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A Study on Trends and Strategies of Retail Banking in India

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ABSTRACT

In recent years there is a vast development in retail sector. Retail Banking is one of the innovations, playing a crucial role in Banking Industry. The Retail Banks are running through rapid advances of Information Technology and helping in wide range of economic environment growth. It is included in Financial Market with Micro and Macro level demand and supply factors. For the first time Public Sector Banks have employed their marketing strategy in the form of Retail Banking with the objective to bring essential transformation in Bank transactions which has given a result of paradigm shift in the banking sector as a whole. Which may in turn sustains the growth of personal wealth and fulfils the liberalization and Globalization needs of Indian Economy. The retail loan is an innovative service offering by these retail banks having accounted for one fifth of all bank credit. Before retail loan there was a boom for Housing sector, which has accomplished in its credit. But the system of retail loan has changed the entire banking market by bringing transformation from seller's market to buyer's market. Here, there were a lot of opportunities to get ease retail loan even there were challenges which India is facing in emerging economy. In this paper it is focused on the Trends and strategies implemented and challenges and opportunities facing by the retail bankers and customers as well as made efforts to pinpoint the impact in the India's emerging economy.

KEYWORDS: Financial Inclusion, Retail Banking , Macro and Micro Economic Environment , Information Technology, Opportunities and Challenges.

INTRODUCTION

In recent years, India has experienced a new trend in banking industry in the form of Retail Banks which is a major drivers of the banking sector. This emerging idea has been not only adopted by all public sector banks but also adopted by private sector banks too. Generally in banks, an individual or a company, corporation and any other body are availing services only after completion of certain procedures. But after the reforms in financial sector, the banks have started a new way of providing services to their customers. Here, excluding the companies, corporations and other bodies, an individual customer can avail services from various branches of all banks through internet and other channels. Therefore, retail banking system exclusively concentrating only on individual customers by providing services like savings, mortgages, personal loans, allowing to make commercial transactions and also offering Debit and Credit cards. Hence, Retail banking is the Cluster of products and services that are proving to their customers. Since there are various pointers towards Retail banking system which have been witnessed for enormous growth of Indian economy. Retail banking has occupied a key area of banking industry extending its strategies in rising loans, deposits and continuing increase in the number of bank branches. Not only in India, but across the globe this retail banking has become a spectacular innovation in recent years.

OBECTIVES

To Study the Concept of Retail Banking in India

To Study the models and Strategies adopted by the banks

To Evaluate the performance of Retail banking of banks in India.

RESEARCH METHODOLOGY

This paper is the outcome of a secondary data on Retail Banking Sector with special reference to Indian context. To complete this, annual reports, various books, journals and periodicals have been consulted, several reports on this particular area have been considered, and internet searching has also been done.

Review of Litarature

International literatures and also literature on the Indian retail banking space available from various sources as per details below were reviewed to have an understanding of the international practices and strategies.

i)Research Reports on different facets of Retail Banking across the globe by renowned consulting agencies, Universities and domain players in the technology space.

ii)Reports in Journals carrying special reports of banking in general and retail banking in particular.

iii)Articles in different Journals, Business / Financial Papers covering the different facets of retail banking across the globe and India and also Annual Reports of public and private sector banks in India.

THE RETAIL BANKING SCENARIO IN INDIA

Across the globe , due to the rapid innovations in technology, the financial industry is facing tough competition in offering integrated financial services. Retail Banking has occupied a role as an essential enabler to translate the services into profitable business models. At the micro level of finance industry, the principal attraction for banks is retail banking which is used as a tool to keep the revenue stable and can offset the volatility in non retail businesses. But, at the macro level, the interest in retail banking may fluctuates when compared with the performance of non-retail banking and financial market activities. In 1990's Indian Commercial banks have adopted the strategy of retail banking on account of multiple comfort factors like, acquisition of huge customers base, numerous products offerings, better pricing and profitability. This service also facilitates cross selling and up selling ofthe financial products with the objective of increasing customer revenue with the less risk factor. A revolution in technology has brought a rapid changes in the business of banking. By applying different strategies the banks have re-designed their business structure by re-engineering existing products and introducing new financial products, services, channels and relationships to increase the customers wealth. As a result, since 2002 the whole banking industry showing steady progress in their activities.

