CHAPTER 4

Retail Banking Industry in India

Indian banking sector constitutes the edifice of the Indian Financial System. A comprehensive understanding of the Indian financial system and how banks are closely knit in it should provide a base for understanding the importance of Indian retail banking and how customer relationship management works in strengthening the financial system for hastening the economic development of India.

4.1. Indian Financial System

The economic development of a nation depends upon the progress of the constituent economic units, broadly compartmentalized into household sector, corporate sector and Government. While discharging their duties, these units will be positioned in a surplus/deficit/balanced budgetary situation.

On the one hand, we have people or sector with surplus funds, while on the other, there are those confronted with a deficit. A financial system acts as an intermediary to aid the flow of funds from surplus to needy sector.

Financial System: It is a complex and closely connected composition of multiple institutions, markets, regulations and laws, practices, fund manager, analysts, transactions and claims and liabilities.

Components of Indian Financial System

Indian financial system consists of financial markets, financial instruments and financial intermediaries. These three segments together facilitate the flow of funds between suppliers and borrowers of funds.
### Financial Market:

A financial market is a market which facilitates people and entities to trade in financial securities and commodities at low transaction costs and at prices that reflect supply and demand position. Securities include shares, bonds, treasury bills, commercial papers, certificate of deposits, repos etc. Commodities include precious metals or agricultural produce.

### Types of Financial Markets:

Financial markets can be categorized into multiple subsets as follows.

1) **Capital Market:** This consists of

   a) **Stock Markets:** which provide financing through issuance of shares and enable the subsequent trading thereof.

   b) **Bond markets:** which provide financing through the issuance of bonds and enable the subsequent trading thereof.

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**Figure 4.1. Flow of funds in a financial system**

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<thead>
<tr>
<th>Purveyors of Funds/Lenders</th>
<th>Connecting purveyors and Borrowers of funds</th>
<th>Seekers of Funds/Borrowers</th>
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<td>Households (mainly)</td>
<td>Financial Market</td>
<td>Households, Corporate &amp; Government</td>
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<td>Corporate and Government</td>
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<td>Invest Cash</td>
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<td>Get deposit receipts,</td>
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<td>Loan Acknowledgement</td>
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Financial Intermediaries
Capital market can also be bifurcated into primary markets and secondary markets. Newly formed (issued) securities are bought and sold in primary markets, such as during initial public offerings. Secondary markets allow investors to buy and sell existing securities. Transactions in primary markets exist between issuers and investors, while in secondary markets transactions take place among investors and speculators.

2) Commodity markets: This facilitates trading of commodities.

3) Money markets: Here short term securities are traded.

4) Derivatives markets: This provides instruments like futures and forward contact, options and swaps for managing financial risk.

5) Future markets: This provides standardized forward contracts for trading products at some future date.

6) Insurance markets: This facilitates the re-distribution of various risks.

7) Foreign exchange markets: It facilitates the trading of foreign exchange.

Raising Capital:

Financial markets facilitates flow of funds from lenders to borrowers for mutual benefit. Lenders and borrowers encompass individuals, corporate and governments. Flow of funds is facilitated through financial intermediaries with the help of Financial Instruments.

Lenders:

A) Individuals: Many individuals are not aware that they are lenders, but almost everybody does lend money in various ways. A person lends money when he/she:

1) Puts money in a savings account at a bank.

2) Contributes to a pension plan.

3) Pays premium to an insurance company

4) Invests in government bonds
5) Invests in company shares

6) Invests in mutual bond schemes.

B) Corporates and Governments: When they have surplus cash that is not needed for a short period of time, they may seek to make money from their cash surplus by lending it via financial markets.

Borrowers:

A) Individuals: They borrow money via banker’s loans to meet their short term and long term needs.

B) Corporates and Governments: Corporates borrow money to meet their short term and long term needs like staking finished goods to meet festival demands, modernization or future business expansion.

Governments often find their spending requirements exceed their tax revenues. To bridge the gap, they borrow.

Financial Instrument:

It is a tradable asset of kinds like cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver cash or another financial instrument.

Financial instruments can be categorized by “form” depending on whether they are cash instruments or derivative instruments.

Cash Instruments are financial instruments whose value is determined directly by markets. They can be divided into securities, which can be readily transferable and other cash instruments, such as loans and deposits, where both borrower and lender have to agree on a transfer.

Derivative instruments are financial instruments which derive their value and characteristics of one or more underlying entities such as an asset, index etc.
Alternatively, financial instruments can be categorized by “asset class” depending on whether they are equity or debt based. If it is debt, it can be further bifurcated into short term or long term.

**Financial Intermediaries**

Financial intermediaries are those who connect people who are interested in savings on the one hand, and the seekers of funds on the other. They also obtain funds from bigger financial institutions and lend to those who are in pecuniary needs to quench both productive and consumption expenditure.

**Figure 4.2. Overview of Financial Intermediaries.**

The predominant sectors are banks, financial institutions, non banking finance companies and co-operative credit institutions. These go to make the organized sector, which are subject to stringent rules and regulations by a competent authority.

On the unorganized front, one comes across individual money lenders, indigenous bankers, pawn brokers etc. They are not regulated by RBI or the government in a systematic manner.

**4.2. Indian Banking Sector**

A bank is understood as an institution which provides fundamental banking services such as accepting deposits and providing loans in various forms and other financial services to their customers.
Banking Regulations Act 1949 defines banking “as accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise, withdrawable by cheques, drafts, orders or otherwise”.

The whole gamut of the Indian banking industry is under the control of Reserve Bank of India

4.3. Reserve Bank of India [RBI]

Reserve Bank of India is the central bank of our country. It was established on April 1, 1935 in accordance with the provisions of RBI Act 1934. It was subsequently nationalized in 1949.

Functions of RBI:

These are briefly discussed below:

1) **Bank of Issue**: RBI formulates, implements and monitors the monetary policy. Its main objective is to maintain price stability and ensure adequate flow of credit to productive sector. It monitors the printing and flow of hard currency notes of different denominations.

2) **Supervisor and regulator of the financial system**: It specifies the parameters for banking operations within the country in order to ensure and maintain public confidence in the system, protect the interest of the depositors while providing cost efficient banking services.

3) **Forex Custodian**: It is the custodian of India’s forex reserves and is endowed with the responsibility of maintaining the value of domestic currency.

4) **Currency Issuer**: It issues currency notes and coins and subsequently exchange or destroy those that are stale and mutilated considered unfit for circulation. It seeks to ensure supply of currencies and coins in adequate quantity and quality.

5) **Banker to the government**: RBI undertakes all the banking operations of central and state governments.

6) **Bankers to banks**: It provides the credit requirements of commercial banks by discounting and re-discounting eligible securities at the bank rate.
7) **Controller of Credit:** RBI exercises credit control measures by administering quantitative and qualitative tools.

8) **Promotional Functions:** It seeks to promote banking habit among people and extend banking facilities to rural and semi – urban areas, and institute and promote novel and specialized financial institutions to keep in tune with the changing economic environment.

**4.4. Commercial Banks**

The commercial banking structure in India consists of scheduled commercials banks and unscheduled banks.

All banks which are included in the second schedule to the Reserve Bank of India Act, 1934 are scheduled banks. These banks comprise scheduled commercial banks and scheduled co-operative banks.

Scheduled Commercial banks in India are categorized into five different groups according to their ownership and/or nature of operations. These bank groups are

1) State bank of India and its associates.

2) Nationalized Banks

3) Private Sector Banks

4) Foreign Banks

5) Regional Rural banks
SBI and its associates: Following the merger of State Bank of Saurashtra with effect from August 13, 2008 and State Bank of Indore with State Bank of India with effect from August 25, 2010, SBI now has five associates. They are recognized as a separate category of scheduled commercial banks because of the distinct statutes [SBI Act 1955 and SBI Subsidiary Banks Act, 1959] that govern them.

Nationalised Banks: Presently there are twenty nationalized banks, including IDBI Bank Ltd., which was included in the nationalized banks group since December 2004.

Private Sector Banks: In this type of banks, the majority of share capital is held by private individuals and corporates. Not all private sector banks were nationalized in 1969 and 1980. The
private banks which were not nationalized are collectively known as old private sector banks. During post nationalization period, entry of private sector banks were denied. In July 1993, as a segment of reformation process in banking sector and to instill competition in the banking sector, RBI opened the door to private players for entering banking sector. This resulted in the creation of new set of private banks, known as new private sector banks. As at March 2011, there were 14 old and 7 new generation private sector banks operating in India.

**Foreign Banks:** These are the banks which have their registered and head offices in a foreign country but operate several of their branches in India. RBI permits these banks to operate either through branches or through wholly owned subsidiaries. These banks are required to adhere to all banking regulations, including priority sector lending norms as applicable to domestic banks. Entry of new private sector banks and foreign banks has helped competition in the banking arena.

At the end of August 2011, 36 foreign banks were operating in India, with a total number of 321 branches. In addition, 47 foreign banks operated in India through representative offices. The largest network of foreign banks in India was that of Standard Chartered Bank, HSBC Bank and CITI Bank.

Between September 2010 and August 2011, permission was accorded to the following four new foreign banks to open one branch each in India:

1) National Australia Bank
2) Industrial and Commercial Bank of China
3) Rabobank International, Netherlands
4) Woori Bank, South Korea

Permission was also given to Sumitomo Mitsui Banking Corporation to open a representative office in India.

**Regional Rural Banks:** These are region based and rural oriented banks, set up to correct the regional imbalances and functional deficiencies in the institutional credit structure vis a vis the weaker sections of the populace. New credit delivery models like business correspondents,
business facilitators as well as new technologies are being used to reach the hitherto untapped customers.

Due to consolidation and amalgamation process initiated in September 2005, presently the numbers of RRBs stand at 82. Out of this, 80 RRBs are included in the second schedule of the RBI Act 1934. Balance 2 RRBs [Paschim Banga Gramin Bank, West Bengal and Kalinga Grahmin Bank, Orissa] remain ineligible for scheduling.

**Figure 4.4. Overview of Public Sector Banks**

![Diagram of Public Sector Banks]

**Nationalized Banks:**

1) Allahabad bank  
2) Andhra bank  
3) Bank of Baroda  
4) Bank of India  
5) Bank of Maharashtra  
6) Canara Bank  
7) Central bank of India  
8) Corporation bank  
9) Dena bank  
10) Indian bank  
11) Indian Overseas Bank  
12) Oriental Bank of Commerce  
13) Punjab and Sind Bank  
14) Punjab National Bank  
15) Syndicate bank  
16) UCO Bank
17) Union bank of India
18) United bank of India
19) Vijaya Bank
20) IDBI Bank Ltd.

State Bank Group [6]:

21) State bank of Bikaner and Jaipur
22) State bank of Hyderabad
23) State bank of India
24) State bank of Mysore
25) State bank of Patiala
26) State bank of Travancore

Private Sector Banks [21]:

(a) Old Private Sector Banks[14]
1) Catholic Syrian Bank
2) City Union Bank
3) Dhanalakshmi Bank
4) Federal Bank Ltd.
5) ING Vysya Bank Ltd.
6) Jammu and Kashmir Bank Ltd.
7) Karnataka Bank Ltd.
8) Karur Vysya Bank Ltd.
9) Lakshmi Vilas Bank Ltd.
10) Nainital Bank Ltd.
11) Ratnakar Bank Ltd.
12) SBI Commercial and International Bank Ltd.
13) South Indian Bank Ltd.
14) Tamilnadu Mercantile Bank Ltd.

