may not understand English language. They need to provide a Public Relation Officer (PRO) to help the customers to get the proper forms and vouchers and advise them how to fill these forms. In order to provide details about all the banking facilities the bankers should provide the customer brochures and educate the customers regarding the facilities they are offering. The banker should conduct customer service audit and customer surveys to identify the response of their customers and to measure their satisfactory level, so that any lapses can be rectified to serve their customers to the possible extent. In every branch the banker should provide a display board for displaying the
rate of interest for different maturity, Prime Lending Rate, Charges for Demand draft, pay Order, TT and SWIFT etc and whenever there are changes in these rates, they should be reflected on the display board. The bankers should take initiation in conducting regular customer meets at least once in a quarter to get the feedback and record the minutes and necessary action should be taken to solve the problems of the customers to the possible extent. Along with providing the best possible services to the customer, in order to encourage the staff of their own branch the manager should reward the best employee for providing excellent service at least once in a month. This will boost the morale of the employees and serve the bank whole heartedly.

Advantages and Disadvantages:
Retail banking in India has innate advantages outweighing certain disadvantages. The advantages are viewed from the angle of assets and resources.

Advantages from resources angle:
The advantages of the retail banking from the resources angle means the strength the retail bankers have in the form of borrowings, investments, revenues etc. The retail deposits are secured and comprise of core deposits and these deposits are interest insensate and have less bargaining for additional interest. Regarding the funds required for the loan disbursement the retail banks gets the funds at a lesser cost from the banks. The customers are also treated as a best resource for the banker. Thus in order to have a strong customer base can be built for the retail customers by providing effective customer relationship management which in turn increases the subsidiary business for the banks.

Advantages from assets angle:
The edge of a banker over other competitors in the market can be decided based on the yield and bottom line that can be improved for the banks with the help of retail banking, the revenue deployment is considered to be a good opportunity for the banker to have growth in the retail segment. Generally the consumer loans are relatively of low risk and non–performance rate is also less thus resulting in increase in productivity. Through increased productivity, the economic revival of the nation is possible. Even the customers get benefited out of the asset strength of the bankers as the banks, by providing affordable credit for the people, it improves their lifestyles and the aspirations of the customers are fulfilled which resulted in reduction in the marketing expenses of the banks as the economy was converted
into a demand-driven economy. Even the bankers dependency was shifted few borrowers to many with diversified portfolio services and strong customer base. Bankers were also providing non-fund based and fee-based services, banks can earn profits without deploying funds which helps them generate revenues without any investments.

**Disadvantages:**

To be innovative and different from others every banker should invest huge amounts of money and time for designing of new and unique financial products which may be considered as a major limitation for the banks. Even if the banks invest time and money to develop the new products and services with new technology if the banks are slow in adopting new technology, it becomes difficult for the banks to retain the customers because these days’ customers prefer quick and easy banking rather than slow and traditional ways. These results in banks failure to exploit the technological though huge amounts in are invested in it. To monitoring and follow up of huge volume of loan accounts becomes a major disadvantage because it induces banks to spend heavily in human resource department. Even the long-term loans like housing loans may lead to non-performing assets because of its long repayment period, without proper follow-up. It becomes a major limitation for the banks if proper follow up is not there in these aspects.

At present, the profits from the individual customer is decreasing because the banks do not have the opportunity to exploit the advantage of earning huge profits from a single customer as in the case of wholesale banking since the volume of amount borrowed by a single customer is very low when compared to the wholesale customer and because of the cut throat competition in the banking sector the bankers are even sacrificing their profits futher.

**Opportunities and challenges of retail banking in India:**

Immense opportunities exist for retail banking in a growing economy like India. The retail banking in is emerging as a major driver, when the story of retail banking is unfolded. According to the report given by BRIC, India is considered as an economic super power. A.T.Kearney, a global management consultancy firm, identified India as the “second most powerful and attractive retail destination” out of 30 developing markets.