The Banking industry in the economies of Brazil, Russia, India and China has been showing exemplary growth owing to improving economic condition, liberalisation, changing consumer demographics and large segment of untapped population. These countries are witnessing steep growth in the uptake of retail loans specially housing, car, education, credit cards and other personal loans. In India, total asset size of the retail banking industry grew at a rate of 120% to reach a value of $87 billion in 2014. This growth in retail banking sector has helped in the growth of the overall banking sector. In future the retail banking industry in India is likely to reach a value of $325 billion by 2018. Retail banking sector has been the main growth driver for Indian banking sector during the past few years, as banks' exposure to corporate banking sector has been reduced due to bad loans problems. Their retail lending has grown at a compound annual growth rate (CAGR) of 16.2% over the FY2013 to FY2018 period, making India's retail banking one of the biggest among emerging markets.

Retail banking, also known as consumer banking or personal banking that provides financial services to the general public. Retail banking is a way for the everyday consumer to manage their money, have access to credit, and deposit their money in a secure manner. Services offered by retail banks include checking and savings accounts, mortgages, personal loans, credit cards, and certificates of deposit (CDs).

BUSINESS MODELS IN RETAIL BANKING

Models adopted by banks vary among the public sector, private sector and foreign banks. Basically, Strategic Business Unit Approach, Departmental Approach, Integrated Approach (part of the overall business plan) are the main approaches for retail banking. Public Sector Banks have uniformly adopted the Departmental Approach as the retail banking business model. Later, the above model has been adopted by all the banks immaterial of their balance sheet size or geography. It indicates that the approach is more a general one with retail banking as one of the business models and not a focused business model. Surprisingly, the Strategic Business Unit approach is adopted by one of the top five public sector banks based in Mumbai and their business model is in alignment with private sector banks and foreign banks.

In old generation private sector banks, the approach is more conservative. The business model for retail banking has built as a part of the overall business plan and not done as a separate departmental activity, except Strategic Business Unit. But in new generation private sector banks, the business model is very clear. That they have set up Strategic Business Units to have clear focus and business objectives. As well as, the business model of Foreign banks is only Strategic Business Unit with defined business objectives. As Compared with Management By Objectives process the Strategic Business Unit model is more modular strategy which helps in achieving profits with a provision to knockdown the module, if the retail plans are not translated as per the objectives.

Generally, Strategies are based on the positioning objectives which are vary from bank to bank depending on the importance given to the business model. One of the West side Public sector bank has aimed as top retail player among the top three retail players across thebanks including peer group banks. Other Public Sector Banks have aimed to stand at top three positions among the peer group. But the strategy adopted is a part of the overall strategy based on the business mix, projections and corporate objectives of the bank. In case of Old Generated Private Sector Banks, the positioning platform is very clear. It is based on the overall business plan and in line with their size and scale. But within the overall objective, one Tamil Nadu based bank aims to achieve one of the top three slots among the peer group banks. Their technology initiatives definitely justify their positioning objective.

The New Generated Private Sector Banks which are Mumbai based have clear visions about their positioning platform. They want to be in the top place across all class of banks and justifiably so. The technology and strategy and customer and business initiatives and aggressive positioning had already taken the bank to the desired objective. Foreign banks do not go by positioning objective but purely on business objectives. They go by customer, business and profit targets.

Banks have adopted various models for implementing their retail banking initiatives. The most common strategies are end to end outsourcing, predominant outsourcing, partial outsourcing and in house sourcing. The implementation model depends on the product range, process requirements, usage of technological creativity, delivery of capabilities including human resources and regulatory prescriptions.

Most of the PSBs use only in house resources for retail banking. Only for some activities like ATM /Credit Cards / Debit Cards, the issue part is outsourced due to lack of facilities. Regulatory prescriptions are one of the major determinants of outsourcing or lack of it in these banks. The Old Generated Private Sector Banks are also, carrying their activities through in house resources only. In case of New Generated Private Sector Bankss, the model is a balanced mix of outsourcing and in house though a little bais towards outsourcing. In foreign banks, the implementation of business model is mostly based on outsource. To the extent in some foreign banks both front and back end operations are outsourced and in some banks, the back end operations are outsourced while the front end operations like sourcing of High Net worth Individual clients are done through captive resources.