(b) New Private Sector Banks:
1) Axis Bank Ltd.
2) Development Credit Bank Ltd.
3) HDFC Bank Ltd.
4) ICICI Bank Ltd.
5) IndusInd Bank Ltd.
6) Kotak Mahindra Bank Ltd.
7) Yes Bank Ltd.

**Foreign Banks:**

1) AB Bank Ltd.
2) Abu Dhabi Commercial Bank Ltd.
3) American Express Banking Corporation
4) Antwerp Diamond Bank NV
5) Bank International Indonesia
6) Bank of America National Association
7) Bank of Bahrain and Kuwait B.S.C
8) Bank of Ceylon
9) Bank of Nova Scotia
10) Barclays bank PLC
11) BNP Paribas
12) China trust commercial bank
13) Citi bank NA
14) Commonwealth bank of Australia
15) Credit Agricole corporate and investment
16) Credit Suisse AG
17) DBS Bank Ltd.
18) Deutsche Bank[Asia]
19) First Rand Bank
20) HSBC Bank
21) JP Morgan Chase Bank National Association
22) ISC VTB Bank
23) Krung Thai Bank Public Co. Ltd.
24) Mashreq Bank PSC
25) Mizuho corporate bank Ltd.
26) Oman International Bank S.A.O.G
27) Sber Bank
28) Shinhan Bank
29) Societe Generale
30) Sonali Bank
31) Standard Chartered Bank
32) State bank of Mauritius
33) The Bank of Tokyo-Mitsubishi UFJ Ltd.
34) The Royal Bank of Scotland NV
35) UBS AG
36) United Overseas Bank Ltd.

Non Scheduled Banks:

Non scheduled banks also act in the Indian banking arena, in the form of Local Area Banks [LAB]. These banks were set up under the scheme announced by the government of India in 1996, for the establishment of new private banks of a local nature, with jurisdiction over a maximum of three contiguous districts. LABs aid in the mobilization of funds of rural and semi-urban districts. Originally six LABs were licensed, but the license of one of them was cancelled owing to irregularities in its operations and the others were merged with Bank of Baroda in 2004 due to its weak pecuniary position. Of the four LABs, one LAB namely Capital Local Area Bank Ltd. accounted for more than two-third of the total assets of all LABs.

4.5. Non Banking Finance Companies

Non Banking Finance Companies are mostly private sector institutions which provide a wide variety of services including equipment leasing, hire purchase, loans and investments to individuals, corporate and institutional clients. The regulations governing the institutions are less rigorous as compared to banks as they are not subject to regulatory prescriptions applicable to banks. For instance, they are not subject to Cash Reserve Ratio [CRR] requirements like banks but are mandated to maintain 15% of their public deposit liabilities in government and other
approved securities as liquid assets. The public deposits do not have insurance cover. They do not enjoy re-finance facilities from RBI and do not have chequable deposits and are thus not part and parcel of the payment and settlement systems.

4.6. Financial Institutions

These are largely an outcome of the development planning in India, created for long term financing.

As of 30/3/11, there were 5 FIs under the regulation of RBI:

1) EXIM Bank[Export Import Bank of India]
2) NABARD
3) NHB
4) SIDBI[Small Industries Development Bank of India]
5) IIBI → in the process of voluntary winding up as on 31/3/11

At the state level, various state financial corporation’s [SFCs] have been set up to finance and promote small and medium sized enterprises. There also State Industrial Development Corporations [SIDCO] which provide finance primarily to medium sized and large sized enterprises.

4.7. Insurance Companies

On the insurance front, we have:

1) Life Insurance Corporation of India[LIC]
2) General Insurance Corporation of India
3) United India Insurance Company Ltd.
4) National Insurance Company Ltd.
5) New India Assurance Company Ltd.
6) Oriental Insurance Company Ltd.

The insurance industry has come a long way since the time when business were stringently regulated and concentrated in the hands of a few public sector insurers, with the passing of
Insurance Regulatory and Development Authority Act in 1999, India allowed private insurers enter the fray and ushered in market driven competition. This brought about a sea change in the insurance sector with the proliferation of innovative products and distribution channels, and catapulting of supervisory standards.

Figure 4.5. Bird’s eye view of Co-operative Banks

Co-operative Banks [97410] as of 30/3/11

UCB [1645]                    Rural Cooperatives [95765]

Scheduled [53]                Non-Scheduled [1592]        Long Term[717]        Short Term[95048]

Multi               Single               Multi               Single               SCARDB               PCARDB

SCARDB: State Co operative Agriculture and Rural Development Banks

PCARDB: Primary Co operative Agriculture and Rural Development Banks

SCB: State Co-operative Banks


**DCCB:** District Central Co-operative Banks

**PACS:** Primary Agricultural Credit Societies.

### 4.8. Co-operative Credit Institutions

These play a crucial role in rendering financial intermediation services to agricultural and allied activities, small scale industries and self employed workers. With their network spread across the length and the breadth of the country, they rope in people from far-flung areas under the formal banking network.

The co-operative structure in India is bifurcated into Urban Co-operative Banks serving urban areas, and Rural Co-operative banks operating in the rural pockets. As of March 2011, the number of UCBs were 1645, of which a greater part were unscheduled UCBs. While a majority operates within a single state, only 42 UCBs have interstate operations.

Rural Co-operatives take the structure of short term and long term. Short term cooperative sector operate as apex level institution in each state as state co-operative banks, at district level function as District Central Co-operative Banks and at grass root level as Primary Agricultural Credit Societies.

On a similar line, long term co-operatives function at state level as State Co-operative Agriculture and Rural Development Banks and at district/block level as Primary Co-operative Agriculture and Rural Development Banks.

### 4.9. History of Indian Banking System

The first bank in India called the General Bank of India was established in the year 1786. The East India Company established Bank of Bengal/Calcutta [1809], Bank of Bombay [1840] and Bank of Madras [1843]. The next bank was Bank of Hindustan established in 1870. These three individual banks were called Presidency Banks. Allahabad Bank established in 1865, was completely run by Indians for the first time. In 1894, Punjab National Bank Ltd was set up with head quarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank and Bank of Mysore were set up. In 1921, all presidency
banks were amalgamated to form the Imperial Bank of India which was run by European shareholders. Subsequently the Reserve Bank of India was established in April 1935.

During the first phase, the banking sector witnessed a slow growth. Between 1913 and 1948 there were approximately 1100 small banks in India. To streamline the functioning and activities of commercial banks, the government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per Amending Act of 1965 [Act no. 23 of 1965]. Reserve Bank of India was vested with extensive powers for the supervision of banking in India as a Central Banking Authority. After independence government took several steps to reform the banking sector. In 1955, the imperial bank of India was nationalized and was given the name State Bank of India to act as principal agent of RBI and to handle banking transactions all over the country. It was established under State Bank of India Act 1955. Seven banks forming subsidiary of state bank of India was nationalized in 1960. On the 19th July 1969, major process of nationalization was carried out. At the same time, 14 major Indian commercial banks of the country were nationalized. In 1980, another six banks were nationalized thus raising the number of nationalized banks to 20. Till 1980, about 80% of the banking segment in India was under governments ownership. Based on the suggestions of Narasimhan Committee, the Banking Regulation Act was amended in 1993, throwing the gate open to new private sector banks.

The following are the major steps initiated by the Government of India to regulate the banking sector.

1949: Enactment of Banking Regulation Act
1955: Nationalization of State Bank of India
1959: Nationalization of SBI Subsidiaries
1961: Insurance cover extended to deposits
1969: Nationalization of 14 major banks
1971: Creation of Credit Guarantee Corporation
1975: Creation of Regional Rural Banks

**Nationalization:**

By 1960s, Indian Banking Industry culminated into an important tool to pace the development of Indian economy. It also became a large employer and the possibility of nationalization of banks rented the air. At the annual conference of All India Congress Meeting, Indira Gandhi, the then Prime Minister of India, expressed the intention of the government in a paper captioned “Stray thoughts on Bank Nationalization”. Consequent to its positive reception, government of India issued an ordinance and nationalized 14 commercial banks with effect from the midnight of July 19, 1969. Jayaprakash Narayan, a national leader of India described the step as a “Masterstroke of political sagacity”. Within two weeks of the issue of the ordinance, parliament passed the Banking Companies Bill, and it received the presidential assent on 9th August 1969.

In 1980, a second round of nationalization of six more commercial banks followed. The stated reason for nationalization was to give the government more control over credit delivery. With the second phase of nationalization, government controlled approximately 91% of the banking business in India. Down the line in 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks, resulting in the reduction of nationalized banks from 20 to 19. Until 1990s, the nationalized banks grew at a pace of around 4% closer to the average growth rate of Indian Economy.

**Liberalization:**

In the early 1990s, the then Narasimha Rao Government embarked on a policy of liberalization, licensing a small number of private banks. These came to be christened as New Generation Tech Savvy Banks and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier UTI bank), ICICI Bank and HDFC bank. This tactical move, coupled with the rapid growth in the Indian economy, revolutionized the Indian Banking System.

In its next move, the government relaxed the norms for Foreign Direct Investment in banks. This new policy shook the Indian Banking sector completely. Bankers, till this time, were
used to be 4-6-4 method [Borrow at 4%, lend at 6%, go home at 4%] of functioning. The new wave ushered in a modern outlook and tech savvy methods of working for the traditional banks. All this contributed to the retail boom in India.

4.10. What is Retail Banking?

Retail banking connotes the dealings of commercial banks with individual customers, both on the liability and asset sides of the balance sheet. For instance, savings account and fixed deposit account on the liability side and mortgage loans, personal, housing, auto and educational loans on the asset side are a few among the important retail products offered by banks.

The contemporary retail banking milieu is characterized by three basic characteristics:

1) **Multiple Products**: This encompasses deposits, credit and debit cards, insurance, investment and securities.
2) **Multiple channels of distribution**: It refers to call centers, branches, ATMs, internet and kiosk.
3) **Multiple customer groups**: This includes customers and small business proprietors.

4.11. Retail Banking Products and Services

Retail banking is not a new phenomenon in India. It has been present in India in multiple forms with different nomenclature down the lane. But in the recent years it has become synonymous with mainstream banking activities across the board.

Typical products rolled out by Indian retail banking arena are:

1) **Retail Deposit Products**: The array of products offered in this category include savings account, recurring deposit, fixed deposit, NRI account, corporate salary account, demat account, senior citizen schemes, et al.
2) **Retail Loan Products**: These include personal loans, housing loans, education loans, vehicle loans, consumer durable loans, overdraft facilities, cash credit facilities and so on.
3) **Retail Services**: These include in its fold lockers, depository services, credit and debit cards, ATMs, net banking, mobile banking, phone banking, anytime and anywhere and anyhow banking, gift cards, travelers’ cheques, etc.
4.12. Why banks bank upon retail banking

1) The financial sector reforms undertaken by the government since 1991 has infused intense competition in the banking arena for corporate loans, forcing banks to lend at lower rates and offer other related services at cheaper rates to high end corporate. Consequently banks are facing a squeeze on interest spread, leading to reduction in profits.

2) While the spread on corporate loans vary on an average between 0.5% to 1.50% the interest spread on retail loans range between 3% and 4% which is significantly above the yield on corporate lending.

3) When compared with corporate borrowers retail customers are less interest rate sensitive thus offering comparatively higher income stability to bankers.

