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RETAIL BANKING IN INDIAN ECONOMY

Dr. Sunny Fernandes
Dept. of Commerce, Sydenham College of Com. & Eco., Mumbai
Ms. Sabeena Hamza Koya
Dept. of Commerce, Sydenham College of Com. & Eco., Mumbai

ABSTRACT

Retail banking is a banking service usually made available by commercial banks and smaller community banks that is geared primarily toward individual consumers. Retail banking means banking in which banking institutions execute transactions directly with consumers, rather than corporations or other entities. Retail banking entities provide a wide range of personal banking services, including offering savings and checking accounts, bill-paying services, debit cards, credit cards, and SMS alerts. By, retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, retail banking products may also extend to small and medium-sized businesses. Today, much of retail banking is streamlined electronically. Automated Teller Machines (ATM), or through phone banking, mobile banking, or virtual retail banking known as online / internet banking. Today's retail banking sector is characterized by three basic characteristics: multiple products, multiple channels of distribution, and multiple customer groups.

This research paper throws light on the concept of retail banking, it's evolution, features and drivers.

KEYWORDS

Retail Banking, Evolution of Retail Banking, Characteristics and drivers.

INTRODUCTION

The evolution of retail banking is traced back to the opening of foreign banks in India. The public sector banks were generalized and there was no specific demarcation between retail and wholesale banking. Foreign banks like Standard and Chartered Bank, Grindlays Bank, and Citibank who started functioning, set the trend and in the later 1970s and early 1980s came out with their consumer banking models with mixed liability and asset products specifically targeted at the personal segment. Among Indian banks, State Bank of India, Indian Overseas Bank, Bank of India, Bank of Baroda, and Andhra Bank developed and marketed asset products and card products to cater to the retail segment. The entry of new-generation private sector banks in the early 1990s created a new approach to Retail Banking by banks with the advent of technology right from the start, these banks had a clear positioning for retail banking and created near markets for the retail segment. Public Sector Banks, with technology initiatives and redefined business models for retail had aggressively entered the market space creating to war and capturing their share of the pie in the liberalized economy. Strong economic fundamentals, a growing urban population, higher disposable incomes rise in the young population, emergence of new customer segments and risk in the mass effluents space, and explosion of service economy, in addition to manufacturing space have widened the scope for retail banking business in India of late banks, especially foreign banks and new generation private banks namely ICICI Bank, HDFC Bank, Axis Bank are seriously looking at the bottom of the customer pyramid and re-engineering their retail strategies to develop independent and exclusive strategies for this segment.

OBJECTIVES OF THE STUDY

1. To understand the concept of retail banking.
2. To trace the evolution of retail banking.
3. To know the characteristics of retail banking.
4. To know the drivers of retail business in India.

RESEARCH METHODOLOGY

The researchers have adopted descriptive methodology for this study, based on secondary data sourced from journals, articles, books, websites, etc.

MEANING OF RETAIL BANKING

Retail banking in India is not a new concept. Retail banking in different forms has been prevalent in India.

Retail banking means the provision of banking products and services offered to individual customers, typically for involvers offering of products on both sides of the balance sheet, i.e. liabilities side and assets side. Fixed accounts, Current accounts, and Savings accounts on the liabilities side of the balance sheet. Mortgages, loans (e.g. personal, housing, auto, and educational) on the assets side of the balance sheet. Retail banking also involves offering credit cards, debit cards, depository services, and other para-banking products and services viz. insurance products, capital market products, etc. to individuals.

Thus, retail banking broadly corresponds to the banking services provided in the intermediation phase of the evolution of banking. Real economics in most of the developing countries have matured enough to demand products and services offered not only during the intermediate phase but also during the advanced phase and thus retail banking, including all products and services regarding consumption and speculative function of the economy has become relevant in these jurisdictions.

For the general public, retail banking is the most seen face. At the physical brick-and-mortar branches and at the ubiquitous ATMs these services are offered. The delivery channels for retail banking are branches, ATMs, telephones, and the Internet.
In fact, in the West, some retail banks operate only through the Internet and do not have facilities to serve customers at physical outlets. Generally, however, the banks that focus purely on retail customers are relatively few, and retail banking activities are generally conducted by separate divisions within banks.