Boston Consulting Group has conducted a study on the retail banking processes (Transforming Retail Banking Processes) and deduced four broadly defined process models implemented across banks. These models were defined based on the technology and customer interface capabilities of the banks studied. The four broad classifications are :

(i) Horizontally Organised Model

(ii) Vertically Organised Model

(iii) Predominantly Vertically Organised Model

(iv) Predominantly Horizontally Organised Model

The horizontal or vertical model depends on the level of customer information available in a single platform in the data base side for offering multiple products / services across assets, liabilities and other services. Horizontally organised model is a modular structure using different process models for different products, offering end to end solutions product wise. Vertically organised model provides functionality across products with customer data base orientation and centralised customer data base is used across products. Predominantly horizontally organised model is mostly product oriented with common customer information for some products. In predominantly vertically organised model, common information is available for most of the products.

ln most of the PSBs, horizontally organised model is the standard norm. Of course, in some banks, predominantly horizontally organised model do exist and reflect the level of common customer information available for some products. In one of the PSBs based in West, predominantly vertically organised model is the scenario implying that the common customer information is available for most of the products thereby enlarging the scope for cross selling and up selling. In one old private sector bank based in Karnataka, horizontally organised model exists and in another Tamilnadu based bank, the level of common customer information across products is relatively high with a blend of predominantly horizontally and vertically organised models. If we correlate this information with the positioning objective of the bank, the bank is going forward to achieve this. In foreign banks, it is mostly predominantly vertically organised model which implies that retail banking initiatives are attempted with common customer information across products.

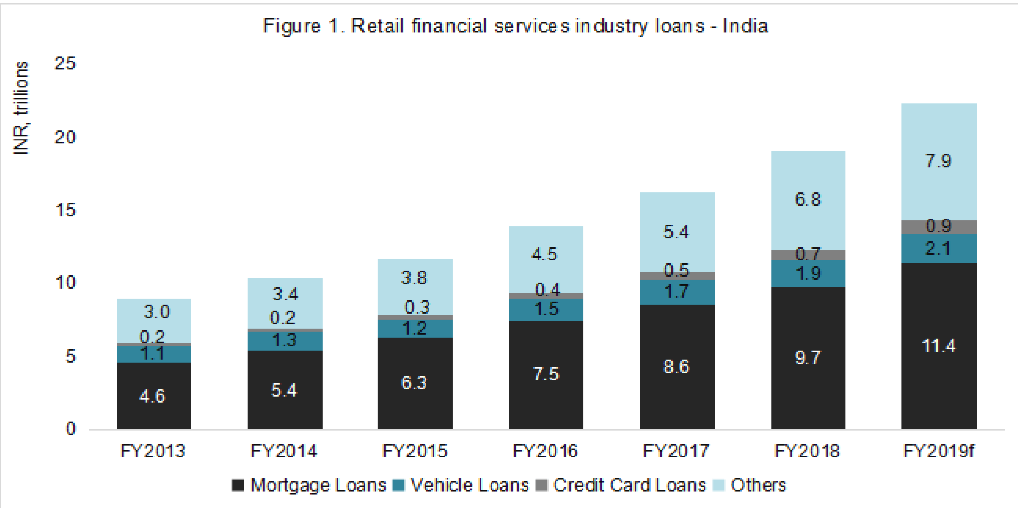
Strategies for Retail Banking Segment in India