4) Another reason is that retail customers are too weak to bargain effectively.

5) Corporate loans are subject gyration depending upon business/ trade cycles. But retail borrowings are comparatively independent of recession and continue to deliver even during the sluggish phase.

6) Banks command a better public image in retail banking than corporate banking.

7) Retail banking enables bankers to cross sell other retail products like credit card, debit card, insurance and mutual fund products, demat facilities, etc. to depositors and investors. This widens the income vistas of bankers.

8) A satisfied retail customer base facilitates viral marketing, thus bringing in more customers. The resultant robust growth in retail business volume may enable banks achieve economies of scale and improve their bottom line.

9) With a cultural change fostered by western satellite invasion, and change in the Indian life style, borrowing is no longer considered a taboo. Save and purchase mindset is gradually giving room to borrow and purchase. This augurs well for retail bankers.

10) Further, peer pressure and demonstration effect is giving a shot in the arm for demand of consumer products, automobiles, housing and education loans.

11) There is lack of demand for credit from large corporate, because companies have their own avenues. Example, Tapping public deposits and issue of shares and debentures.
12) Liberalization, privatization and globalization has thrown open the door to private and foreign banks, leading to increased competition for getting a slice of the market. The confluence of increased purchasing power, consumerism and competition among the banks has contributed to a retail chase.

13) Retail banking has the potential to provide decent returns for banks with an extended clientele base in an era of thinning margin and non performing corporate advances.

14) The increasing literacy rates have made people to try latest technology and wide variety of product and services. This is likely to push up the demand for retail banking activities.

15) Technological marvels like ATMs, use of debit/credit cards, phone banking, mobile banking and internet banking have given a fillip to retail banking in India.

4.13. SWOT Analysis of Retail Banking

The parameters given below encapsules the strength, weakness, opportunities and threats of retail banking.

Strengths:

1) Instances of Nonperforming Loans are low

2) Probability of defaulting a retail loan is low as these are backed by mortgages of houses [in case of housing loans] and PDCs [post dated cheques] in case of loans like vehicle loans.

3) Housing loan is considered to be a safe advance as a house is held in esteem as the most sensitive and essential asset of a family.

Weakness:

1) Longer tenure of loans [ranging from 3 to 20 years in the case of housing loans] as against the average deposit of less than 3 years, thus paving way for asset-liability mismatch.

2) Long winding process resulting in procedural hassles.
Opportunities:

1) Growth in retail lending has outperformed other segments in recent years and is contemplated to gallop more vibrantly at higher rates.
2) It provides an opportunity for bankers to offset any possible decline in the demand of funds from the corporate realm.
3) The opportunities of cross selling by bankers in high.
4) With a growth in income level and spread of banking literacy, retail banking is all set to witness conquer of new horizons across several retail banking products.

Threats:

1) Retail loans can prove lethal when individuals become lean on purchasing power.
2) Defaults in retail loans can be triggered by recession and macro economic factors as witnessed during the financial crises of 2007.
3) Incidences of multiple borrowings are on the increase in case of retail loans through credit card/other routes.

4.14. Trends dawning on Indian Retail banking horizon

Internet and mobile telephony not only provides significant competitive advantages to bankers in an environment of increasing deregulation and globalization, but also makes the door stand ajar for new onslaught from competition.

There is an upsurge of education level among the masses. Women have made a significant foray into the workforce, leading to, not only increase in the disposable income but also change in the life style. With the advancement of electronic gadgets on the one hand and government encouraging financial inclusion on the other, banking literacy and banking habits are gradually percolating down to the lower strata of the society. Thus the bankers are confronted with customers whose expectations and needs are ever changing. These warrants bankers to be quick in their responsiveness to fashion and fads, hasten launch speed, change direction with agility and unveil a variety of loyalty schemes.

The life cycle of financial products are getting shorter and shorter and hence there is a dire need for new products very often. Efficiency of operation is being supplemented by
effectiveness, and an “in-house” mentality is giving way to the concept of “extended enterprise”. This applies to ATMs, internet banking. E-commerce gateways, customer relationship management, mobile commerce, financial content, human resource issues and various other banking operations and channels.

Consumer power is vaulting, new intermediaries are cropping up, customer information is galvanizing into a saleable asset, financial and geographical boundaries are shriveling with deregulation and globalization and customer loyalty is becoming a key competitive asset. In this ambience, only bank which wefts a successful banking network can fabricate customer intimacy, enhance information content and excel in a complex network of operational infrastructure.

4.15. Emerging issues in Retail banking arena

1) Discerning the retail customers: This is easier articulated than applied. The contemporary scenario requires banks to set up data warehouse from where meaningful data on customers, their banking habits and methodology, their preferences, payment patterns et al. can be mixed.

2) Prodigious investment in technology: Contemporary retail banking scenario warrants extensive investment in technology. For instance, provision of anytime, anywhere convenience to a huge number of multi faceted customers and delivery channels through asynchronous transfer modes like ATMs, requires immense investment in technology by banks.

3) Perennial product innovation: In tandem with the changing customer needs and expectations, novel financial products are surfacing. The days of selling products on the shelves are fast sinking into oblivion.

4) Pricing war: With banks offering almost undifferentiated products and services, the banking arena is witnessing a pricing war, with each bank vying with each other to get a obese slice of the market share. Transparency in pricing has also taken the back seat.

5) Issues pertinent to employers: Both the front office and back office staff must be motivated to get the will to serve the customers and make them feel royal. Front line staff need to be encouraged to project themselves as sales manager rather than as clerks at work.
6) **Low cost and No cost deposits:** Bankers need more savings bank and current accounts in order to keep their cost of liability low. The advent of ATMs has materialized the concept of “anytime banking”. Satellites and telecom networks across the globe have made anywhere banking a reality. Presently it appears to be the turn of “anyhow” banking to sprout.

**4.16. Contemporary Indian retail banking milieu**

This basically consists of

1) Conventional brick and mortar retail banking
2) High – tech e-banking.

A brief account of the above two is sketched below:

1) **Conventional brick and mortar retail banking:**

This consists of retail banking customers making visits to banks in person for carrying out banking transactions like depositing, withdrawing and transferring money and updating pass books. Customers use paper based instruments like cheques, banker’s cheques, demand drafts, travelers’ cheques et al.

The volume and value of paper based transaction have been increasing over the years albeit at a declining rate presumably due to the impact of high tech e-banking.

**Chart 4.1. Growth in paper based versus paperless electronic transactions**

2) **High tech e-banking:**

The rapid strides in technology has ushered in the dawn of digital age in banking. The business of retail banking is undergoing a sea change as business shifts increasingly to online environment. With increasing number of retail customers resorting to electronic banking, there would be a move from market place to market space. Internet is gradually moulding itself as an essential access channel. This emerging access channel offers banks a cost effective way of banking, publicizing and delivering services to customers as well as maintaining customer relationships. For the customers, it has thrown open the gate for enormous possibilities of convenience and choice, in this fast paced world.

The constituents of high-tech e-banking are:

a) Electronic clearing system  
b) Credit card  
c) Debit card  
d) ATMs  
e) Mobile banking  
f) Internet banking  
g) Prepaid payment instruments

---

a) **Electronic Clearing System [ECS]:**

It is a retail payment system for bulk payments/receipts of a similar nature especially where individual payments are of a repetitive nature occurring at periodic intervals involving smaller amounts. This consists of ECS [credit] and ECS [debit]. A brief explanation is also given in Chapter 2 under 2.8 Operational delineation.

**ECS [Credit]:** This expedites bulk payment by an institution to several of its retail customers, examples are payments of salaries to employees, payment of dividend/interest warrants to investors etc.
**ECS [Debit]:** This is the opposite of ECS [Credit]. Here several retail customers pay directly to utilities like telephone and electricity companies from the bank account of customers.

**Real time gross settlement [RTGS] System:** Introduced in March 2004, it is a system where in electronic instructions can be given by banks to effect transfer of funds from their account to the account of another bank. Maintained and operated by RBI, it results in transfer of funds between banks on “real time” basis, thus ensuring swifter financial operations.

**National Electronic Funds Transfer [NEFT] System:** This was introduced in November 2005. It enables expeditious transfer of funds from any bank branch to any other bank branch. NEFT applies INFINET [it stands for Indian Financial Network, a communication backbone for the Indian Banking and financial sector. All banks and financial institutions are member of INFINET, which functions as a closed user group] to connect bank branches for electronic transfer of funds.

In order to make NEFT more retail customer friendly, RBI has permitted initiation of transactions by accepting cash from walk in customers [earlier account to account transfers were mandatory] and permitting credit card payments. These measures have yielded tangible results in the form of sizeable increase in volume and value of electronic transactions by scheduled commercial banks as shown below:

**Table 4.1. Volume and Value of Electronic Transactions by Scheduled Commercial Banks**

<table>
<thead>
<tr>
<th>Year</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume (in millions)</td>
<td>Percentage variation</td>
<td>Value (Rs. in Crores)</td>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ECS Credit</td>
<td>98.1</td>
<td>117.3</td>
<td>11</td>
<td>19.5</td>
<td>1,17,613</td>
<td>1,81,686</td>
<td>20.6</td>
<td>54.5</td>
</tr>
<tr>
<td>ECS Debit</td>
<td>149.3</td>
<td>156.7</td>
<td>6.7</td>
<td>5</td>
<td>69,254</td>
<td>73,646</td>
<td>3.8</td>
<td>5.9</td>
</tr>
<tr>
<td>NEFT</td>
<td>66.3</td>
<td>132.3</td>
<td>106.3</td>
<td>99.5</td>
<td>4,09,507</td>
<td>9,39,149</td>
<td>62.5</td>
<td>129.3</td>
</tr>
<tr>
<td>RTGS</td>
<td>33.2</td>
<td>49.3</td>
<td>148.5</td>
<td>48.2</td>
<td>3,94,53,359</td>
<td>4,84,87,234</td>
<td>22.2</td>
<td>22.9</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2010-11.
RBI has set up national payment corporation of India [NPCI] to act as an umbrella organization for operating the various retail payment systems in India. It has been functionalized and is in the process of setting up its roadmap.

b) **Credit cards:**

These were introduced in 1981. Through this card the customer is provided with credit facility for purchase of goods and services in shops, restaurants, hotels, railway bookings, petrol pumps etc. The merchant establishment which accepts credit card payments subsequently claims the amount due from the customers’ bank through his own bank.

The card holder is required to pay in full or in installments to the bank. Every month the cardholder has the option of paying back the full amount outstanding or the minimum payment stipulated, say 2% or 3% of the outstanding balance. A grace period of about a month or more is granted during which no interest will be levied on the loan.