The most important contributory factor in this case is the rise of the Indian middle class. The main reason for this is the rise in the percentage of middle to high income households. The younger generation is using increasing purchasing power and also acquiring personal loans
very easily when compared to their previous generations, thus contributing to Indian retail banking segment.

The retail banking, which is in the emerging stage, enjoys substantial growth with the combination of above factors. The areas of potential conflict of interest tend to increase in universal banks and conglomerates because of bundling of services and delivery channels. The key policy issues related to retail banking are: financial inclusion, responsible lending and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

**Challenges for the industry and stakeholders:**

Retaining the customer is the biggest challenge in the retail banking industry. According to the research conducted by Reichheld and Sasser in the Harvard Business Review, the profitability increases by 35% in banking industry, 50% in insurance industry and brokerage, 125% in the customer credit card market with just 5% increase in customer retention. As a result more emphasis in retaining customer and increasing market share.

Next important challenge is the rise in the indebtedness may turn to be a cause for concern in the future. Compared with the developed countries where the household debt as a proportion of disposable income in very high, creates uncertain scenarios in countries like India. The Reserve Bank of India, as a temporary measure, increased the risk weight from 100% to 125% in case of customer credit which includes personal loans and credit cards in connection with the concern for the high growth witnessed in the customer credit segments.¹⁸⁴

Next is the information technology which poses opportunities as well as challenges. In spite of having ATM machines, Internet Banking still many of the customers in India prefer personal banking as it gives personal touch of their neighbourhood bank branch.

Though the technology has made it happen to deliver the services throughout the branch bank network, by providing instant updates to checking accounts and rapid movement of money for stock transfers, the dependency on the network has brought the IT departments’ additional responsibility and challenges in managing, maintaining and optimising the performance of retail banking networks. Demonstratively, in order to generate revenues and remain

¹⁸⁴ Mid-term Review of Annual policy, RBI, 2004-05
competitive the retail banks should ensure that all bank products and services are available, at all times and across the entire organisation.

Making sure the account transfer application run between the branch offices and data centres is yet another specific challenge faced by the retail banking sector.

Fourthly, the next challenge faced by the retail banking industry is the KYC (know your customer) issues and money laundering risks. For the reason that the perception of the sums involved retail lending is considered as a low area for money laundering. However, the competitors for the customers may lead to KYC procedures being relinquished in the proposal for new business. The Reserve Bank of India has issued detailed guidelines regarding the application of KYC norms during November 2004.

**Challenges to Retail Banking in India**

The most important challenge faced by the Indian retail banking is the issue of money laundering. It compels the banks to consider all the documents which they accept while completing the transaction thus resulting in more paper work for even a small transaction.

Yet another challenge faced by the bankers is the issue of outsourcing, this has become very common in the present period, services like hardware and software maintenance, entire ATM setup, are being outsourced by all Indian banks. Banks are expected to be safeguard the assets of the customers and review at periodical intervals which is 100% not possible because of outsourcing of certain crucial activities like security services.

With regard to “Customer Service” it is rightly said that it takes a minute to lose a customer and takes months to add one, which signifies the customer service in all the operating banks in India.

**Steps taken by Banks to Improve Retail Banking**

All the banks are maintaining database for all their clients according to their needs so that they can launch an innovative product depending upon the needs of the clients and

[^185]: http://www.docstoc.com/docs
also promote especially in areas where it is most needed. The banks come out with new products with area of securities, mutual funds and insurance.

It is most critical as most of the banks are offering similar type of products with same type facilities, what matters most is the service quality and efficiency in the area of operation. The banks with more efficiency and lower cost have become more famous. These banks try to add new additions to the existing customers which they can use without additional changes which help them to retain the clients. In order to provide quality and efficient service, the banks should have more number of branches as the single branch or limited branch banks are becoming unsuccessful as the customers now desire the number of places to operate like branches, ATM’s and internet etc.

India a vast country and number of ATM’s and fund managers and internet banking has been limited to only few of the developed areas. People living in rural areas, where these facilities are yet to be introduced are unexploited areas. There is tremendous scope in India for retail banking. In rural areas in Rural Banks are mainly concentrated on agriculture finance, the need for their consumption loan or personal loan is yet to be highlighted.