In order to increase the retail banking business, banks have to develop and follow aggressive strategies to achieve their targets. In a competitive environment banks have to adopt policies that generate profits and stability in banking business. In the present scenario every bank is strengthening itself through various resources like adequate liquidity, proper risk management policy, offering quality asset, mobilizing core deposits, maintaining required capital adequate ratio, checks non-performing assets (NPA) on short intervals, usage of advanced technology, planning out market research for various products and services to determine their correct market position. Various other strategies are implemented by banks to fight the tough competition prevailing in the market among the big banks. By adapting various strategies banks can perform in a better way and can give competition to its peer banks. Offering wide range of tailor-made products and services suited to the requirements of customers belonging to different segments can help banks to stand ahead of the rest. This provides convenient banking to customer of all segments viz. mass market, mass affluent, HNW (High Net Worth), NRI (Non-Resident Indian) customer. The banks should constantly seek to launch new products and create new banking services to attract new customers and satisfy the existing customers. Maintaining service quality is one of the necessary aspects for banks. All banks offer almost similar kind of banking products to customers. Thus there is a probability that a customer can switch over to another bank for carrying out the banking transactions. The differentiation in banks can be established primarily through the quality of services and promptness in service delivery to customer. Quality of service provides the competitive edge that help banks to retain customers. Banks should develop strategies to explore the potential that the retail banking sector has. It has been observed that there is a huge potential in India in retail banking segments of banks, but it still lags behind in comparison to other developing economies. The change in the consumption pattern and mind-set of Indian customers, the possibility of increase in retail loans and the potential lying in lending by banks have increased tremendously. Thus, banks should plan to target the potential areas to increase the retail banking business. To reduce the cost of service and create efficiency in banking performance, Business Process and Infrastructure Outsourcing is adopted by the banks to assure quality and convenient banking to customers. Through this system banks can concentrate on core business areas such as marketing, customer services and brand building. For example, banks outsource the ATM installation to other organizations to reduce burden of work and increase effectiveness. Banks should provide high class services also implement robust safety and security measures specifically across the electronic delivery channels of banks such as ATMs, internet banking, mobile banking and through its branches as well. By being extra cautious and alert in security measure, banks can catch the attention of customers towards its e-banking product and services to increase its business volume. Marketing research and extensive advertisements are one of the fundamental activity which taken up by the banks to promote their banking products and services in market. Banks that thrust aside the idea of commercial ads or market research are like those ones who have lost the half battle already. Exhaustive market research to find out the customer perception and endorsing advertisements always help banks to get an edge over its peer banks. Cross-selling has emerged as a major approach to enhance retail business of banks. This strategy of selling additional products either of bank's own products or products of a different organization as the case of selling insurance policies or mutual funds to existing customers. Cross-selling has become an integral part of critical planning of banks. Banks should work on it by carrying it out through dedicated teams in banks, build up relationships with customers to execute it properly. Customer Relationship Management (CRM) solutions, if implemented and integrated correctly, can help immensely in improving customer satisfaction levels. Customer relationships have to be managed in the best possible manner. This will increase and ensure customer confidence towards the bank. In addition to good customer retention rates, it will also provide better income generation capability. The reason being that a major chunk of income of most banks comes from existing customers, rather than from new customers. Hence, Customer relationships have to be managed in the best possible manner. Banks tie-up with organizations can be extremely helpful in increasing the volume of retail banking business. At times when banks are associated with certain educational institutes, construction companies, automobile companies, jewelry shops then customer get the financial help from the bank through such institutes and companies. This tie-up system does not only enhance the profit of banks but also helps companies in increasing their sales. In the regime of falling interest rates and stiff competition, banks are aware that it is finally the retail banking that will enable them to survive, grow and develop in future. Hence, banks should make all out effort to boost the retail banking by recognizing the needs, preference, desires of the customers. It is essential that banks are imaginative in predicting the customers' expectations in the ever-changing preferences, social environment and bank must deploy the market segmentation technique to cover all class of customer so that they can offer right type of product to right customer. It is the innovative and competitive products coupled with high quality care for customers which will hold the key to success in this area.

Retail banking growth in India

Retail banking sector has been the main growth driver for Indian banking sector during the past few years, as banks' exposure to corporate banking sector has been reduced due to bad loans problems. Their retail lending has grown at a compound annual growth rate (CAGR) of 16.2% over the FY2013 to FY2018 period, making India's retail banking one of the biggest among emerging markets.

Retail lending drives loan growth in India banking sector



FY ends in March

Source: Asian Banker Research

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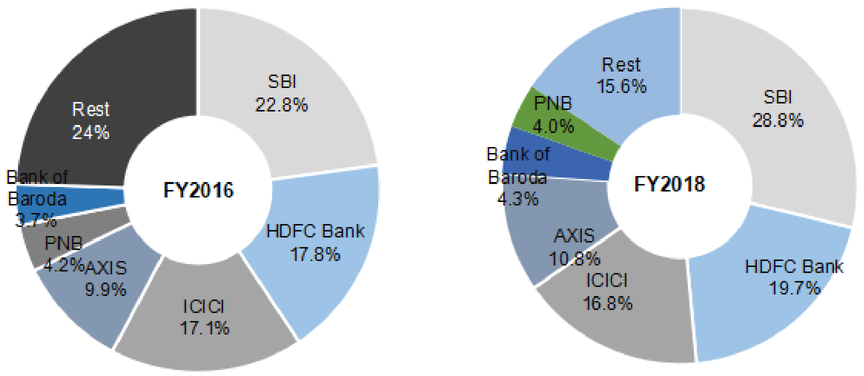
- At the end of March 2018, mortgages accounted for 51% of total retail loans, down from 54% three year ago. Credit card loans have recorded the fastest pace of expansion, growing at a CAGR of 22.5% during FY2013-FY2018.
- Going forward, retail banking still has immense opportunities and strong growth in Indian banks' retail lending is expected to continue, given their relatively young populations, low penetration and improving consumer purchasing power. The indebtedness of India households is still at relatively low levels of GDP. The growing network of banks and increasing use of digital technology will also contribute to the growth.