The trend in the credit cards issued by scheduled commercial banks is given below:

**Table 4.2. Credit Cards issued by Scheduled Commercial Banks**

<table>
<thead>
<tr>
<th>SNO</th>
<th>Bank Group</th>
<th>Outstanding number of credit cards [in million]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2006-07</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nos.</td>
</tr>
<tr>
<td>I</td>
<td>Public Sector Banks</td>
<td>4.14</td>
</tr>
<tr>
<td></td>
<td>Nationalized Banks</td>
<td>0.75</td>
</tr>
<tr>
<td></td>
<td>SBI Group</td>
<td>3.39</td>
</tr>
<tr>
<td>II</td>
<td>Private Sector Banks</td>
<td>10.68</td>
</tr>
<tr>
<td></td>
<td>Old Private Sector Banks</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>New Private Sector Banks</td>
<td>10.65</td>
</tr>
<tr>
<td>III</td>
<td>Foreign Banks</td>
<td>8.3</td>
</tr>
<tr>
<td></td>
<td>All SCBs[I+II+III]</td>
<td>23.12</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2010-11
Despite the decline in the number of credit cards, the volume and value of transactions with credit card recorded a growth of 13% and 22% respectively in 2010-11 [Source: Report on Trend and Progress of Banking in India 2010-11]. Since 2006-2007, new private sector banks and foreign banks account for more than 80% of the total outstanding credit cards.

c) **Debit cards:**

They are different from credit cards. While credit cards advocate “pay later”, debit cards signify ‘pay now’. It is also used as ATM cards for withdrawing cash and for purchase of goods and services at POS [it stands for Point of Sale, an instrument in which the debit card is swiped in the POS terminal and the customer’s bank account with card issuer is debited instantly to the extent of the transaction value.

The trend in the debit card issued by scheduled commercial banks is given below:

**Table 4.3. Debit Cards issued by Scheduled Commercial Banks**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Nos. % to total Nos. % to total Nos. % to total Nos. % to total Nos. % to total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>Public Sector Banks</td>
<td>44.09 58.89</td>
<td>64.3 62.79</td>
<td>91.7 66.72</td>
<td>129.7 71.27</td>
<td>170.3 74.76</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nationalized Banks</td>
<td>19.24 28.3</td>
<td>40.71 66.72</td>
<td>58.82 71.27</td>
<td>80.27 74.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SBI Group</td>
<td>24.85 36.0</td>
<td>50.99 66.72</td>
<td>70.87 71.27</td>
<td>90.07 74.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>Private Sector Banks</td>
<td>27.19 36.26</td>
<td>34.1 33.28</td>
<td>41.34 30.08</td>
<td>47.85 26.3</td>
<td>53.58 23.52</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Old Private Sector Banks</td>
<td>3.94 5.34</td>
<td>7.09 66.72</td>
<td>9.81 71.27</td>
<td>12.44 74.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Private Sector Banks</td>
<td>23.25 38.04</td>
<td>38.04 66.72</td>
<td>41.14 71.27</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>Foreign Banks</td>
<td>3.70 4.94</td>
<td>4.02 33.28</td>
<td>4.39 30.08</td>
<td>4.43 26.3</td>
<td>3.92 1.72</td>
<td></td>
</tr>
<tr>
<td></td>
<td>All SCBs[I+II+III]</td>
<td>74.98 100</td>
<td>102 100</td>
<td>137.4 100</td>
<td>182 100</td>
<td>227.8 100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2010-11

During 2010-11, the number of debit cards accentuated by 25.21% over the previous year. The share of public sector banks in outstanding debit cards has been gradually increasing since 2006-2007, while that of private sector banks witnessed a
decline over the same period. But in absolute terms, the number of outstanding debit cards has been increasing since 2006-2007 in the case of both old and new private sector banks.

d) **Automated Teller Machines [ATMs]:**

These are mainly used for cash withdrawal. Apart from this, it can also be utilized for paying utility bills, transferring funds, depositing of cash and cheques into accounts, balance enquiry, etc. the growth of ATMs are given below:

**Table 4.4. ATMs of Scheduled Commercial Banks**

<table>
<thead>
<tr>
<th>SNO</th>
<th>Bank Group</th>
<th>Number of ATMs</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nos.</td>
<td>% to total</td>
</tr>
<tr>
<td>I</td>
<td>Public Sector Banks</td>
<td>40,680</td>
<td>67.63</td>
<td>49,487</td>
</tr>
<tr>
<td></td>
<td>Nationalized Banks</td>
<td>19,702</td>
<td>16.54</td>
<td>24,836</td>
</tr>
<tr>
<td></td>
<td>SBI Group</td>
<td>20,978</td>
<td>24.87</td>
<td>24,651</td>
</tr>
<tr>
<td>II</td>
<td>Private Sector Banks</td>
<td>18,447</td>
<td>30.67</td>
<td>23,651</td>
</tr>
<tr>
<td></td>
<td>Old Private Sector</td>
<td>3,390</td>
<td>4.57</td>
<td>4,126</td>
</tr>
<tr>
<td></td>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Private Sector</td>
<td>15,057</td>
<td>20.9</td>
<td>19,525</td>
</tr>
<tr>
<td></td>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>Foreign Banks</td>
<td>1,026</td>
<td>1.44</td>
<td>1,367</td>
</tr>
<tr>
<td></td>
<td>All SCBs[I+II+III]</td>
<td>60,153</td>
<td>100</td>
<td>74,505</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India, 2009-10, 2010-11

During 2010-11, the total number of ATMs increased by 24% from 60,153 in 2009-10 to 74,505 in 2010-11. More than 66% of the total ATMs belong to public sector banks while the percentage of ATMs by public sector banks in the total number of ATMs marginally declined during 2010-11, those of private sector and foreign banks marginally increased during the said period.
Expansion of Banking Network through ATMs:

From the perspective of banking penetration, off-site ATMs have more relevance than on-site ATMs. The growths of off-site and on-site ATMs are given below:

Table 4.5. On-site and Off-site ATMs of Scheduled Commercial Banks

<table>
<thead>
<tr>
<th>SNO</th>
<th>Bank Group</th>
<th>Number of ATMs</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Onsite</td>
<td>Offsite</td>
</tr>
<tr>
<td>I</td>
<td>Public Sector Banks</td>
<td></td>
<td>23797</td>
<td>16883</td>
</tr>
<tr>
<td></td>
<td>Nationalized Banks</td>
<td></td>
<td>[58.5%]</td>
<td>[41.5%]</td>
</tr>
<tr>
<td></td>
<td>SBI Group</td>
<td></td>
<td>11142</td>
<td>9836</td>
</tr>
<tr>
<td>II</td>
<td>Private Sector Banks</td>
<td></td>
<td>8603</td>
<td>9844</td>
</tr>
<tr>
<td></td>
<td>Old Private Sector Banks</td>
<td></td>
<td>[46.64%]</td>
<td>[53.36%]</td>
</tr>
<tr>
<td></td>
<td>New Private Sector Banks</td>
<td></td>
<td>6337</td>
<td>8720</td>
</tr>
<tr>
<td>III</td>
<td>Foreign Banks</td>
<td></td>
<td>279</td>
<td>747</td>
</tr>
<tr>
<td></td>
<td>All SCBs[I+II+III]</td>
<td></td>
<td>32679</td>
<td>27474</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India, 2009-10, 2010-11

Note: Figures in parentheses indicate percentage share of total ATMs under each bank group.

The percentage of off-site ATMs to total ATMs marginally declined to 45.33% in 2010-11 from 45.67% in 2009-10. The percentage share of offsite ATMs [41.5%] to total ATMs belonging to public sector banks is less than the percentage share of off-site ATMs[53.36% and 72.81%] to total ATMs of private sector and foreign banks respectively during 2009-10. Similar situation is observed even during 2010-11, with public sector banks sharing 39.79%, while those of private sector and foreign banks sharing 54.98% and 79.08% respectively.
**Net Expansion of banking network through onsite and offsite ATMs:**

Details of net expansion of onsite and offsite ATMs under each bank group between 2009-2010 and 2010-11 is tabulated below:

Table 4.6. Net expansion of Onsite and Offsite ATMs between 2009-2010 and 2010-11

<table>
<thead>
<tr>
<th>SN O</th>
<th>Bank Group</th>
<th>Net increase between 2009-10 and 2010-11</th>
<th>Onsite ATM</th>
<th>Offsite ATM</th>
<th>Total Increase in ATM</th>
<th>% to total increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td><strong>Public Sector Banks</strong></td>
<td></td>
<td>5998 [68.1%]</td>
<td>2809 [31.9%]</td>
<td>8807 [100%]</td>
<td>61.37%</td>
</tr>
<tr>
<td></td>
<td>Nationalized Banks</td>
<td></td>
<td>3036</td>
<td>2098</td>
<td>5134</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SBI Group</td>
<td></td>
<td>2962</td>
<td>711</td>
<td>3673</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td><strong>Private Sector Banks</strong></td>
<td></td>
<td>2045 [39.3%]</td>
<td>3159 [60.70%]</td>
<td>5204 [100%]</td>
<td>36.26%</td>
</tr>
<tr>
<td></td>
<td>Old Private Sector Banks</td>
<td></td>
<td>375</td>
<td>361</td>
<td>736</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Private Sector Banks</td>
<td></td>
<td>1670</td>
<td>2798</td>
<td>4468</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td><strong>Foreign Banks</strong></td>
<td></td>
<td>7 [2.05%]</td>
<td>334 [97.95%]</td>
<td>341 [100%]</td>
<td>2.37%</td>
</tr>
<tr>
<td></td>
<td>All SCBs[I+II+III]</td>
<td></td>
<td>8050 [56.09%]</td>
<td>6302 [43.91%]</td>
<td>14352 [100%]</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Calculations based on Report on Trend and Progress of Banking in India 2009-10, 2010-11.

Note: Figures in parantheses indicate percentage share of increase of onsite and offsite ATMs to total increase of ATMs under each bank group.

Out of total net increase in ATMs in 2010-11, 43.91% were off-site. The net additions of ATMs by public sector banks, private sector and foreign banks were 31.90%, 60.70% and 97.95% respectively at offsite locations. Thus, the net increase of offsite ATMs belonging to public sector banks is less than those of private sector and foreign banks. But considering the overall net increase in ATMs, public sector and foreign banks at 36.26% and 2.37% respectively.
e) Mobile Banking:

Telecommunication amenities has spread its wings far and wide, as can be seen from the following table:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2011</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nos. in</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Crores</td>
<td></td>
</tr>
<tr>
<td>House Hold Possessing:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Line Alone</td>
<td>0.99</td>
<td>4.01</td>
</tr>
<tr>
<td>Mobile Phone Alone</td>
<td>13.12</td>
<td>53.18</td>
</tr>
<tr>
<td>Both Land Line and Mobile Phone</td>
<td>1.47</td>
<td>5.96</td>
</tr>
<tr>
<td><strong>Total Household possessing</strong></td>
<td><strong>15.58</strong></td>
<td><strong>63.15</strong></td>
</tr>
<tr>
<td><strong>telephone</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total number of census households</strong></td>
<td>24.67</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Census of India 2011.

While 63.5% of the total households possess telephones 59.14% possess mobile phones.

The significant extent and geographical reach of mobile phones has opened new vistas to banks to use this mode for banking transactions and also provide an opportunity to extend banking facilities to the hitherto excluded sections of the society.

The operative guidelines on mobile banking issued in October 2008 were reviewed and relaxed in December 2009 by enhancing the limits for mobile banking transactions up to Rs.50,000 for both e-commerce and money transfer transactions, and permitting the money transfer facility up to Rs.5000 from a bank account to beneficiaries not having a bank account.

