



# EMERGING CHALLENGES AND OPPORTUNITIES IN INDIAN RETAIL BANKING: CERTAIN ISSUES

<sup>1</sup> M. Sangeetha,

Assistant Professor of commerce,

Department of Commerce.

Vivekananda Govt. Degree College, Vidyanagar, Hyderabad, Telangana, India

*Abstract:* After the reforms banking services, the face of Indian consumer is changing this is reflected in a change in the urban household income pattern. The direct follower of such change has been a change in the consumption patterns of the banking habits of Indians. Besides banks financial compulsions have forced them to focus more clearly on retail banking. This paper attempts to explore new insights of retail banking, trends and strategies of retail banking in India.

Retail banking in India has witnessed enormous growth in the recent past. It primarily covers analysis of the present status, current trends, major issues & challenges in the growth of the retail banking sector. This report help clients in analyzing the opportunities, Growth opportunities in banking: especially retail segment is set to witness fast growth due to high consumption. The higher growth of retail lending in emerging economies is attributable to fast growth of personal wealth, favorable demographic profile, rapid development in information technology, the conducive macro-economic environment, financial market reforms, and several micro- level supply side factors. Challenges and drivers critical to the growth of the **Retail Banking Industry in India**. The future forecast discusses the prospects of different arms of **banking** industry including rural **banking**, bancassurance, financial cards, mobile banking, and role of technology in rural banking.

**Keywords:** Retail Banking, Emerging trends, India, Strategies

## I. INTRODUCTION

There is no doubt that the retail banking industry has been battered by the global financial crisis. Yet even in the darkest days of the recession, there was a silver lining: the fundamental strength and resilience of the industry. This resilience has helped enable a turning of the tide in many markets that began in 2009 and continued into 2010. Overall, retail banking is on track to resume its status as a reliable and profitable backbone for universal banks. The banking scenario in India is at the crossroads and is continuously evolving. But the progress has been remarkable over the past decade.

The banking industry like many other financial services industries is facing a rapidly changing market, new technologies, and economic uncertainties. Fierce competition and more demanding customers and the changing climate have presented an unprecedented set of challenges.

A question arises whether the customers are satisfied or not and what are the elements of retail banking which lead to the satisfaction or dissatisfaction of customers. The knowledge of current levels of satisfaction and, in particular, the primary factors of satisfaction are beneficial to those in the industry. There by allowing them to focus and further strengthen the key areas that lead to highly satisfied customers.

The issue of retail banking is extremely important and topical. Across the globe, retail lending has been a spectacular innovation in the commercial banking sector in recent years. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macro-economic environment, financial market reform, and several micro level demand and supply side factors.

**1. Retail banking** has become more and more challenging where customers' needs are becoming diversified, fragmented and highly demanding. Customers are being pampered with personalization features from other service industries such as the consumer and mobile sector and this causes customers to expect it from the banks as well. Banks need to continue to stay relevant and move with times. Unfortunately, this is not as easy as it sounds as banks are less agile and lower in adoption of new methods and technology compared to other industries. On one hand, it might be due to the highly regulated nature of the industry and on the other hand, the reluctance and skepticism of the management might have to be blame. Of course, there are some banks which have made headlines for being ahead of their peers and they have to be respected but many are just towing the line.

## **2. Retail banking**

Big companies are bypassing banks and raising money to the debt market and commercial papers, which are cheaper than bank credit. Therefore, banks are forced to look at the mid corporate. But this is a risky strategy as the risk is concentrated in delinquency is higher to compensate, most banks have devised strategies to go in for retail banking is a major thrust area.

The risk here is distributed and there is a huge market to be tapped. Some of the banks have been aggressive in this area are HDFC bank, ICICI bank, SBI, and Corporation bank, the retail banking sector expected to grow at a rate of 30%, players are focusing more and more retail and are waking up to the potential of the sector of banking.

However, Indian banks have shown little or no interest in innovative tailor-made products. They have often tried to copy process designs that have been tested, although successfully, in the west. In case of foreign banks, regulatory restrictions prevent them from expanding their branch network. So, these banks often take the direct selling agent(DSA) route where by low end jobs like sourcing or transaction processing are outsourced to small regional players.

To be successful in retail banking, banks need to revamp their business model to (a) build a large volume, highly scalable operation, (b) package and deliver products rapidly in a dynamic market (C) leverage effectively on multiple delivery channels(branch, internet, ATM's, etc.) with a view to containing the cost of operations, and (d) build collaborative relationships with providers of related financial products and services and move towards converting the network of bank branches into "financial supermarkets".