The four largest banks in India accounted for 76% of total retail loans

Figure 2. Market share - retail loans

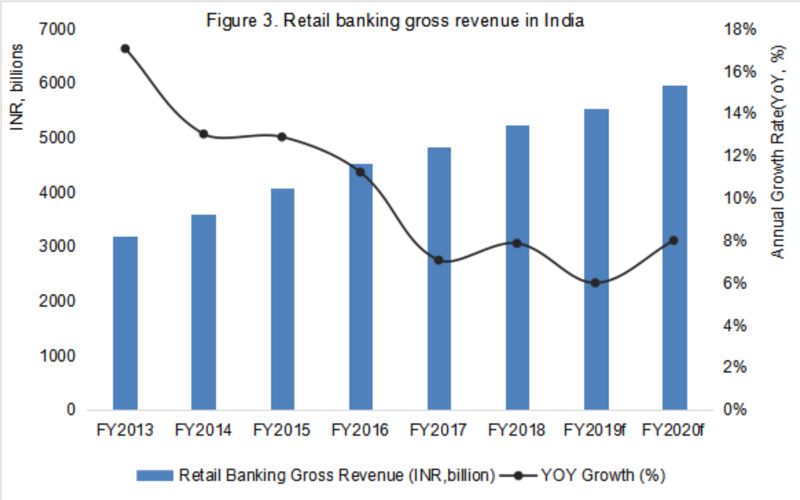


FY ends in March

Source: Asian Banker Research

- Largest Indian banks have seen an increase in their retail loans market share in the past two years. State Bank of India made up 28.8% of total retail loans in India banking sector at the end of March 2018, up significantly from 22.8% at the end of March 2016, which is mainly attributed to the merged with its associated banks, as well as Bharatiya Mahila Bank.
- State Bank of India remains as the largest home loan provider in India, with the market share increasing from 25.5% at the end of March 2016 to 32.1% at the end of March 2018. when it comes to vehicle loans, HDFC Bank is the market leader. Meanwhile, HDFC bank is also the largest credit card issuer in India.

Retail Financial Services Revenue



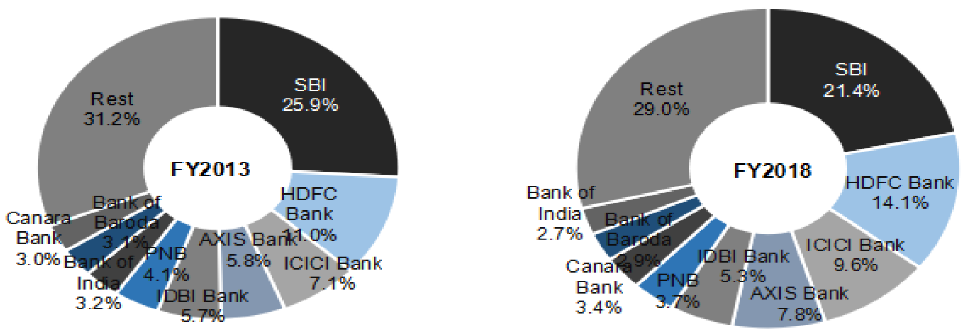
FY ends in March

Source: Asian Banker Research

- Despite the strong retail loan growth, most Indian banks have witnessed deceleration in their retail banking revenue growth in the past two years. Total retail banking revenue of Indian banks grew by 7.5% during FY2016 and FY2018, compared to a growth rate of 17.1% for total retail banking loans. Some banks even saw their retail banking revenue shrink, such as Syndicate Bank and Central Bank of India.
- YES BANK, however, has posted strong retail revenue growth during the past few years, as the bank has been growing their retail banking aggressively to diversify its advances. The bank's retail banking will continue to grow, as it aims to expand its retail loan book by 75% to around $ 7.55 billion (INR 560 billion) by 2019-20.