[Source: Report on Trend and Progress of Banking in India 2009-10]
f) **Internet Banking:**

Using its website a bank offers access to account information, payment and fund transfer facilities, disseminate information to customers above banks products and services offered. It allows banks to reach new markets and high net worth individuals as there are no geographical boundaries with the internet. The range of services offered through internet banking varies from bank to bank depending upon the size and type of the bank. A representative list of services offered through internet banking is given below:

<table>
<thead>
<tr>
<th>Examples of services offered through internet banking:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) On-line shopping</td>
</tr>
<tr>
<td>2) On-line payment of telephone, electricity and mobile phone bills</td>
</tr>
<tr>
<td>3) On-line booking of railway and air tickets</td>
</tr>
<tr>
<td>4) On-line payment of taxes like service tax, direct tax etc.</td>
</tr>
<tr>
<td>5) On-line booking of hotels/restaurants</td>
</tr>
<tr>
<td>6) Display of information regarding banks products and services to facilitate cross selling.</td>
</tr>
<tr>
<td>7) Transfer of funds</td>
</tr>
<tr>
<td>8) Checking of one’s balance in his/her account</td>
</tr>
<tr>
<td>9) Placing requests for cheque books etc.</td>
</tr>
</tbody>
</table>


g) **Prepaid Payment Instruments:**

They refer to payment instruments where value is stored in advance to be used when required. The “value stored” is the value paid by cash, debit or credit card by the customer. Purchase of goods and services is made against the stored value in the prepaid instruments. Examples of prepaid payment instruments are smart cards, magnetic strip cards, internet wallets, mobile wallets, internet accounts, mobile accounts etc.

The flow of information and funds for a generic ‘stored value’ card is given below:

<table>
<thead>
<tr>
<th>Flow of information and funds in a generic ‘stored value’ card</th>
</tr>
</thead>
<tbody>
<tr>
<td>A hypothetical customer purchases a stored-value card, say Petro Card by paying cash. When the customer pays with a stored-value card, the system transfers electronic notations or tokens from the card to the merchants electronic cash register. The merchant periodically contacts the computer network connected to the bank issuing the stored value cards and presents the tokens for payment. The network then informs the customer’s bank to pay the amount of purchase to the merchant’s bank and the two banks make a net settlement.</td>
</tr>
</tbody>
</table>
RBI Guidelines

RBI has issued guidelines on “Issuance and operation of prepaid instruments in India” in April 2009. Keeping in view the increasing popularity of prepaid instruments, the guidelines issued in April 2009 were re-visited in November 2010, and the following amendments inter-alia were effected.

a) Extension of the use of prepaid payment instruments used for payment of utility bills for the purchase of travel tickets.

b) The maximum value of prepaid instruments that can be used in the form of mobile wallets [m-wallets] has been increased from Rs.5000 to Rs.50,000.

Source: Report on Trend and Progress of Banking in India 2010-11.

4.16.1. Green Banking:

With the concern for environmental issues growing RBI has launched Green Banking or Green Computing or Green IT which is environment friendly, time-saving and cost-efficient to both bankers and retail customers. It essentially involves shifting the conventional paper-based banking to the card-based banking, focusing on reduction of paper usage as well as saving of transaction time.

RBI has issued the following guidelines regarding Green Banking:

Green Banking or Green Computing or Green IT refers to environmentally sustainable computing or IT which is more environment-friendly. The green computing is also defined as the study and practice of designing, manufacturing, using and disposing of computers, servers and associated networking and communications systems—efficiently and effectively with minimal or no impact on the environment. Modern IT system rely upon a complicated mix of people, networks and hardware, as such, a green computing initiative must cover all of these areas as well. The other aspect of green IT comprises of using the IT services to reduce the environmental impact of other industries.

The goals of green computing are to maximize energy efficiency during the product’s lifetime and promote the recyclability or bio-degradability of defunct products and factory waste. The following would be benefits accruing from practicing principles of Green IT: 1) reduced energy costs both through lower usage and more efficient operations of equipment 2) streamlined IT processes to reduce cost efficiencies and decrease environmental impact 3) enabled a more mobile and agile workforce for flexible and remote working further reducing carbon emissions from unnecessary travel 4) organizations of all sizes can benefit by reducing operation costs and equipment costs.
Continuation…

While ensuring that this can be practiced in all areas of work, the following tips are helpful:

**IT services**

1) Energy efficient data centre and renewable energy sources for data centre power consumption.
2) Low energy communication and networking equipments and low energy consuming computing devices.

**IT infrastructure**

1) Use cloud computing and software as a service solutions (SaaS) instead of running a new application in house.
2) Technologies such as a virtual private networks and collaboration tools help employees work together from different locations.

**Computers and Desktop Monitors**

1) Reduce power consumption through effective power management by employing alternative energy sources for computing workstations, servers, networks and data centers.
2) Power down the CPU and all peripherals during extended periods of inactivity and activating standby setting.
3) Power up and power down energy intensive peripherals such as laser printers according to need.
4) Use liquid crystal display monitors rather than cathode ray tube monitors.

**Paper**

1) Reduce paper consumption
2) Use recycled paper or non-wood paper, eliminate paper, printer and packaging waste.
3) Re-use papers to make rough notes

**Printer**

1) Ensure that printer has a standby mode which should be activated after a short period of inactivity.
2) Buy automatic duplex printers set duplex printing as default or manually feed the paper for printing on both sides.

Continued…
Go Digital

1) Transition from paper based to digital processes.
2) Use emails with attachments for sending office documents instead of sending hardcopies.

Encourage telecommuting and collaboration

1) Use web conferencing instead of travelling to meetings.
2) Enable staff to telecommute.

Waste management - Reduce, Reuse, Recycle

1) Dispose of e-waste properly.
2) Minimize the use of paper and properly recycle waste paper.


In line with the guidelines issued by the RBI regarding green banking, many banks are promoting their online banking services as a form of green banking. Taking things further, SBI has launched, “Green Channel Counter”. It is a innovative step taken by the bank towards changing the traditional paper based banking to the card based “Green Banking” emphasizing savings in transaction time and reduction of paper consumption. It is an attempt to change the behavior of customers from voucher based banking to card based transactions.

Thus one can easily decipher that the conventional brick and mortar retail banking is slowly giving room to high tech e-banking due to the increase in education level and spread of banking literacy leading to propagation of banking habits.

At this juncture, it would be appropriate to size up the benefits of high tech e-banking and the threats associated with it.

4.16.2. Contemplation of benefits of high tech e-banking:

1) It is environment friendly.
2) It involves less paper work.
3) Transactions are fast, thus serving time to banker and customer.
4) Reduce banking cost, thus increasing profitability of banks.
5) Less driving to bank branches by bank customers, which in turn will have a positive impact on environment.
6) Internet banking allows banks to tap new markets and reach high net worth individuals, because there are no geographical boundaries with the internet, thus enabling banks expand their customer base.
7) Facilitates bankers to cross sell by displaying various products and services offered by them in their official websites.
8) Facilitates on line shopping.
9) Enables online payment of utility bills and taxes.
10) Enables online booking of railway and air tickets, hotels and restaurants.
11) To a customer, a bank seems more state of the art if they offer internet access. A customer may not want to use e-banking, but having such services gives him a feeling the bank is on a cutting edge.
12) Avoids the security threats emanating from carrying physical cash.
13) Facilitates “Anywhere, Anytime and Anyhow” banking.
14) In high tech e- banking the possibility of loss of instruments in transit or fraudulent encashment thereof is totally eliminates.
15) Reconciliation of transactions is made automatic.
16) Ensures better and improved customer service.
17) Facilitates effortless receipt by customers as there is no need for him to visit the bank to deposit the dividend/ interest warrant.
18) Enables better administration on all fronts as the required information is available on a real time basis.
19) By using SaaS [Software as a Service] banks can hire the IT application as a service from a third party, thus doing away with the need for costly data centers, servers and networks.
20) Through cloud computing, banks can hire a variety of IT resources from different cloud providers and use them in unison to provide efficient service by creating a single window concept.

The treasured benefits ushered in by high tech e-banking are not devoid of threats. Such perils emerge in the form of security issues associated with e-banking.
4.16.3. Security issues in e-banking:

One can vouch with certainty that e-banking has come to stay. It has not only rung in multiple benefits but also an array of operational risks disguised in the form of security threats. The challenge lies in identifying and addressing such security threats without inhibiting the infusion of technological advancements in retail banking.

In today’s retail banking milieu internet banking has evolved as an essential service whose quality can have a significant say on customer’s satisfaction and loyalty to their banks. But this internet banking is fraught with grave risks to customers as well as to bankers. Hackers and fraudsters make ill- gotten monetary gains through internet banking.

4.16.3.1. Assortment of frauds in vogue in e-banking:

Deliberations with a cross section of retail customers and bank officials revealed that their concerns about e-banking have increased. The types of e-banking frauds garnered through the discussion are sketched below with real life examples.

1) **Identity thefts:** In e-banking, a customer’s identity is established by his name or passwords. Identity thefts are the misuse of name or passwords to impersonate a customer in order to abuse the victim’s banking facilities. Transactions which are popularly affected by identity thefts are card transactions at ATMs, online transactions and use of credit card number for internet payments.

<table>
<thead>
<tr>
<th>Records Exposed</th>
<th>Duration</th>
<th>Date Reported</th>
<th>Organization</th>
<th>Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>500,00,000</td>
<td>April 2003- April 2004</td>
<td>24/06/2004</td>
<td>America Online</td>
<td>Data stolen by employees and sold to spammers</td>
</tr>
<tr>
<td>170,00,000</td>
<td>2006-2008</td>
<td>5/10/2008</td>
<td>T-mobile, Deutsche Telekom</td>
<td>Data stolen by employees and found online for sale</td>
</tr>
<tr>
<td>110,00,000</td>
<td>July-Aug 2008</td>
<td>6/9/2008</td>
<td>GS Caltex</td>
<td>Employees made copies of personal data to see</td>
</tr>
<tr>
<td>85,00,000</td>
<td>2002-June 2007</td>
<td>3/7/2007</td>
<td>Certegy Check Services, Fidelity National Information Services</td>
<td>Data Stolen by employee and sold to a third party for marketing purposes</td>
</tr>
</tbody>
</table>

**Real Life Example 1**

Stephen Watt was a member of a conspiracy, between 2003-2008, illegally gained electronic access to corporate computer networks using various techniques, downloaded customer’s debit card information, and fraudulently used that information and sold to others for fraudulent application.


**RBI’s guidelines regarding collecting information from retail banking customers.**

RBI has administered banks that the information provided by the customer for Know Your Customer [KYC] compliance while opening an account is confidential and divulging any details thereof for cross selling or any other purpose would be in breach of customer confidentiality obligations.

Source: RBI Guidelines

2) **Carding:** Carding sites can be found on the internet, where fraudsters buy and sell access to bank accounts, stolen card numbers, dumps from magnetic strips and even personal profiles. Also explained in Chapter 2 under 2.8 Operational delineation.

**Real Life Example 2**

In May 2008, McAfee found a set of bank accounts for sale. An account at European bank BNP Paribas with a balance of Euro 30,792, selling online for just 2200 euro. The seller offered a 24 hour guarantee if the buyer could not login within that period, or if the account no longer contained the money, a replacement account would be provided.

Source: McAfee

3) **Skimming:** It refers to the unnoticed duplication of electronic data from a payment card. The fraudster installs a copying device in the card slot of an ATM. This transcribes the information from the magnetic strip on a card inserted by a customer. There may be a fake touch pad to duplicate the keystrokes used for password entry.
The vital information obtained by these modes facilitate fraudsters to create duplicate cards and withdraw money from the accounts in question.

4) **Phishing:** It refers to the fraudulent capture and recording of customers security details, to be used later for committing frauds.

