

CHALLENGES AND RECENT TRENDS IN RETAIL BANKING IN INDIA

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Abstract

The country's economic and development is depends on the Banking activities. Now a day bank has become one of the major parts of present life. There is close relationship between customer and banks in order to carry out the financial activities. Among the different benefits offered by the banking industry to the customers, retail banking is also one of the important phenomenons in the present situation. Typically, retail banking services begin with a target clientele which is the common masses and it slowly graduates through a stage which can be called as 'class retail banking.' The 'mass retail banking' is the stage in which the bank provides standardized banking products and services to its customers. In this phase the banks attempt to build a sufficiently broad customer base which can serve as a stable source of funding. The 'class retail banking' on the other hand, is the stage in which the bank offers customized products and services targeted at a niche customer segment, the high net worth individuals. Retail banking focused solely at a niche customer segment may also be termed as private banking.

How the products of banks are meeting with customer needs and demand with different income levels. What are the challenges are faced by retail banking while offering services to the customers has been highlighted in the study. With the introduction of new policies and technology, how the trends are growing in retail banking is also given scope in the study.

Keywords: *Retail banking, Challenges, Products of retail banking, Trends in retail banking, SWOT analysis of Retail banking.*

Introduction:

Customer has their own taste and preferences, in this, how a service provider has to think towards satisfying the needs of the customer is very important in the entire sector. As India is a country with involve all the income level of people. When the country has multiple dimensions of different income groups, it has to focus on satisfying the needs of all the levels of people through public, private partnership. As banking gives more preferences for the cash less transactions, payTM, online payments, online credit issuances, online transaction of sending money, account summary report etc., these will create an opportunity for the

customers to make the transaction within no time. Retail banking is the most visible face of banking for the general public.

Retail Banking refers to provision of banking product and services offered to individual customers, typically for non-entrepreneurial purposes. Retail banking involves offering of products both sides of the balance sheet eg. Fixed, current / savings accounts on the liability side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the asset side. Additionally, retail banking also involves offering of credit cards, depository services and other para-banking products and services viz. insurance products, capital market products etc. to individuals. Thus, retail banking services broadly corresponds to the banking services providing in the intermediate phase of evolution of banking. While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. The exacting regulatory requirements on the consumer protection front, risks from a slowing global economy and increasing customer expectations mean that banks must innovate to grow.

SWOT Analysis of Retail Banking:

Strengths:

- Diversified Asset Portfolio:** Retail banking consists of a wide range of financial product & services. These include deposit product, home loan, loan against equity shares, mortgage loan, auto loan, car loan, payment of bills, credit card, debit card etc. Such a diversified asset portfolios provide banks with higher profit & relatively lower NPA (non-performing Assets).
- Upcoming as a new growth driver:** Over past few years, fierce competition has lowered the spread & profitability from a commercial loan. Also, with the deregulation and increase in consumer loan rate, the risk adjusted return in retail sector has exceeded beyond the return on commercial loan.
- CRM tools:** The customer Service & Quality implementation through use of CRM tools will help banks in acceptance of their banking product and satisfaction of customer that will eventually yield profit for them.
- Innovative product development:** In financial services there is an unlimited scope for development & innovation. Banks should approach the customers to find out their financial need & problem and accordingly structure their strategies towards the development of the product & services, marketing them & finally selling them to satisfy its customer.
- Increase in Income:** With the increase in per capita income & growth in urbanization the life style of people has changed. The needs & aspirations of people have increased. Therefore, the role of retail banking has become important. By providing various products & services like personal loan, education loan, home

loan etc to its customer, the retail banking helps in maintaining the changing life style of its customers through affordable credit.

•**Economies of Scale:** Through Retail Banking, Banks can get the benefits of information & Transaction. Banks have access to more information through extended services. They should Systematically record this customer information as it can help them in efficient utilization of this information, which in turn can be used in finding out new segment of market & to sell their new services.

Weaknesses:

•**Reduces the profitability:** Retail banking requires high capital investment as a huge amount is spent on managing the wide range of product & service which further requires large staff & high quality technology. All this reduces the overall banks profitability.

•**Avoids Corporate Sector:** Retail banking avoids corporate sector which forms the backbone of Indian economy. Banks should properly manage their corporate clients through lower arte credit, higher amount of loan etc. Corporate clients are easily manageable as they have well defined financial policy & projects.