Private Banks and Foreign banks are unable to compete with Public Sector Banks due to their network of branches. These banks get the benefit of promoting third party products easily through their wide network. Thus there is need to establish more number of branches and ATM in the country and provide better services in order to attract the customer.

Outsourcing being an important factor in running a unit, RBI has stipulated detailed guidelines regarding the outsourcing of the activities. There are some of the activities which remain out of preview of outsourcing. However, considering outsourcing as focal issue Banks outsource only DSA’a for while keeping the discretion of acceptance of rejection at their level. Banks now contribute more time on Marketing of big clients, customer service and brand building.

All banks are now aware that the margins are squeezing and customer is price sensitive they are making tie up arrangement for the customers across the country to take advantage of falling interest and stiff competition. It is a fact that SME lending and
retail lending is more profitable than the corporate banking and to keep each bank to retain its portion they need to emphasize of the retail lending. Banks come out with innovative products and it is not the Survival of Fittest but it is Survival of Fastest (http://www.docstoc.com/docs)

**Future of Retail Banking:**
Retail banking is having a bright future in the developing countries like India and proper measure has to be taken to expand the retail banking business. The accelerated retail growth has been on a historically low base, so the bankers should take necessary steps for their growth.

In the Indian retail banking segment the penetration continues to be significantly low compared to global bench marks thus marketing strategies should be revised to promote the products and services offered by the banks.

The share of retail credit is expected to grow from 22% to 36% which results in retail credit expected to grow to Rs 575, 000 crores by 2010 at an annual growth rate of 25%. And the economy is expecting dramatic changes are expected in the credit portfolio of banks next 5 years.

Housing will continue to be the biggest growth segment, followed by Auto loans, in the next few years based on the growing requirements of the customers. So, banks have an opportunity to attract the customers by offering attractive packages to them regarding these services. Banks should also diversify their markets by shifting their focus from urban to semi-urban and rural markets. They should also extend their services to varied income and demochart ic groups.

**Retail Banking In other Countries:**
The retail banking sector in the worlds economy is confronting a tough time. The uncertain economy and credit crisis, prospective disturbance in pricing models and the media influence are here with new challenges for the whole industry. These challenges are dealt by banks of different countries in different ways:

1. **Retail Banking in Australia:**
   Until 1980s, the Banking industry in Australia was tightly regulated. It was impossible for the foreign banks to establish their banks in Australia till that time. For this reason the number of
banks in Australia were very less when compared to that of United States or even Hong Kong.
The banks in Australia are classified into two types

1. Savings Banks
2. Trading Banks.

Savings Banks: These savings banks are restricted for providing mortgages to the borrowers and they never paid any interest to their depositors.

Trading Banks: These banks did not provide any services to the general public rather they confined themselves to merchant banking.

The non-banking financial institutions (NBFIs) thrived well in Australia because of numerous restrictions on banks. These organisations were subjected to little flexible regulations in terms of providing and charging higher interest rates but were restricted on the range of services offered by them to the general public.

The common wealth Bank of Australia played the role of central bank initially, then a government owned bank which is commercially operated performed it, but this caused inconvenient for the other banks thus, this task was performed by the Reserve Bank of Australia in 1961.

With the Campbell Inquiry, the Australian financial industry began to deregulate. The distinction between the savings and trading banks was removed along with the general loosening of regulations on banks. Thus, the foreign banks got the opportunity to open their branches in Australia more easily.

With the removal of banking restrictions, the banks geared up with ambitious plan to compete with others started to provide uncontrolled credit lending with poor screening practices. Later on some of the largest building societies attained the status of banks where as small NBFIs disappeared.

At present the Australian banking sector is dominated by four major banks namely

1. Australia and New Zealand Banking Group
2. Commonwealth Bank of Australia
3. National Australia Bank
To prevent mergers between the four major banks the Australian government has “Four Pillar” policy. This policy reflects the broad political popularity of bank mergers. This policy of four pillars was built upon economic fallacies and works against the nation’s better interests.