Different forms of phishing in vogue are given below.

a) **Email phishing:** It signifies creation of bogus websites that exactly replicates the existing sites and sending email to deceive users to part with financial, personal or password data to fraudsters.

b) **Pharming:** It connotes the use of malicious software [malware] to redirect internet users from genuine websites to fraudulent sites. It carries out modifications in such a way that when a gullible user opens the website of his bank, it actually takes him to the bogus website.

c) **Spear phishing:** This is employed to target employees of an organization. A message would surface as if it is generated by the employer, asking for updating of passwords or any other personal information. A fraudster can thus gain access and wreak havoc on an organization’s entire computer system.

d) **Vishing [Voice Phishing]:** Here, a email warns that the concerned user’s bank account has been cyber attacked and that the user has to call a certain telephone number, which will ask for the account number, credit card details and the valuable 3-digit code at the back of the card. Once the gullible user passes the details over the phone, the fraudster uses them to swindle the money.

e) **Man in middle attack:** In this technique a fake website is created which closely resembles the bank’s genuine website. A naïve retail banking customer receives an email purportedly from the bank, asking the customer to click on a link provided on the “bank website”. Once clicked the gullible customer is automatically taken to the bogus bank website. Details entered by the customer will reach the fake website. Upon receiving the details, the fraudster using a special software, connects to the authentic bank website, impersonates the customer and carries out financial transactions. Banks cannot detect such transactions as all details are in place. While both the customer and bank believe
that they are communicating with each other, the fraudster can effortlessly play pranks and easily put through.

**Real Life Example 3**

In 2006, Citi Bank customers were targeted by a Man in the Middle attack. An email asked customers to confirm their address, stating that suspicious activity was detected. The site asked for account details, including the onetime password. If they were incorrect, the customers were asked to re-enter them.

Source: [www.cronto.com](http://www.cronto.com)

f) **Man in the browser attack**: When a customer from an email attachment or downloads a file from a website, a fraudster may install malware unobservedly without the customer’s permission or knowledge. Normal web browsing will remain unaffected. But when a customer visits his online bank website, the malware will alter the webpage as it is displayed to the customer and modify the requests sent back to the bank. For instance, when a customer transfers funds, the malware would change the amount transferred and the destination account number to that of the fraudster, similarly, when the bank confirms that the transfer has occurred, the malware will change what is displayed to the customer, making the customer believe that the intended original transaction has been executed.

**Real Life Example 4**

In 2007, ABN Amro’s online banking service suffered a malware-based attack. Customers were sent mails with attachment, claiming to be from the bank itself. Customers responding to the email would visit the bank site that would redirect them to a fake site that asked for account details. Fraudsters were able to get away with transactions while the one-time password was still valid.

Source: [www.cronto.com](http://www.cronto.com)

5) **Mules**: These are individuals who are recruited over the internet as intermediaries for the ill-gotten money acquired through phishing and other types of scams. The mules transfer money through anonymous transfer services after deducting 5% to 10% as fee for their “services”.

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**Real Life Example 5- Money Mules in India**

As the number of online job seekers increase exponentially in India, so do online frauds. Many “money mules” are individuals desperately seeking jobs online, and are lured into the “profession” due to their greed to make quick money. They are “recruited” as money mules and follow “instructions” without being aware of their implications, and ultimately end up in prison.

The recruitment operation takes place as follows. A foreign company, pretending to have clients in India, calls for application for an Indian branch manager responsible for “collections”. When an online job seeker expresses interest, an online interview is conducted and the job seeker is appointed with the responsibility of transferring money deposited into his personal account by the foreign company’s clients. In the bargain, the “recruit” earns around 10% commission, apart from the monthly “salary” promised to him. The “recruit” is the “money mule”.

The action then moves to other gullible people lured either by promises of lottery wins or job offers abroad. They are instructed to contact the money mule and deposit a specified sum in the mule’s bank account. The mule then transferred, say 90%, to the fraudster abroad. Both the mule and the deceived person may land in trouble later with the Indian authorities for illegal acts.

Police confirms that online frauds are increasing.


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**Real Life Example 6 – Nigerian Advance Fee Fraud**

The fraud is named after the Nigerian law that covers it. The fraud begins with an arrival of an email from a family member of an (usually) African dignitary, who claims that following the death of an influential family member, a huge sum of money is locked up in a bank account at some location. The sender of the email solicits the recipients help to release the money, and lures the recipient with hefty compensation for the help. Once the unwitting recipient is tempted, the fraudsters demand an “advance” either in the form of a bank account opened for this purpose or a fee. Once this is accomplished, there may be a series of expenses the victim has to contend with, sometimes leading to physical threats. The victim realizes after some time that the blocked money does not exist, and that he has been hoodwinked.

Source: McAfee.
McAfee and other e-security experts predict heightened security threats in the years to come, posing grave threats to users and stiff challenges to those responsible for tackling and controlling them. [Source: McAfee and www.cert-in.org.in]

4.17. Prospects of Indian Retail Banking sector

With the Indian economy pregnant with high growth potential, banks have immense opportunities to further expand their business through financial inclusion using technology enabled sustainable business models.

4.17.1. Financial Inclusion

In order to bring in inclusive growth, RBI has put financial inclusion process into operation. Financial exclusion remains a challenge as evidenced by low levels of financial penetration and deepening in India in comparison with other countries. Data published by World Bank suggest that India ranks low when compared with other countries, as indicated below.

Table 4.9. Indicators of Financial Access and Depth, India compared with select countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>Financial Access</th>
<th>Financial Market Size and Depth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of branches per 1,00,000 persons</td>
<td>Number of ATMs per 1,00,000 persons</td>
</tr>
<tr>
<td>India</td>
<td>6.33</td>
<td>1.63</td>
</tr>
<tr>
<td>China</td>
<td>1.33</td>
<td>3.80</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.73</td>
<td>4.84</td>
</tr>
<tr>
<td>Malaysia</td>
<td>8.26</td>
<td>16.44</td>
</tr>
<tr>
<td>Thailand</td>
<td>7.37</td>
<td>17.05</td>
</tr>
<tr>
<td>Australia</td>
<td>24.00</td>
<td>115.00</td>
</tr>
<tr>
<td>Canada</td>
<td>28.00</td>
<td>158.00</td>
</tr>
<tr>
<td>Japan</td>
<td>45.00</td>
<td>136.00</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>23.00</td>
<td>97.00</td>
</tr>
<tr>
<td>United States</td>
<td>26.00</td>
<td>134.00</td>
</tr>
</tbody>
</table>

Citing the above source, RBI, in its Report on Trends and Progress of Banking in India 2009-10, has indicated that as far as access to branch is concerned, it is comparatively less striking. But it is comparatively prominent in the case of ATMs and private credit to GDP ratio. This indicates that a lot need to be done to hasten the financial inclusion process in India in the days to come.

Financial inclusion refers to the provision of affordable financial services [i.e. access to payments and remittance facilities, savings, loans and insurance services] by the formal financial system to those who tend to be excluded, the focus is on ensuring inclusion at the individual and household level. In 2005, RBI promoted no-frills account [no pre-condition, low minimum balance maintenance] to provide an easy financial savings facility to down-trodden, thereby providing means for their entry into the banking system. As at the end of March 2010, 50.6 million no frills accounts were opened. Since the poor often find it difficult to save and deposit money in these accounts, many of the no-frills accounts became dormant. To keep these accounts active, RBI advised banks to provide small overdrafts in such accounts. Accordingly, as of March 2010, overdrafts of Rs.27.54 crores were provided to such account holders. [Source: Report on Trend and Progress of Banking in India, 2009-10]

Following continuous encouragement given by RBI to commercial banks to expand their banking net worth through setting up of new branches and off site ATMs, financial inclusion improved in 2010-11 over the previous year as shown below:

<table>
<thead>
<tr>
<th>SNO</th>
<th>Indicator</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit-GDP ratio</td>
<td>53.40</td>
<td>54.60</td>
</tr>
<tr>
<td>2</td>
<td>Credit-Deposit ratio</td>
<td>73.60</td>
<td>76.50</td>
</tr>
<tr>
<td>3</td>
<td>Population per bank branch</td>
<td>14000</td>
<td>13460</td>
</tr>
<tr>
<td>4</td>
<td>Population per ATM</td>
<td>19700</td>
<td>16243</td>
</tr>
<tr>
<td>5</td>
<td>Percentage of population having deposit accounts</td>
<td>55.80</td>
<td>61.20</td>
</tr>
<tr>
<td>6</td>
<td>Percentage of population having credit accounts</td>
<td>9.30</td>
<td>9.90</td>
</tr>
<tr>
<td>7</td>
<td>Percentage of population having debit cards</td>
<td>15.20</td>
<td>18.80</td>
</tr>
<tr>
<td>8</td>
<td>Percentage of population having credit cards</td>
<td>1.53</td>
<td>1.49</td>
</tr>
<tr>
<td>9</td>
<td>Branches opened in Tier 3-6 centers as a percent of total new bank branches</td>
<td>40.30</td>
<td>55.40</td>
</tr>
<tr>
<td>10</td>
<td>Branches opened in hitherto unbanked centers as a percent of total new bank branches</td>
<td>5.60</td>
<td>9.70</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2010-11.
4.17.2. India’s savings performance in an International perspective:

This is quite impressive as depicted in the following table:

Table 4.11. Gross Domestic Savings Rate

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>[as percent of GDP]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>22.8</td>
<td>24.4</td>
<td>23.7</td>
<td>33.5</td>
<td>36.9</td>
<td>32</td>
<td>33.8</td>
</tr>
<tr>
<td>China</td>
<td>39.1</td>
<td>43.5</td>
<td>37.5</td>
<td>47.6</td>
<td>50.5</td>
<td>51.8</td>
<td>52.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>32.3</td>
<td>30.6</td>
<td>32.8</td>
<td>29.2</td>
<td>29</td>
<td>28.9</td>
<td>33.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>34.5</td>
<td>39.7</td>
<td>46.1</td>
<td>42.8</td>
<td>42.1</td>
<td>42.3</td>
<td>36</td>
</tr>
<tr>
<td>Pakistan</td>
<td>11.1</td>
<td>15.8</td>
<td>16</td>
<td>15.2</td>
<td>15.4</td>
<td>20.8</td>
<td>11.4</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>14.3</td>
<td>15.3</td>
<td>17.4</td>
<td>17.9</td>
<td>17.6</td>
<td>13.9</td>
<td>18</td>
</tr>
<tr>
<td>Thailand</td>
<td>33.8</td>
<td>35.4</td>
<td>31.5</td>
<td>30.3</td>
<td>34.8</td>
<td>31.5</td>
<td>32.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>21.4</td>
<td>16.5</td>
<td>16.5</td>
<td>19.8</td>
<td>19.8</td>
<td>20.9</td>
<td>16.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>22</td>
<td>22.6</td>
<td>21.9</td>
<td>22.3</td>
<td>24.2</td>
<td>24.9</td>
<td>20.9</td>
</tr>
<tr>
<td>Russia</td>
<td>30.3</td>
<td>28.8</td>
<td>38.7</td>
<td>33.8</td>
<td>32.8</td>
<td>34.6</td>
<td>26.1</td>
</tr>
<tr>
<td>South Africa</td>
<td>23.2</td>
<td>18.9</td>
<td>18.9</td>
<td>17.5</td>
<td>18.3</td>
<td>18.9</td>
<td>18.6</td>
</tr>
<tr>
<td>France</td>
<td>21.2</td>
<td>19.7</td>
<td>21.4</td>
<td>19.5</td>
<td>20.3</td>
<td>19.8</td>
<td>17</td>
</tr>
<tr>
<td>Germany</td>
<td>23.1</td>
<td>22.7</td>
<td>22.1</td>
<td>22.2</td>
<td>25.4</td>
<td>24.8</td>
<td>21.4</td>
</tr>
<tr>
<td>Japan</td>
<td>33.7</td>
<td>29.7</td>
<td>26.9</td>
<td>25</td>
<td>25.4</td>
<td>23.8</td>
<td>20.7</td>
</tr>
<tr>
<td>Korea</td>
<td>36.4</td>
<td>36.6</td>
<td>33.4</td>
<td>32.4</td>
<td>30.9</td>
<td>30</td>
<td>29.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>44</td>
<td>50.1</td>
<td>46.9</td>
<td>47.1</td>
<td>49.5</td>
<td>47</td>
<td>NA</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.1</td>
<td>17</td>
<td>15.8</td>
<td>13.6</td>
<td>15.2</td>
<td>14.1</td>
<td>11.2</td>
</tr>
<tr>
<td>United States</td>
<td>16.3</td>
<td>16.9</td>
<td>16.7</td>
<td>14.1</td>
<td>14</td>
<td>12.5</td>
<td>11.4</td>
</tr>
</tbody>
</table>