### **What is Retail Banking?**

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current and savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing auto. and educational) on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services. Today's retail banking sector is characterized by three basic characteristics:

- Multiple products (deposits, credit cards, insurance, investments and securities);
- Multiple channels of distribution (call center, branch, Internet and kiosk); and
- Multiple customer groups (consumer, small business, and corporate).

### 3. Trends in Retail banking

#### a) Multi-channel distribution

Multi-channel distribution refers to delivery of services using a multiplicity of channels like Internet etc. Till now, delivery channels were viewed in terms of cost and technology. Delivering channels were devised focusing mainly on time and place advantage to customers. The premise of lower transaction costs, increase sales productivity, and more convenient service has lured banks into setting up new delivery channels. The goal for the 'banks' senior management is to turn today's all things to all people' branch network into a highly differentiated system for delivery of multiple products.

Most of the banks are aggressively adopting information technology branch operations and services to offer multiple delivery channels which include 'anytime banking' through ATM's, 'anywhere banking' through networking of branches, and tele-banking. Further banks have begun offering internet banking facilities. ATM does still remain the most successful delivery channel followed by telephone banking and Internet banking.

#### Retail Banking in India

Retail banking in India is not a new phenomenon. It has always been prevalent in India in various forms. For the last few years, it has become synonymous with mainstream banking form any banks.

The typical products offered in the Indian retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. The loans are marketed under attractive brand names to differentiate the products offered by different banks.

With a jump in the Indian economy from a manufacturing sector, that never really took off, to a nascent service sector, Banking as a whole is undergoing a change. A larger option for the consumer is getting translated into a larger demand for financial products and customization of services is fast becoming the norm than a competitive advantage. With the Retail banking sector expected to grow at a rate of 30% players are focusing more and more on the Retail and are waking up to the potential of this sector of banking.

#### b) Call Centers (Support services)

Banks have picked up the fine distinction of getting closer to the ultimate customer and separated the sales and service functions. With call centers, services are being offered by stimulating customer interaction. The initiation of such call center services was much appreciated but very few changes have been effected since then and they are losing their efficacy. The model being the same since its inception. data are increasingly built around it. With such a huge database, calls are being queued up, causing irritation to customers due to high waiting time.

#### c) Technology

Technology underlies the above two features. This is taken to be the cutting edge among banks and for real product differentiation the public and private players are becoming tech-savvy. With increasing emphasis on technology, banks try to take its advantage and venture into new areas of cross-selling their product through various channels.

The cost savings and the ease of effecting a transaction through technology are increasingly recognized and are compelling banks to carry the same to almost all the dimensions of banking .Incidentally, the more

advanced the technology, the higher the cost savings generated with a much wider coverage, which results in quicker, cheaper, and reliable service. However, one should not get lost in the maze of new technologies as static's do not support the proposition of technology aggression.

Banks should allow the earlier facilities to sink in to the culture of the customers before any new facilities to sing into the culture of the customers before any new facilities are launched. Also, the earlier facilities should be embedded with services so that customers not only appreciate new technology, but are also in a position to operate.

#### **d) Core Banking Solutions (CBS)**

The (National Electronic Clearing Service) NECS is a nationwide system leveraging on core banking solutions (CBS) of member banks. All CBS bank branches are participants in the system, irrespective of their location.

#### **e) Plastic Money**

Credit cards have also played an important role in promoting retail banking. The use of credit cards has been growing significantly over the last few years. Presently cash withdrawal facility using plastic cards is available only at Automatic Teller Machines (ATMS). As on May 31, 2009, number of ATMs and POS terminals in the country stood at 44,857 and 4,70,237 respectively.

#### **f) High-Tech Banking**

ATMs - With growing technological innovations, banks have significantly expanded their ATM network over the past few years. According to the RBI data, the spread of ATMs has increased from 34,789 in March 2008 to 43,651 in March 2009. The volume of ATM transactions has increased from 17,797 lakh aggregating to RS.4,38,15 1 crore during 2007-08 to 23.530 lakh aggregating to RS.6. 16,456 crores during 2008 and growing till date.

#### **g) Internet**

Online banking (or Internet banking) allows customers to conduct financial transactions on a secure website operated by their retail customers. E-banking solutions have many features and capabilities in common. like transactional(bill payments. funds transfers. savings. and loan and non-transactional(viewing bank statements. viewing images of paid cheques).