**Top five banking groups in Australia based on market capitalization:**

The top five banking groups in Australia based on the market capitalization is shown in the table 3.1.

Table 3.1 showing Top Five Banks in Australia on the Market Capitalisation.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Market capitalization (AU $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commonwealth Bank</td>
<td>$58.2b</td>
</tr>
<tr>
<td>2</td>
<td>National Australia Bank</td>
<td>$52.8b</td>
</tr>
<tr>
<td>3</td>
<td>Westpac</td>
<td>$48.8b</td>
</tr>
<tr>
<td>4</td>
<td>Australia and New Zealand Banking Group</td>
<td>$44.2b</td>
</tr>
<tr>
<td>5</td>
<td>St.George Bank</td>
<td>$15.0b</td>
</tr>
</tbody>
</table>

**Other Retail Banks:** St.George Bank, Bendigo Bank, BankWest, Suncorp-Metway and the Bank of Queensland are the emerging competitors to the “big four” banks. and many small regional banks are expanding in Australia. Along with the regional banks the foreign subsidiary banks are also growing, but only few of them have the retail banking services in them.

**List of Foreign Subsidiary Banks**

1. Arab Bank Australia Limited
2. Bank of China (Australia) Limited
3. Bank of Cyprus Australia Limited
4. Bank West (the trading name of Bank of Western Australia Ltd, a foreign subsidiary bank following its sale to Bank of Scotland in December 1995)
5. Citigroup Pty Limited
6. HSBC Bank Australia Limited
7. ING Bank (Australia) Limited
8. Investec Bank (Australia) Limited
9. Laiki Bank (Australia) Ltd
10. Rabobank Australia Limited (a subsidiary of Rabobank Nederland from October 1994)

**Banking Regulation in Australia:**

Australian Prudential Regulatory Authority (APRA) is the regulatory authority for the banks in Australia. APRA is responsible in regulating the banking sector, insurance sector, superannuation companies etc.

**2. Retail Banking in Canada:**

Banking in Canada is one of the most efficient and safest banking systems in the world.186 According to the Department of Finance, Canada’s banks, also called chartered banks, have over 8,000 branches and almost 18,000 automated banking machines (ABMs) across the country.187 In addition, "Canada has the highest number of ABMs per capita in the world and benefits from the highest penetration levels of electronic channels such as debit cards, Internet banking and telephone banking".

With the establishment of Bank of Montreal in 1817 the Banking of Canada shifted from colonial overseas banking operations to the local system. Later many other banks started their operations after a lengthy approval procedure. They issued the local currency notes till the amendments in the British North America Act in 1866 which allowed the federal and provincial governments to introduce their own currency notes. Only in 1871 the official Canadian currency came into existence overruling the individual banks. The remarkable mile


stone in the history of Canadian Banking and monetary governance is the establishment of the Bank of Canada in the year 1935.

In spite of heavy losses because of the Latin American debt crisis, collapse of Olympia and York, Enron related liabilities etc, the top five banks proved to be safe and stable banks. For instance, the Royal Bank of Canada paid common share dividend every year since 1870.

According to Department of Finance, only two small regional banks failed during 1980s along with Home Bank. There were no bank failures even during the period of Great Depression.

During 1980s and 1990s, the top banks in Canada acquired the significant trust and brokerage companies in the country and also started mutual fund and insurance business on their own. Thus, Canadian banks became supermarkets of financial services.

The Canadian banks started expanding their business to international markets especially to the US markets as the federal government regulated the bank mergers in their country.

The two important developments in the history of Canadian Banking were the establishment of ING Bank of Canada and emergence of non-bank mortgage origination companies.

The banks in Canada are classified into two categories, they are

1. The five large National Banks
2. The smaller second tier banks.

The five largest national banks include

1. The Royal Bank of Canada
2. The Toronto Dominion Bank
3. The Bank of Montreal
4. The Bank of Nova Scotia and
5. The Imperial Bank of Commerce

These Big Five banks are described as international financial conglomerates rather than just Canadian Banks, each having large banking division in Canada. In RBC’s Canadian banking segment called Personal Financial Services which is traditionally thought as Retail Banking. The retail operations of the Canadian Big Five comprises of many services which need not be
included in the routine banking operations such as mutual funds, insurance, credit cards, brokerage activities etc.