India’s Gross Domestic Savings rate has recorded an increase of 11% between 1990 and 2009, second highest growth rate next only to China which scaled 13% during the same period.
4.17.3. Position of Bank deposits in India’s gross Financial Assets:

This is shown in the following table:

Table 4.12. Composition of India’s Gross Financial Assets:

<table>
<thead>
<tr>
<th>Period</th>
<th>Currency</th>
<th>Bank Deposits</th>
<th>Non Banking Deposits</th>
<th>Life Insurance Fund</th>
<th>Provident &amp; Pension Fund</th>
<th>Claims on Govt.</th>
<th>Shares &amp; Debentures</th>
<th>Units Of UTI</th>
<th>Trade Debt(Net)</th>
<th>Gross Financial Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970s</td>
<td>13.9</td>
<td>45.6</td>
<td>3</td>
<td>9</td>
<td>19.6</td>
<td>4.2</td>
<td>1.5</td>
<td>0.5</td>
<td>2.7</td>
<td>100</td>
</tr>
<tr>
<td>1980s</td>
<td>11.9</td>
<td>40.3</td>
<td>4.6</td>
<td>7.5</td>
<td>17.5</td>
<td>11.1</td>
<td>3.9</td>
<td>2.2</td>
<td>0.9</td>
<td>100</td>
</tr>
<tr>
<td>1990s</td>
<td>10.3</td>
<td>34.7</td>
<td>6.8</td>
<td>10.1</td>
<td>18.8</td>
<td>9.5</td>
<td>7</td>
<td>3.8</td>
<td>-1</td>
<td>100</td>
</tr>
<tr>
<td>2000s</td>
<td>9.6</td>
<td>44.7</td>
<td>1.3</td>
<td>17.4</td>
<td>12.4</td>
<td>11.1</td>
<td>4.1</td>
<td>-0.5</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>2000-05</td>
<td>8.9</td>
<td>37.8</td>
<td>2</td>
<td>14.7</td>
<td>15.1</td>
<td>19.5</td>
<td>2.8</td>
<td>-0.9</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>2005-11</td>
<td>10.7</td>
<td>49.9</td>
<td>1.7</td>
<td>19.9</td>
<td>10.3</td>
<td>3.5</td>
<td>4.3</td>
<td>-0.2</td>
<td>0.4</td>
<td>100</td>
</tr>
</tbody>
</table>


Bank deposits continue to account for the predominant share of gross financial assets. Their share sharply increased in the second halves of 2000s in contrast to the declining trend in the previous years. In recent years, banks have moved to core banking platform which has enabled them to offer a range of value added products to customers across geographies which has enhanced the attractiveness of bank deposits. Moreover, against the backdrop of financial sector reforms and financial inclusion, supported by favourable demographic pattern, bank deposits would continue to be one of the key drivers of the household financial savings during the twelfth five year plan period [2012-17]. Source: www.rbi.org.in: Report of the working group on savings during the twelfth five year plan [2012-13 to 2016-17]
4.17.4. Trends in Household savings:

The trend in India’s household savings is sketched in the table given below:

**Table 4.13. Trends in Household Savings [Averages]**

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Household Savings [as % of GDP at current market price]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970s</td>
<td>11.8</td>
</tr>
<tr>
<td>1980s</td>
<td>13.7</td>
</tr>
<tr>
<td>1990s</td>
<td>17.9</td>
</tr>
<tr>
<td>2000s</td>
<td>23.2</td>
</tr>
<tr>
<td>2000-05</td>
<td>23.1</td>
</tr>
<tr>
<td>2005-11</td>
<td>23.5</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in: Report of the working group on savings during the twelfth five year plan [2012-13 to 2016-17]

From the table above it is evident that household savings have shown an increasing trend in general.

4.17.5. Projected growth rate of India’s Gross Financial Assets:

The projected growth rate in bank deposits and household savings inter-alia over the twelfth plan is given below:

**Table 4.14. Projections over the twelfth plan (as % of GDP at current market price)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>1.6</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>8.8</td>
<td>8.9</td>
<td>9.1</td>
<td>9.2</td>
<td>9.4</td>
</tr>
<tr>
<td>Non-Banking Deposits</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Life Insurance Fund</td>
<td>2.9</td>
<td>3</td>
<td>3</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Provident and Pension Fund</td>
<td>1.7</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Claims on Govt</td>
<td>0</td>
<td>0.8</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Shares &amp; Debentures</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Household Savings</td>
<td>23.6</td>
<td>24</td>
<td>24.4</td>
<td>24.8</td>
<td>25.2</td>
</tr>
</tbody>
</table>

The above projections signal a growth rate in bank deposits and household savings. This augurs well for retail banking in India.

4.18. Customer Service

An inseparable part of retail banking is the quality of services rendered by banks to customers. With the retail banking undergoing a metamorphosis from conventional ‘brick and mortar’ banking to the contemporary ‘brick and click’ banking, the way banks render their services to customers have undergone a transformation. Unitary customer touch point has given room to multiple touch points and the associated outsourcing activities of the banks. These in turn have given rise to a fleet of service-related issues, making customer satisfaction, loyalty and customer advocacy, the core issues in customer relationship management in banks, utopian concepts to bankers.

4.18.1. Contemporary customer service in a high tech electronic banking milieu:

In the bygone era of traditional banking, retail customers interacted with the bank employees in their bank premises. Thus, there was a single customer touch point. But the advancement in the technology has announced a total change in the way banker and customer react and in the action plan of bankers serving customers.

Multiple Customer Touch Points and Moments of Truth:

Banker and customers have to essentially interact with each other. Such interaction takes place through different modes like employees, ATMs, internet banking etc. These modes are christened customer touch points.
Figure 4.6. Multiple Customer Touch Points in the Banking Process

Customer Touch Points

- Promotional campaign
- ATMs
- Bank employees
- Demat Facilities
- Mailers
- Product range
- Interaction centers (call centers, customer grievance handling center)
- Web interface (internet banking)
- Mobile banking
- Brand Image
- Interactive voice response system

Retail Customers

Banking Process
The experience of the customer at “touch points” while interacting with the bank, creates an impression in his mind. Such impressions create ‘moments of truth’, wherein the customer perceives the experience of interaction as either good or bad, pleasant or unpleasant, constructive or destructive, positive or negative. It is the quality of these ‘moments of truth, which decides customer’s long term association and involvement with the bank’s products or services. For instance, even a single irritant with a bank employee[one among the several touch points] while using banking service of a bank, may hinder the chances of availing the services of the same bank in future by the customer.

The first touch point occurs when a customer becomes aware of the brand. Multiple experiences accumulated at individual touch points create an overall impression in the mind of customers. Such experience over a period of time bind the customer emotionally and psychologically with the bank, its products and services. To make this happen, banks should ensure that the customer has positive experience consistently. If not, there will be a diffused perception in the mind of the customer.

Handling a large number of touch points associated with overall customer experience is a challenging complex task to the banker. Therefore, banks should ensure utmost caution and tactfulness in handling each touch point.

Multiple touch points in the form of promotional campaign, ATMs, employees, demat facilities, mailers, product usage, interaction centers[call centers, customer’s grievance handling center], web interface[ internet banking], mobile banking, brand image and interactive voice response system, cause varied impact on customer relations, thus warranting the need for improving incessantly the quality of all these touch points.

Bankers should also ensure that these touch points are well integrated so that the customers get a uniform quality experience of interaction, irrespective of the selected touch point or points. Such integration will also create a single window concept image in the mind of the customer. Due to lack of proper interaction, the customer should not be made to move from one touch point to another.

Banks endeavor to increase the number of customer touch points with good integration among them on the one hand and to improve the quality of moments of truth on the other hand.
Both these perspectives combine to create an exemplary level of customer connect, leading to repeat interactions and stronger bonds with customers, which eventually become the foundation of highly desired customer loyalty.

In order to ensure deft and dexterity in handling the multiple touch points, banks have started outsourcing their non core activities.

**4.18.2. Outsourcing of core activities:**

Growing competition, cost considerations and lack of expertise in banks in delivering certain services have compelled banks to outsource some of their activities in order to maintain their competitive edge. Banks typically outsource their non core functions so that they can pay heed to their core activities.

Through outsourcing banks can avail the domain dexterity of the service provider. It saves the bank of the capital investment required to develop infrastructure. Also, in house provision of services may be more expensive as they do not enjoy any economy of scale. But since the service providers quench the outsourcing requirements of several banks, they enjoy economies of scale, a part of which is passed on to the outsourcing bank.

The outsourced activities encompass services like software application, support, maintenance of hardware and software, hosting services, managing data centers, managing ATM network across the length and breadth of the country and disaster management. Banks also give contracts to third parties for support services like help-desk support, call support services, credit card processing, cheque processing and collecting, ATM cash replenishment, loan servicing, data processing etc.

Outsourcing of non core activities are not without its perils. Risks involved in outsourcing include non-compliance with regulations, leakage of customer data, poor service and lack of expertise on the part of the service provider. Leakage of confidential customer data is a major security risk. Such seepage can be disastrous to banks, with huge fall out in terms of pecuniary loss and severe dent on the reputation of the bank.

Before outsourcing, the banks should verify the veracity of the required domain knowledge of the service provider and remain vigilant to avoid the before stated pitfalls.
RBI has proposed that the board of directors of a bank should be responsible for the outsourcing policy and approving such functions undertaken by the bank. Internal auditors are expected to look into the security issues related to outsourcing. Information technology act 2000 contains provisions to tackle cyber crimes like leakage of confidential information by vendors.

The metamorphosis of retail banking from the conventional ‘brick and mortar’ banking to the contemporary ‘brick and click’ banking have changed the modus operandi of banking activities. The emergence of multiple touch points and the associated outsourcing of activities, have given birth to an array of bewildering problems related ATM services, credit card services, loan services, internet banking, etc thereby rendering customer relationship management a daunting task for banks.

4.18.3. RBI’s initiatives in sensitizing banks for rendering efficient customer service- vital ingredient in customer relationship management

Customer relationship management in banks involve customer acquisition, quality service, customer satisfaction, loyalty and customer advocacy. The core issue is customer satisfaction through quality service.

RBI has taken a series of steps to disseminate instructions/guidelines relating to customer service and grievance redressal by banks by placing all customer related notifications and press releases on its multi lingual website. Customers can approach RBI with their complaints through “Contact Us” mode of the website.