### **4. Strategies for Increasing Retail banking business**

#### **(i) Constant product innovation to match the requirements of the customer segments**

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

#### **(ii) Quality service and quickness in delivery**

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

### **(iii) Introduction of new delivery channels**

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

### **(iv) Tapping of unexploited potential and increasing the volume of business**

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

### **(v) Infrastructure outsourcing**

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

### **(vi) Detail market research**

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

### **(vii) Business process outsourcing**

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

### **(viii) Tie-up arrangements**

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

## **II Literature Review**

The moment one enters a bank, one looks for some assistance in our transaction. One expects to be served immediately or at the earliest. Quite contrary to this, when one enters any bank, one would try to catch the eye of an employee. Depending on the size of the bank, there will be any number of employees working unmindful of a customer's entry. With the exponential growth of touch points and sophistication, the frontline sales force is assuming the role of a relationship person and is constantly under the microscopic observation of the customer, At a time when channel innovation has become the order of the day to encourage effective banking habits among customers, a vital component of the supply chain, namely, customer interface is totally missing.

With the advent of liberalization, the banking industry had made a head stand towards the best banking practices at each interaction point of the supply chain. However, the Indian landscape is not a replica of the west and is in fact unique.

**Retail banking** is banking in which banking institutions execute transactions directly with consumers, rather than corporations or other banks, Services offered include: savings and transactional accounts, mortgages, personal loans, debit cards, credit cards, and so forth.

Retail banking aims to be the one-stop shop for as many financial services as possible on behalf of retail clients. Some retail banks have even made a push into investment services such as wealth management, brokerage accounts, private banking and retirement planning. While some of these ancillary services are outsourced to third parties (often for regulatory reasons), they

Often intertwine with core retail banking accounts like checking and savings to allow for easier transfers and maintenance.

Retail banking is becoming an increasingly complex concept to define. It refers to the dealings of commercial banks with individual customers, both on the liabilities and assets sides of the balance sheet. Similarly, retail banking as "catering to the multiple banking requirements of individuals relating to deposits, advances and associated services".

As it is understood today, retail banking is largely an urban phenomenon with a clear objective of increasing the bank's bottom line. It is very apparent that the Regional Rural Banks are outside the ambit of retail banking.

### Objectives of the Paper

The research objective of the current study is to determine the relative emphasis placed on contemporary issues of retail banking in India. However, the paper is guided by the following other objectives:

- (i) To provides extensive research and rational analysis on the Indian banking industry
- (ii) To analyze various opportunities and challenges for the industry.
- (iii) To gain visibility into the dynamics of the retail banking technology markets
- (iv) To gain market insight to assist in your strategic planning and go-to-market strategy

### III Methodology

The present paper is descriptive in nature. Secondary data is used extensively collected from various reputed Journals, Magazines. Further, data is gathered from online official websites of various banks in India. Present study is limited to Indian banking sector.

### IV Theoretical Framework

#### Common Practices of Indian Banks.

**Multi-channel distribution:** The technological aggression has resulted in new modes of distribution of banking products. These new creations have resulted in different channels of distribution of banking products and services. The transaction simplicity through these channels is drawing people to these banks, not just for banking products but for other ancillary products such as payment of utility bills and insurance premium.

**Call centers (support services):** Banks have picked up the nuances of getting closer to the ultimate customer and separated the sales and service functions. With call centers, services are being offered by stimulating customer interaction. The initiation of such call center services was much appreciated but very few changes have been affected since then and they are losing their efficacy. (a) Change the model and develop call centers around customers (accessing different accounts of a particular customer). The objective then would be to dig up the information across products and service them in a jiffy without waiting time.

(b) With the help of technology banks can redefine the acceptable waiting time of callers (customers) before they terminate the call for want of service from tele executives, towards improving the service levels of the banks.

**Technology:** Technology underlies the above two features. This is taken to be the cutting edge among banks and for real product differentiation the public and private players are becoming tech savvy. With increasing emphasis on technology, banks try to leverage the good aspects of it and venture into new areas of cross selling their products through various channels. The cost savings and the ease of effecting FI transaction through technology are increasingly recognized and are compelling banks to carry the same to almost all the dimensions of banking. Incidentally, the more advanced the technology, the higher the cost savings generated with much wider coverage resulting in quicker, cheaper and reliable service. However, one should not get Just in the maze of new technologies as statistics do not support the proposition of technology aggression. Banks should allow the earlier facilities to sink into the culture of the customers before any new facilities are launched. Also, the earlier facilities should be embedded with services so that customers not only appreciate new technology. but are also in a position to operate.