•**Changes in Technology:** If banks are not able to match with the latest technology it may affect their growth. Also the technology requires huge amount of capital investment & if suppose, the technology fails then it will affect the bank's reputation & the bank may lose some of its customer.

•**Marketing:** Retail banking requires strong internal as well as external marketing strategies to be adopted by bank. Under retail banking the management needs those employees who can introduce International Journal of Economic Research Retail Banking Challenges and Latest Trends in India product properly to their customers. The employees must be aware of the products they are offering because if this is not the case then it can lead to the failure of even a very good product. Also bank should spend a lot on its marketing of product to general public. All this increases the expenses of banks in terms of time & cost required to introduce the product.

Opportunities:

•**Increase in per capita income:** There has been increase in the per capita income over the past few years & is expected to grow in the future also. Moreover, the younger population is more comfortable in taking personal debt than previous generations. Their purchasing power has also increased due to economic growth & more jobs. Also GDP of India is expected to grow at a very good rate because of the formation of government by a majority rather than the previous government coalition.

•**Innovation in products and services:** This segment has more scope for innovation as banks tries to provide more & more products & services to their customers as desired by them. Banks can continuously modify its products & services to match the market demand & sustain in this competitive era.

•**Growing economy:** Retail banking has enormous opportunities in a growing economy like India. A.T. Kearney, a global management. Consulting firm identified India as the '2nd most attractive retail destination' among the 30 emergent markets.

Threats:

•**Large pay-outs of loans:** The increasing competition has made the banks to disburse large no. of customer loans, auto loans, home loans, loans on credit cards, educational loans etc. on easy terms without much inquiry. Due to this the no. of case of default in loan repayment has increased. This in turn has increased the bank's bad debts & nonperforming assets (NPA). This was one of the major reasons for recession which has affected the world.

•**Customer privacy issues:** One of the major problems from customer's point of view is that the customer service representatives of the banks ring up their customers at any time at their places of work, informing them about new products & services. This may cause inconvenience to busy customers. Banks are also responsible for not sharing the personal information of the customers with any outside agencies like market research groups & other advertisers.

•**Information Technology:** With the growth of IT, a number of frauds have aroused & are carried out with the help of technology. These frauds come under the domain of cybercrimes. The unscrupulous elements have always attacked banks. In many cases these elements have stolen credit card no., password & other confidential information relating to customer. For ex- Satyam scam.

Challenges of Retail Banking:

- Consumer Protection and Pricing
- Inadequacy of MIS
- Understanding and Tackling KYC/AML issues
- Managing Risk
- Countering the effects of disruptive new technology
- As per the government order, banks have to align their accounting practices in line with the IFRS (International Financial Reporting System) within 2 more years.

- Less education or training is given to the people in rural areas who are illiterate & don't know how to do avail the basic benefits from banking, forget about operating ATMs.

New trends in Retail Banking:

- 1. Removing friction from the customer journey:** While the banking industry has talked about customer centricity and improving the customer experience for decades, most organizations have had difficulty breaking down product silos or leveraging internal data to deliver a contextual digital experience.
- 2. Expanding use of data and advanced analytics:** Over the past 18 months, the digital banking report has seen a growing gap between the organizations that are embracing the power of contextual insights and the potential of digital transformation with those that continue doing things the same way they have in the past. There is no reason to see this gap narrowing in 2018.
- 3. Improving multichannel delivery:** Banks and credit unions will see less than half their customers face to face in 2018. Instead, an increasingly digital customer base will use self-service touch points as a first point of contact, only reaching out to contact-centre agents or branches for the most complex engagements. This movement of transactional interactions to digital channels will mean that branch and contact-centre interactions are more important than ever in building human relationships with customers.
- 4. Expansion of Digital payments:** Despite increased adoption of digital payments, cash remains a primary form of payment for many, especially for low-value transactions and by certain demographic groups. Attributes of cash contributing to continued use include speed, universal acceptance, anonymity, lack of fees, etc. Some emerging markets also still lack a modern payments infrastructure while certain cultures don't have trust in the banking system. In other words, the reports of the death of cash are still exaggerated.
- 5. Navigating compliance and regulatory changes:** Similar to what we saw in 2017, most banks and credit unions worldwide are continuing to do business under a cloud of regulatory uncertainty that is expected to be a challenge for the foreseeable future. Even though lawmakers and regulators aren't expected to make many definitive changes, most financial institutions continue to do their best to meet risk and compliance parameters and supervisory expectations.