Some of the smaller second tier banks include:

1. The National Bank of Canada
2. The Mouvement Desjardins (this is technically not a bank but it is a credit unions alliance)
3. HSBC Bank of Canada and
4. ING Bank of Canada.

These second tier banking institutes are domestic banking organizations. Even the Insurance companies in Canada also created deposit-taking bank subsidiaries.

3. Retail Banking In United States:

During 1781, the banking in United States was started with the act of United States Congress which established the Bank of North America in Philadelphia. Initially the private banks were printing their own currency notes backed by the gold and silver deposits, but after the American Revolutionary War, the Bank of North America was given the monopoly power on currency printing.

The Bank of North America was proposed as a commercial bank which would act as a fiscal agent for the government by the first Superintendent of Finance Robert Morris, who was appointed under the Articles of Confederation.

Under Article One, Section 8 of the United States Constitution United States Congress chartered the First Bank of the United States after The Bank of North America in 1791. However the congress could not renew the charter for the Bank of the United States, which expired in 1811. In the same way the Second Bank of United States was chartered in 1816 and closed in 1836.

In order to retire the greenbacks that were issued to finance the North’s effort in the American Civil War, the congress passed the National Bank Act in 1863. This helped the banks to charter nationally. In 1865 congress began to tax any issue of state bank notes which are also called as “bills of credit” or “scripts”. This resulted in the invention of the demand deposit account also called checking account. By 1880s the primary source of revenue for
many banks were changed by the deposit accounts. The outcome of these events is the “dual banking system.”

Before 1989 the national banks participated in the FDIC, while the state banks were required to have FDIC insurance by state law or they could voluntarily join it. With the enactment of Federal Deposit Insurance Corporation Improvement Act in 1989(FDICIA) it became mandatory for all the commercial banks that were accepting deposits, to obtain FDIC insurance and to have a primary federal regulator.

**Deregulation:**

The distinction between the banks and other financial institutions in the United States was reduced by the Legislation passed by the federal government in 1980s i.e. the Depository Institutions Deregulation and Monetary Control Act 1980 and the Garn-St.Germaine Depository Institutions Act 1982. This legislation is termed as “deregulation.”

The deregulation resulted in the failure of around 500 savings and loan associates during 1980-88 and also made responsible for the failure of the Federal Savings and Loan Insurance Corporation (FSLIC) in 1989. However the Libertarians pointed out the federal government for the attempt of deregulation as it granted easy credit to the federally insured financial institutions, encouraging them to extend themselves to the extreme and thus fail.

4. **Banking in Switzerland:**

The most important features of Banking in Switzerland are stability, privacy and protection of clients’ assets and information. From the Middle Ages itself the country was practicing the tradition of bank secrecy and it was codified in 1934 law.

The banks Switzerland are regulated by the Federal Banking Commission (FBC). Switzerland is a stable, economically advanced and rich nation, having a gross domestic product (GDP) higher than many large western European countries. More over, the value of the Swiss Franc has been relatively stable compared to that of other currencies.\(^{188}\)

Because of the neutrality and national sovereignty Swiss could foster a stable economy which enabled banking sector to develop and thrive. Even though it is near Europe's geochartical centre, Switzerland maintained neutrality through both World Wars; is not a member of the

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European Union or the European Economic Area; and was not even a member of the United Nations until 2002\textsuperscript{189, 190}. At present it is estimated that one-third of the funds held outside their country are kept in Switzerland.

In 1930 the Bank of International Settlements established its headquarter in the city of Basel, an organization that facilitates the world’s central banks. BIS preferred Switzerland because of its neutrality, an important aspect for an organization founded by countries that had been on both sides of the World War I.

The independent agency of the Swiss government within the Federal Department of Finance, The Federal Banking Commission supervises the banking related activities including securities markets and investment funds. Regulatory authority is derived from several statutes.