Indian private sector banks registered faster growth

Figure 4. Market share - retail banking revenue



FY ends in March

Source: Asian Banker Research

- During the period FY2013-FY2018, the combined retail banking revenue of the 22 Indian public sector banks grew from $38.7 billion (INR 2.11 trillion) to $45.8 billion (INR 2.98 trillion), representing a CAGR of 7%. Over the same period, HDFC Bank, ICICI Bank and AXIS Bank, the three largest private sector banks in India, have seen their retail banking revenue expand at the CAGR of 16%, 17% and 17%, respectively.
- Indian private sector banks grew their retail banking revenue much faster, partially because they grew from a lower initial revenue base. Meanwhile, public sector banks account for a major share of total bad loans in India, and private sector banks benefits from the struggles of their state-run counterparts. Overall, private sector banks have invested more heavily on digital technology and focus more on customer experience.

Payment

India witnessed one of the fastest growth in mobile banking payments. Over the years banking has the highest growth rate among other payments methods

Figure 5. Payments transactions in India

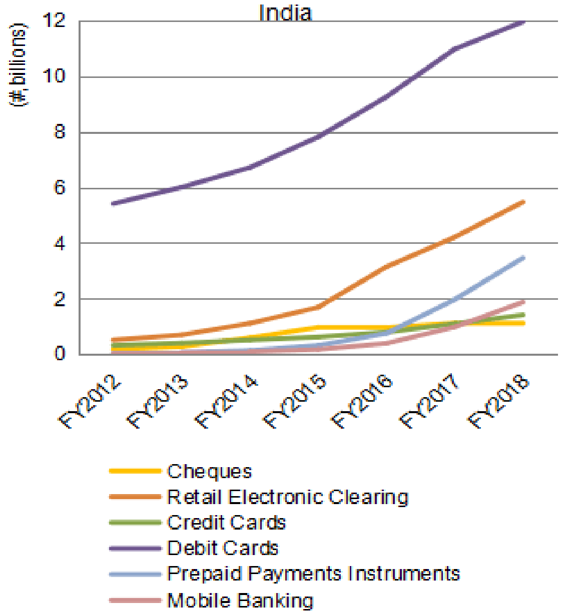
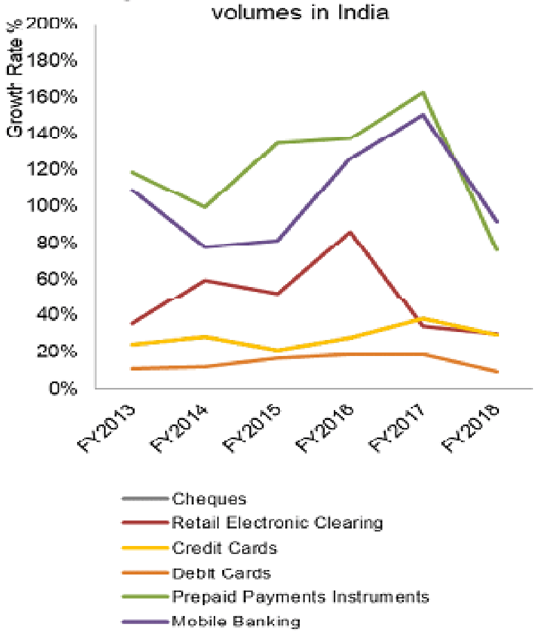