EVOLUTION OF BANKING

There are three distinct phases through which banking has evolved over the years, in the developed markets. The three phases broadly coincide with the level of development, in the real economy, in the respective jurisdictions.

(a) Initial Phase

In the initial phase, the banks were primarily engaged in offering the basic intermediation service i.e. providing saving facilities and credit for productive purposes and also facilitating payment services including remittances.

(b) Intermediation Phase

In the intermediation phase, besides providing the services offered in the initial phase, the banks also started offering certain para-banking services like insurance, etc. The demand for such services arises mainly due to a transition of the economy from an investment (production)-led growth phase. Retail banking becomes relevant, at this stage of development of the economy and society.

(c) Advanced Phase

In the advanced phase, besides providing the services offered in the intermediation phase the banks have additionally started providing high-end savings and investment products, wealth management products, and structured products to individuals and corporations. In other words, in the advanced phase, the banking system additionally starts supporting speculative activities over and above, for the production and consumption activities. At this stage, private banking, an advanced version of retail banking for 'classes' becomes relevant.

DRIVERS OF RETAIL BUSINESS IN INDIA FACTORS BEHIND THE GROWTH OF RETAIL BUSINESS IN INDIA

The drivers/factors of growth in retail business in India are as follows:

1) Economic Prosperity

Economic prosperity and the consequent increase in purchasing power have given a blow to a consumer boom. During the 10 years after 1992, India's economy grew at an average rate of 6.8% and continues to grow at almost the same rate – not many continues in the world match this performance.

2) Changing Consumer Demographics (Youngest Population in the World)

The changing consumer demographics indicate a vast potential for growth in consumption both qualitatively and quantitatively. India is one of the countries having the highest proportion (70%) of the population below 35 years of age (young population). The BRIC report of Goldman Sachs, which predicted a bright future for Brazil, Russia, India, and China, mentioned the Indian demographic advantage, which added as an important positive factor for India.

3) Technological factors (Higher adaptability to technology)

Technological factors played a major role. Many new customers are attracted to the field of banking due to convenience banking i.e. debit cards, phone banking, internet, anytime and anywhere banking. Technological innovations regarding the increasing use of credit/debit cards, ATMs, direct debits, and phone banking have resulted in the development of retail banking in India.

4) Treasury Income of the banks (Increase the bank liquid cash)

The treasury income of the banks, which had strengthened the bottom lines of banks for the past few years, has been on the decline during the last 24 months. In such a scenario, the retrial business provides a good vehicle for profit maximization. Because retail's share in impaired assets is lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks, apart from diversifying their income streams.

5) Decline in Interest Rates

The declines in interest rates in the Indian money market have also contributed to the growth of retail credit by generating the demand for such credit.

The interest rates on retail loans have declined from a high of 16 – 18% in 1995-96 to presently in the bank of 7.5 – 9%. Ample liquidity in the banking system and falling global interest rates have also compelled the domestic banks to reduce it.

6) Continuity trend in Urbanization

A very important feature influencing retail banking is the urbanization of the Indian population.

7) Increasing literacy levels

Due to the increase in the literacy ratio, people have developed an experience with the latest technology and a variety of products and services. It will lead to a larger demand for retail activities especially, retail banking activities.

8) Increasing Consumption Outlook (Mindset) of Indians

Economic propriety and the consequent increase in purchasing power have given a fillip to a shopper boom. During the 10 years after 1997 Indian economy grew at an average rate of 6.8% and continues to grow at almost the same rate, as few countries in the world match this performance. It implies that Indian shoppers are now shifting from the tendency to shop for a lot of higher quality to new services and merchandise (products).

9) Increasing affluent (elite) and bulging middle class

In a period of 15 years approximately, around 320 million people will be added to the middle-income group.