Related Literature Survey: Various researchers have explained their view on retail banking activities. Some scope has given to identify the challenges and new trends in retail banking activities. The role of bank credit in raising the level of economic activity in a country as one of the retail banking activities and in promoting the rapid development of its economy was stressed by many writers in the models of economic growth put forward by them from time to time.

Schumpeter (1961) researcher identifies that due to the rapid innovations in the banking sector there is more scope has been given to satisfy the customer's needs through various products of retail banking and also focuses on the role of bank credit influence the development of economic and it is one of the opportunities to innovate financed bank credit.

Thingalaya (1968) explains the salient features of a pioneering retail banking scheme, the Pigmy deposit scheme, introduced by Syndicate Bank in 1928, covering the deposit mobilisation as well as the financing aspects of banking, that targets the banking needs of the retail traders, wage earners and self-employed persons undertaking productive activities of different types on a small scale.

The World Bank (1996) stressed the role of a developed and efficient financial system in promoting rapid economic growth of developing countries. Besides, a balanced distribution of bank credit among the different sectors of an economy is crucial to its rapid development and this stress is inherent in the Credit Authorisation Scheme for banks introduced in India in 1965. The nationalisation of the fourteen major commercial banks in India on the 14th of July 1969 was a decisive step in attaining the objective of a balanced distribution of credit among the different sectors and subsectors of the economy, as was stressed by the Prime Minister of the country in her broadcast to the nation announcing nationalisation of the banks (Government of India 1972a).

Gopinath (2005) explains the salient features of retail banking and points out that retail banking should include, in its purview, not only the lending or asset side, but also the deposit mobilisation or liability side of banking activity.

Statement of the Problem:

Banking activities plays a vital role in the financial service of Indian Monetary system. Central government issues different schemes of banking services towards development of society. Due to the concept of core banking activities, Prime Minister of India has introduced various plans for reaching towards all the level of people. As Reserve Bank of India works as an apex bank in the Indian banking sector, they frame different rates for reaching out the services to all the section of society. In this view, the services of central bank are not reaching to the people of India in different states, this occurs due to lack of banking awareness and its information. People are unknown about the different banking services. Creation of banking services awareness is very less in the society. These kind of negative issues are to be eliminating through the retail banking activities. Retail banking provides the benefits to customer according to their requirement.

Need for the Study:

From the historical background of traditional system on cash transaction, there are many developments has undertaken in the banking activities. In olden days, there was a concept of barter system, now in the concept of E-banking, E- commerce, M- banking lot of technological improvements has been under taken in the banking sector. In the olden days, to with draw or to deposit money in the bank, there was more crowd and also time consuming. But today the cash transaction is taking place with in no time. This kind of activities are undertaken though the concept of retail banking system. Retail banking provides more number of services in the banking activities. According to the needs of the customer, bank provides services though the retail banking term. Therefore there is a need to study the retail banking system challenges and its opportunities in the present scenario.

Objectives of the study:

1. To identify the products of retail banking in India
2. To study the trends in retail banking in India
3. To study the SWOT analysis of retail banking in India

Scope of the study:

Retail banking is one of the important activities in banking industry. All the banks in India are controlled and managed by RBI. There are many new issues are implementing in the banking sector to provide best facilities to the bank customers. Government of India is focusing to bring the banking services from cash to cashless transaction with varieties of technological services. The study focuses on the challenges and recent trends in retail banking with more scope to Indian banking activities.

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.

Findings:

Customers are the king of the market, with this as a service provider, they have to satisfy the needs of the customers. It applies to banking sector also while providing the required services to the customers. Though the concept of challenges and recent trends in retail banking, it is found that, banking sector drastically implementing the new patron of providing services though advance implementation of technological factors. Only metropolitan cities are receiving different services of banking sector, but it should also been implemented to other regions of the country.

Conclusion:

Retail banking plays vital role in the development of Indian banking sector. Through the various products of banking, customer feels satisfaction only when the services reached to the bottom level. Since retail banking requires mass production techniques, the advent of technology has enabled the banks to design appropriate technology-based delivery channels. Retail banking has also received a thrust from the regulators/policymakers' push for inclusive growth in the wake of the global financial crisis. The Governments across the world view banks as the key component in furthering the cause of financial inclusion. And they need to have a clear strategy to deal with these challenges and address these priorities, including considering partnerships with third parties and applying lessons from other industries.

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