**Laws and Regulation:**

The Swiss Banking Ombudsman Foundation, which was established by the Swiss Banker Association, founded the office of the Swiss Banking Ombudsman in 1993 offered services free of charge including mediation, assistance to the people in search of dormant assets.

**Banking law of 1934:**

In 1934 a law was passed by the Swiss Parliament called the Banking Law to codify the rules of secrecy and to criminalize the violation of it. Initially the provisions for secrecy were not included in the law, which was mainly related to the administrative matters such as bank supervision. These provisions were added before the passage of the bill due to Nazi authorities found in Article 47(b) attempts to investigate the assets of Jews and enemies of the state held in Switzerland.

A system called Swiss Interbank Clearing (SIC) is used for the electronic payments by not only the Swiss banks as well as the post offices. This system is under the supervision of the Swiss National Bank and is operated as a joint venture.

In Switzerland around 408 authorized banks and securities dealers exist. Out of which two are big banks and even the small banks serve the needs of a single community or for a few special customers.

\textsuperscript{189} ibid.

\textsuperscript{190} “Country profile : Switzerland”(2006). BBC News 26\textsuperscript{th} March
UBS AG and Credit Suisse are the two largest Swiss banks and account for about 50% of the total Switzerland Deposits. Each bank has extensive branches throughout the world. Extra degree of supervision exists on these two banks by the Federal Banking Commission because of their size and complexity.

Panama and Singapore have attracted the depositors who seek privacy and protection, with the changes in the Swiss bank secrecy regime. Singapore strengthened penalties for violators of bank secrecy in order to make its banks more attractive and modified its laws on trusts and inheritance. Singapore is also now the location of Credit Suisse's international banking headquarters.  

The Latin America’s largest banking centre is in Panama where major international banks are situated. The banking system in Panama is far stricter than other States of the United States and other Caribbean banking centres.

5. Retail Banking in Turkey:
In the dynamic economy of the Turkish financial system, banking sector plays an important role. All most all the capital market activities and money transactions are carried out by the banks only. Most of the state owned banks were established to finance a particular industry such as agriculture whereas the privately held banks support large industrial groups and holdings for mutual benefits.

During early 1800s when the first banking activities started, all the quasi-banking activities were carried out by the money-changers and the Galata bankers. The Ottoman Empires’ financial situation deteriorated after the Crimean war, and it required external financial support. During this period many foreign banks came to Istanbul to provide the financial assistance through extending credit at high interest rates. In 1856 the Ottoman Bank was established with its head office in London and was treated as the Central Bank till 1930s. The Central Bank was established in the early 1930s with the routine responsibilities of issuing banknotes, protecting the currency, regulating the banking system and credit management in the country. The Central Bank has the additional responsibility of financing the government’s budget deficits and market loans to public and private banks. Later after

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1983 the Central bank started to concentrate on the supervisory functions and reduced the activity of lending.

At present there are around 50 foreign banks when compared to that of 4 banks during 1980. This rapid growth is because of the liberalized conditions of the Turgut Ozal government. To promote the financial market developments a series of reforms were adopted during this period. The foreign exchange rates and the interest rates were liberalized; the entry of new players into the banking system including the foreign banks was encouraged to operate in Turkey.

All the banks in Turkey are focused according the Banks Act and to the provisions of other laws relating to the banks. in order to safe guard the benefits and rights of the depositors a new law brought in to force the Banking Regulation and Supervision Agency(BRSA or Turkish BDDK). A representative body of the banking system called The Banks Association of Turkey (BAT or Turkish TBB) was established in order to promote and protect the professional interests of the member banks.

**Banking services in Turkey:**
Wide range of retail banking services is offered by the major banks in Turkey catering for the residents and non-residents. Many large banks offer business and corporate banking services.

The major banks offered internet banking and telephone banking along with the retail banking services like

1. The investment products and services
2. Deposit and account savings
3. Personal loans and mortgages
4. Checking Accounts
5. Money transfer services
6. ATM banking services
7. Credit cards etc.