10) Financial market reforms

The subject matter of retail banking is all important. In recent years, commercial banks have observed development in the form of retail lending, all over the world. Speedy advancement in the IT sector, evolving macroeconomic environment, numerous micro-level demand and supply side factors, and financial market reform are due to the development in retail banking.

11) Easy and affordable access

Banks provide retail loans through an extensive variety of options/flexibility. Banks even finance the cost of registration, stamp duty, society charges, and other associated expenditures such as furniture and fixtures in case of housing loans and the cost of registration and insurance, etc. in case of auto loans.

12) Mass-market banking

Different forms of services are given by retail banks to their customers. The retail banking sector is frequently described as a typical mass-market banking, offering services such as savings and checking accounts and all kinds of personal loans, including auto loans and student loans. Mortgage services, debit and credit card services, and ATM services – are offered by retail banks which have become needy to today's consumers.

13) Volume driven business

Retail credit ensures that the business is widely dispersed among a large customer, unlike in the case of corporate lending, where the risk may be concentrated on a selected few plans. The ability of a bank to administer a large portfolio of retail credit products depends upon such factors as strong credit assessment capability, sound documentation, strong possessing capability, regular constant follow-up, skilled human resources, and technological support.

14) Declining cost of incremental deposits

Banks could afford to quote a lower rate of interest, even below PLR, as low-cost (saving bank) and no-cost (current account) deposits, are available with the bank. These deposits contribute to more than 1/3rd of their funds (deposits). The declining cost of incremental deposits has enabled the banks to reduce their interest rates on housing loans and other retail segment loans.

15) Change of Terms of Loans

Banks are offering retail loans for short-term, medium-term, and long-term ranging from 15 to 30 years compared to the repayment. Period allowed earlier which was restricted to 5 to 7 years only. Financial leverage to people has been enhanced.

16) Engine of Economic Growth

Retail banks play a critical role in their home economies and global economies. They offer critical credit functions, which are large – the engine of economic growth in their economies. When problems hit the retail banking sector, the result is often direful economic circumstances for the economy as a whole. Economic activity falls when retail banks fail and little or no credit is available for people who want loans.

17) Automation of the banking process

The growth in retail banking has been expedited by growth in banking technology and automation of banking processes to entitle extension of reach and rationalization of costs. ATMs have emerged as alternative banking channels that facilitate low-cost transactions vis-à-vis traditional branches/methods of lending. It also has the advantage of reducing the branch office and enables banks with small networks to offset the traditional disadvantages by increasing their reach and spread.

18) Increasing purchasing power of middle-class people

The rise of the Indian middle class is a dominant contributory factor in this regard. There are expectations of a continuous increase in the percentage of middle to high-income Indian households. The young population has accelerated buying power. They are more comfortable than previous generations regarding the acquisition of personal loans. The contributions to the Indian retail banking segment are accelerating buyer, buying power along with a more liberal attitude towards personal debt.

CHARACTERISTICS OF RETAIL BANKING

1. Retail banking is targeted at individual customers.

2. Retail banking focuses on a mass market segment, including a large population of individuals.

3. Retail banking offers various liabilities, assets, and a wide variety of service products to the individual customer.

4. The retail banking delivery model is physical i.e. services are given through banks and virtual i.e. services are given through technology-driven electronic off-site delivery channels like ATMs, Internet Banking, and Mobile Banking.

5. Retail banking may also be extended to small and medium-sized businesses.

6. Today's, retail banking includes 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).

CONCLUSION

In retail banking, there is a need for constant innovation. A paradigm shift in bank financing through innovative products and mechanisms involving constant upgradation and revalidation of the ban's internal systems and processes is called for Banks now to use retail as a growth trigger. This requires product development and differentiation, innovation and business process reengineering, micro-planning, marketing, prudent pricing, customization, technological upgradation, home/electronics mobile banking, cost reduction, and cross-selling. While retail banking offers remarkable opportunities for growth, the challenges are equally daunting. How retail banking can lead growth of the banking industry in the future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably. The much-needed competitive edge for success in the retail banking business will be based on the type of technology used and operational efficiency. Furthermore, all the customer's interests are of paramount importance.

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