**Rural exposure:** What is happening on the rural front? Why is there a reduction in the number of new bank branches? Is it because the rural areas suddenly lacked in potential or they lacked in infrastructure for banking in such areas. Looking at the statistics, the scenario seems to have changed drastically after the Narisimham committee proposal in 1991. '

## 5. Future of Retail Banking

The Future of Retail Banking on current trends and technologies impacting the retail banking industry suggests ways for banks to face the future. The future of retail banking is a complex task of transforming traditional banking institutions into agile organizations that deliver financial services to facilitate a rising set of emerging lifestyles. Retail banking has significant past and glorious future over the years. Retail banking has proved as effective tool not only to improve the bottom lines of the banks concerned but also to significantly contribute to the development of the individual consumers availing the services or products in particular and to the overall development of the society in general with the needs of the consumers ever multiplying. There is definitely a vast scope for the furtherance of the Retail Banking business.

The society is made of the individuals and the environment surrounding him. As development takes place in the society, the needs of the people grow faster than ever. The wealth creation and its professional management are yet another distinct advantage the society or nation can drive from Retail Banking. The depth of the untapped resources in the retail segment is not yet measured. These resources could be channelized for nation building. On the whole, looking ahead, the prospects of mail banking are brighter than ever and the bankers have to give continued thrust to this area of banking. Thus, with the consumers ever multiplying needs there is definitely a vast scope for the furtherance of the retail banking business.

### Issues and challenges in Indian retail banking

- \* The issue of money laundering is very important in retail banking. This compels all the banks to consider seriously all the documents which they accept while approving the loans.
- \* The issue of outsourcing has become very important in recent past because various core activities such as hardware and software maintenance, entire ATM set up and operation(including cash, refilling) etc., are being outsourced by Indian banks.
- \* Banks are expected to take utmost care to retain the ongoing trust of the public.
- \* Customer service should be at the end all in retail banking. Someone has rightly said. "It takes months to find a good customer but only seconds to lose one." Thus, strategy of Knowing Your Customer (KYC) is important. So, the banks are required to adopt innovative strategies to meet customer's needs and requirements in terms of services/products etc.

\* The dependency on technology has brought IT departments 'additional responsibilities and challenges in managing maintaining and optimizing the performance of retail banking networks. It is equally important that banks should maintain security to the advance level to keep the faith of the customer.

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

\* The customer retention is of Paramount important for the profitability if retail banking business, so banks need to retain their customer in order to increase the market share.

\* One of the crucial impediments for the growth of this sector is the acute shortage of manpower talent of this specific nature, a modern banking Professional, for a modern banking sector. If all these challenges are faced by the banks with utmost care and deliberation, the retail banking is expected to play a very important role in coming years, as in case of other nation

## **V Conclusion:**

Retail banking in India has fast emerged as one of the major drivers of the overall banking industry and has witnessed enormous growth in the recent past. Major finding is that with recession departing away with the global economy, the opportunities are slowly emerging in emerging markets. Growth opportunities in banking, especially retail segment is set to witness fast growth due to high consumption.

The higher growth of retail lending in emerging economies like India is attributable to fast growth of personal wealth, favorable demographic profile, rapid development in information technology, the conducive macro-economic environment, financial market reforms, and several micro-level supply side factors.

The retail banking strategies of banks are undergoing major transformation in India, as banks adopt mixed strategies like organic growth, acquisitions and alliances. This has resulted in a paradigm shift in the marketing strategies of the banks.

Public Sector Banks players in India are adopting aggressive strategies, leveraging their rural branch network and their customer base to earn a larger share of the retail pie. Banks are also going in for innovative strategies like cross selling, packaged selling of retail products and technology-based banking. At the same time, new foreign players are also entering this high growth sector.

The present study reveals some interesting findings. First, the levels of transaction, database, interaction and network marketing are lowest in the old private banks followed by the public sector banks, new private banks and foreign banks respectively. Transaction marketing was found to have a medium correlation with database, interaction, and network marketing. whereas, a strong correlation was found between database, interaction, and network marketing confirming the fact that there are three levels of relationship marketing, which are practiced along with transaction marketing.

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