RBI has set up full fledged customer service department. In February 2006, RBI created banking codes and standard boards of India [BCSBI] as an independent autonomous watch dog to ensure that customers get fair treatment in their bank dealings. The BCSBI has published “code of banks” commitment to customers which sets minimum standards of banking practice and benchmarks in customer service for banks to follow. Commercial banks have adopted the code as their Fair Practice Code in dealings with customers.
Banking Ombudsman Scheme 2006

To strengthen the grievance redressal mechanism, banks have been asked to display the names of the officials who can be contacted for redressal of complaints as per provisions of the banking ombudsman scheme 2006. Banks are also requested to display these details on the websites.

Internet Frauds:

To avoid internet frauds, banks have been advised to put disclaimers [such as bank does not ask for PIN/password so beware, refrain from doing internet transactions if you are not familiar] on the monitor when customers are carrying out online internet banking transactions.

Delay in collection of cheques/returning documents, securities:

Customers are entitled to compensation for delay in collection of cheques, in returning documents/securities beyond 15 days of settlement of dues without their demanding the same.

Credit card services:

Following numerous credit card complaints on operations of banks [like excessive finance charges, issuance of unsolicited credit cards/insurance policies and recovery of premium charges, charging of annual fee in spite of being offered as “free” cards etc.], RBI has advised banks to strictly adhere to the guidelines issued in the Master Circular on Credit card operations of July 2011, both in letter and spirit. Failure to observe these guidelines could lead to suitable penal action, including levy of monetary penalties under relevant statutory provisions.

Loan services:

With a view to bring fairness and transparency banks have been advised to disclose “all in cost”, inclusive of all charges involved in the processing and sanctioning of loans to enable customers compare the charges with other sources of finance. Banks need to ensure that these charges are non-discriminatory. Banks have also been instructed to provide loan statements on annual basis for all retail loans with details such as particulars of principal, interest and outstanding balance.
Cheque Drop Box Services:

In view of complaints about refusal by banks to give acknowledgements to customers for cheques tendered at the counter compelling them to drop them in the drop box, banks have been advised to ensure stricter compliance with the exact instructions regarding cheque drop box facility. Banks have been further advised that no branch should refuse to accept cheques over the counter and give proper acknowledgement.

No- Frills account:

Banks have been advised to ensure opening of no-frills accounts or other accounts for students from minority communities and other disadvantaged groups to enable them to avail various scholarships or other benefits offered by the government.

Compensation for delay in pension payments

In March 2011, banks were asked to ensure that any delay in disbursement of regular pension, revised pension, pension arrears etc., is compensated at bank rate plus 2% penal interest for the delayed period and the same is credited to the pension account on the same day when the bank affords the delayed credit without any claim from the pensioner.

ATM related issues:

Major problems encountered by the retail customers at ATM are short dispensation of cash, non- dispensation of cash and account getting debited for such non-dispensation and card getting stuck in ATM machines. Due to the increased instances of fraudulent withdrawals at ATMs, RBI has admonished bank to put in place of system of online alerts for all types of transactions, irrespective of the amount involved, through various channels. Further, banks have also been advised to provide complaint templates to all ATM sites for lodging ATM-related complaints.

RBI has reduced the time lag for resolution of customer complaints on failed ATM transactions from 12 to 7 working days. For any delay beyond 7 working days, banks will have to pay a penalty at a rate of Rs.100 per day.
Board meeting to devote time exclusively to issues related to customer service:

RBI in its annual monetary policy 2010-11 has announced that banks should devote exclusive time in a board meeting once every six months to deliberate on issues pertaining to customer service. All banks should submit a detailed memorandum regarding customer service to the board of directors once every six months and initiate prompt corrective action, wherever deficiency is observed.

Report of Damodaran’s Committee on Customer Service in Banks:

RBI constituted a committee under the chairmanship of Shri M.Damodaran, former Chairman, SEBI, May 2010 to examine banking services rendered to retail and small customers including pensioners. The committee also had a mandate to look into the grievance redressal mechanism prevalent in banks, its structure and efficacy and suggest measures for expeditious resolution of complaints.

The committee submitted its report to Bank in July 2011. The recommendations of the committee include inter alia

1) Creation of toll free common bank call number
2) Providing plain vanilla savings account without prescription of minimum balance
3) Setting up of a trusted third party “Know Your Customer” data bank which can be relied upon for KYC purposes
4) Providing small remittances at reasonable price.

Source:

1) Report on Trends and Progress of Banking in India[2009-10]
2) Report on Trends and Progress of Banking in India[2010-11]
4.19. SWOT Analysis of Six Banks

The strength, weakness, opportunities and threats of banks considered for the study are briefly given below. These were garnered through interaction with bank officials.

4.19.1. State Bank of India:

**Strengths:**

1. Has the largest branch network in India reaching far flung areas also.
2. Has specialized branches like personal banking division for high value customers which allows it to target different segments successfully without clash of interest.
3. Has a robust brand image and brand name.
4. Bank has adopted technology in a massive way.
5. Has the largest number of ATMs in the country.
6. It is a banker to the government.
7. Has a large number of subsidiaries in allied areas like insurance, mutual funds, housing etc.
8. Low minimum balance required.
9. Has a loyal base of true customers.
10. Has the largest number of overseas offices in foreign countries.
11. Only minimal charges are levied on customers.
12. Has achieved break even long back due to long existence.
13. Has a large pool of trained employees, both at the top rung and lower rung levels, who can be deputed to other banks and financial areas without any impact on its own functions.

**Weaknesses:**

1. Image of a poor man’s bank.
2. Size of the bank itself is a weakness in getting timely information.
3. Some of the branches are located in far flung rural areas due to government stipulation.
4. Poor awareness of services offered.
5. Limited product variety.
6. Promotional activities are not effective.
7. In majority of the branches, the environment quality [ambience, parking place, etc.] is not good.

**Opportunities:**

1. Has associates through which it can increase its reach in different bank activities.
2. Bank can capitalize on its low charges on transactions and attract newer segments of customers.
3. Being a banker to the government and to its different schemes like pension and PPF, it can enlarge its client base through its connections with the government.

**Threats:**

1. Entry of number of private and foreign banks with latest technology.
2. New private and foreign banks have high technology content.
3. Aggressive marketing strategies adopted by private foreign banks to entice customers.

**4.19.2. Indian Overseas Bank:**

**Strengths:**

1. Good recognition among people due to long existence.
2. Charges levied on customers are nominal.
3. Low minimum balance required.
4. Has a loyal base of customers for generations.
5. Has achieved break even long back due to long existence.
7. Separate dedicated IT department.

**Weaknesses:**

1. Less product variety.
2. Low awareness of services offered.
3. ATM coverage is less.
4. Many branches are not in prime location.
5. Promotional activities are not effective.
6. In majority of the branches, the environment quality [ambience, parking place etc.] is not good.
7. Functional quality of staff lags behind private and foreign banks.

**Opportunities:**

1. Bank can capitalize on its low charges and attract more customers.
2. Full potential of its experienced staff needs to be exploited.
3. Can expand into rural areas.
4. Aggressive marketing can improve brand value.

**Threats:**

2. Aggressive marketing strategies adopted by private and foreign banks to entice customers.
4.19.3. ICICI Bank:

**Strengths:**

1. Caters to mass market.
2. Dynamic management.
3. Aggressive marketing.
4. Possesses a large ATM network.
5. Wide product range.
6. Wide distribution of branches all over India.
7. Major thrust on all growth areas like housing finance, vehicle finance and credit cards.
8. Introduction of latest technology in banking operations.
9. Has considerable recognition in urban areas.
10. Has the longest working hours.

**Weaknesses:**

1. Branches are thinly spread.
2. Due to considerable increase in the customer level, there is a fall in the service levels.
3. Requires huge investment to create infrastructures like ATMs to cope with the increased number of customers.
4. There are considerable number of complaints.

**Opportunities:**

1. Effective advertisement and promotion campaign.
2. Higher visibility in urban areas.

**Threats:**

1. Competition from nationalized banks and increasing presence of foreign banks.
2. Emergence of personal banking branches of SBI.
3. Difficulty in attracting customer segments above 50 years of age.

4.19.4. HDFC Bank:

**Strengths:**

1. Has a strong brand image.
2. Young labour force.
3. Wider customer base due to its presence in house loans.
4. Good customer service.
5. Dedicated employees aiming to make a long term career in the field.

**Weaknesses:**
1. Poor advertisement/publicity.
2. Perceived as a home loan provider.
3. Lack of tie up with vehicle dealers.
4. Lean branch network.

**Opportunities:**

1. Young employees can be easily moulded.
2. Potential exists in NRI segment.
3. Large numbers of customers have experience with HDFC home loans, and so the bank can tap that segment.

**Threats:**

1. ICICI Bank is expanding its way from A class to B and C class cities.
2. Public sector banks have a greater reach.
3. Aggressive advertising strategy adopted by ICICI.
4. ICICI bank opening extension counters in colleges.

4.19.5. **Standard Chartered Bank**

**Strengths:**

1. Biggest foreign bank in India.
2. Has a large client base for credit cards in India.
3. Good environment [ambience, parking space and seating arrangement]
4. A well known brand name in India.
5. Good product variety.
6. Service quality is perceived to be high.
7. More proactive and have introduced several new schemes and credit cards.
8. Popular among the public.
9. Aggressive advertising.

**Weaknesses:**

1. Bank image got dented due to incidents like seizing of property unlawfully.
2. Very few ATMs.
3. High service charges.
4. Targets a very small customer segment.
5. Inadequate network.

**Opportunities:**

1. There is a certain aura for the foreign banks in India.
2. Retail banking industry in India is booming.
3. Banking industry in India has been liberalized and there are very few restrictions on expansion.
4. Target segment can be extended to cover middle income groups.
5. Can reduce charges to tap a larger customer segment.
6. Network could be increased to tap more customers.

**Threats:**

1. Opening up of personal banking branches by other banks and providing facilities similar to foreign banks.
2. Growth of newly formed private sector banks.
3. Loyalty of Indians towards domestic banks.
4. Launch of marketing activities in an organized way by other banks.

**4.19.6. CITI Bank:**

**Strengths:**

1. Has a strong image as an innovative and customer friendly bank.
2. Has a large credit card customer base.
3. Targets upper middle, upper class and non-resident Indians.
4. Adopts and integrates latest technology at a rapid pace.
5. Robust brand name.
6. Large variety of products customized to customer needs.
7. Good environment[ambience, parking space and seating arrangement]
8. Uses advanced technology.
9. Has a wide credit card customer base.
10. Enjoys a good popularity.

**Weaknesses:**

1. Has only few branches.
2. Narrow client base.
3. Because of high charges, people perceive its services to be too expensive.

**Opportunities:**

1. There is a certain aura for foreign banks in India.
2. Retail banking industry in India is booming.
3. With liberalization taking the front seat, there are only few restrictions on expansion.
4. Target segment can be extended to cover middle income groups.
5. Has the potential to reduce charges to tap a larger customer segment.
**Threats:**

2. Opening up of personal banking branches by other banks and providing facilities similar to foreign banks.
4. Loyalty of Indians towards domestic banks.
5. Launch of marketing activities in an organized way by other banks.

This part of the study hitherto examined the financial system of India, the need of profundity of retail banking. This has formed a platform to analyze the primary data which is carried out in the upcoming chapter.