Figure 6. Growth Rate of transaction volumes in India



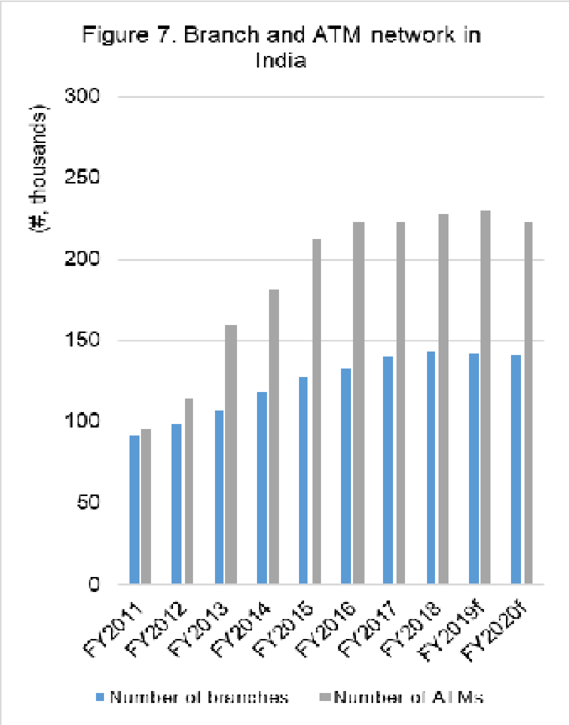
FY ends in March

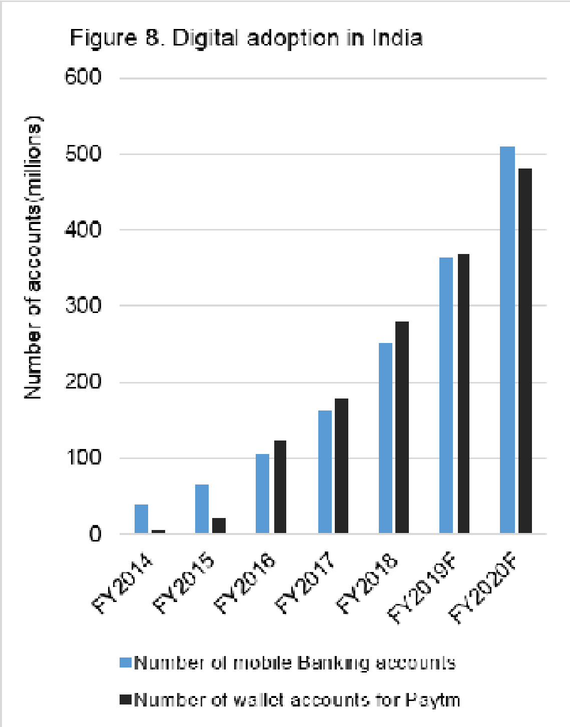
Source: Asian Banker Research

- The digital banking penetration in India is relatively low. However, in the last few years, Indian government and banks have emphasized on pushing the digital economy with the country's demonetization efforts and encouraged people to use their mobile phones for banking purposes.
- The volume of mobile banking transactions increased from 977 million in 2016-17 to 1872 million in 2017-18, almost double the transaction volumes. The increase is huge and shows that mobile banking becomes the mainstream and reduces dependency on physical bank visits. Also, 2017-18 marked a historical moment that the volume of mobile banking transactions surpassed credit card usages for the first time.

- The declining growth rate for both Prepaid Payments Instruments (PPIs) and mobile banking volumes in 2017-18 could be explained by tougher Know Your Customer (KYC) norms for digital wallets and prepaid payments instruments introduced by Reserve Bank of India (RBI) in October 2017. According to the latest data from RBI, mobile wallet companies now have managed to claim back their customers.

Increased uptake of mobile wallets and rapid growth in ATM numbers in the Indian banking sector





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Source: Asian Banker Research

In 2016, the Indian government started introducing ATMs in post offices, in a bid to promote financial inclusion. This widened the gap between the number of branches and ATMs, which has grown rapidly over the past few years. Also, the government has been actively promoting digital transactions, with the introduction of the United Payments Interface (UPI), a mobile-based fund transfer platform, as well as the Bharat Interface for Money (BHIM) by National Payments Corporation of India (NPCI). As such, there has been rapid growth in the number of Paytm wallet accounts, with Paytm Payments Bank's total registered user base coming in at over 220 million users, as of April 2018. Digital user growth in the past months has stalled as India's central bank prohibited Paytm Payments Bank to open any more accounts likely due to issues with e-KYC on boarding. Only a fraction of the 220 million users are full eKYC registered accounts. In the course of it, Renu Satti stepped down as CEO from Paytm Payments bank in July this year. In major banks, the increase in mobile users outgrows that of internet banking users. SBI India grew its internet banking users from 22 million to 50.9 million between March 2015 and June 2018, an increase of 2.3 times. Likewise, mobile banking user grew by 226% from 13.5 million to 30.5 million from March 2015 to March 2018.

Conclustion

Retailing in retail banking will be an emerging area where banks will be extending not only beyond banking solutions to cover the total financial planning of customers but also beyond banking solutions to cover the life style planning of the customers. Integrating banks' data bases with third party financial providers will become the order of the day in the changed scenario and outsourcing will be a natural sales and process model in the changing human resources paradigms in PSBs. Remote channels will rule the transaction banking process and branch format will be mainly used for relationship and advisory banking. Most of the PSBs are dynamically retuning their retail strategies and creating ripples in the retail space. The PSBs are learning the retail lessons fast and very soon, the PSBs will create tsunami in the retail space and threaten the private players with their sheer size, geography and the changed business stance.

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