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Product and services offered by retail banks in india

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Abstract

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Retail banking is experiencing rapid growth in India, driven by advancements in technology and a focus on meeting consumer needs. Major players in the banking sector are leveraging technology to offer a wide range of services, including ATMs, tele-banking, and online banking. However, there is a growing realization that customization of products to local needs is still lacking, presenting an opportunity for expansion, particularly in rural areas. Despite significant progress over the past decade, a large segment of the population remains underserved by modern banking services, highlighting the potential of retail banking to drive economic growth and provide employment opportunities.

This report is divided into two parts: the first part provides an overview of the Indian banking sector, covering basic functions, regulatory frameworks, and asset-liability management. The second part focuses on retail banking, discussing emerging trends, products and services, challenges such as NPAs, and the future outlook. Additionally, a questionnaire assesses the impact of recession on retail banking offerings. By examining these aspects, the report aims to shed light on the importance of retail banking in the Indian economy and its potential to drive future growth and development.

Overview of Indian banking sector

The banking sector plays a pivotal role in any economy, serving as the backbone of financial intermediation, mobilization of savings, and allocation of capital. In the context of India, the banking sector has undergone significant evolution and transformation over the years, ontributing to the country's economic development and growth. This overview aims

to provide a comprehensive understanding of the Indian banking sector, covering its historical background, regulatory framework, key players, functions, challenges, and future outlook.

Regulatory Framework:

The Reserve Bank of India (RBI) serves as the central regulatory authority for the banking sector, responsible for formulating and implementing monetary policy, regulating banks, and maintaining financial stability. The Banking Regulation Act of 1949 empowers the RBI to regulate the functioning of banks, ensuring prudential norms, capital adequacy, and risk management practices. Additionally, regulatory frameworks such as Basel accords set international standards for capital adequacy and risk management in banks.

Key Players:

The Indian banking sector comprises a diverse mix of players, including public sector banks, private sector banks, foreign banks, cooperative banks, and regional rural banks. Public sector banks, such as State Bank of India (SBI) and Punjab National Bank (PNB), dominate the market in terms of branch network and assets, while private sector banks like HDFC Bank and ICICI Bank have gained prominence for their efficiency and innovation. Foreign banks and cooperative banks also play significant roles in catering to specific segments of the population and regions.

Functions:

Banks perform essential roles in the economy, including gathering deposits, generating credit, facilitating payments, and acting as financial intermediaries. They collect funds from individuals and entities, then provide loans to support diverse economic endeavors for individuals, businesses, and governmental bodies. Additionally, banks enable transactions and settlements through various means like demand drafts, electronic transfers, and mobile banking services.

Challenges:

The banking sector in India faces several challenges, including asset quality deterioration, capital constraints, technological disruption, and regulatory compliance. Non-Performing Assets (NPAs) remain a concern, affecting the profitability and stability of banks. Additionally, rapid advancements in technology require banks to adapt and invest in digital infrastructure to meet changing customer preferences and regulatory requirements.

Overview of Retail Banking:

Retail banking, also known as consumer banking, refers to the provision of financial products and services to individual consumers and small businesses. It is a key component of the banking industry, focusing on meeting the everyday financial needs of individuals, such as savings, loans, mortgages, and payment services. This overview provides insights into the scope, functions, importance, challenges, and future trends of retail banking.

Functions:

The primary functions of retail banking revolve around three main activities:

1. Deposit Mobilization: Retail banks attract deposits from individuals and small businesses, providing them with a safe place to keep their money while offering a return on their savings in the form of interest.
2. Credit Extension: Retail banks extend credit to consumers and small businesses in the form of loans and credit lines to finance various needs such as purchasing a home, buying a car, funding education, or covering unexpected expenses.
3. Payment Services: Retail banks facilitate the transfer of funds and processing of payments through various channels, including online banking, mobile banking, ATMs, checks, debit cards, and electronic funds transfers.

Challenges:

Despite its significance, retail banking faces several challenges, including:

1. Competition: Intense competition from traditional banks, digital banks, fintech startups, and non-bank financial institutions requires retail banks to differentiate themselves through innovation, personalized services, and enhanced customer experience.
2. Regulatory Compliance: Compliance with regulatory requirements, such as anti- money laundering (AML) regulations, Know Your Customer (KYC) norms, data privacy laws, and consumer protection regulations, imposes regulatory burdens and operational costs on retail banks.
3. Technological Disruption: Rapid advancements in technology, including digitalization, artificial intelligence, blockchain, and biometrics, are reshaping the retail banking landscape, necessitating investments in digital infrastructure and cybersecurity to remain competitive.

Future Trends:

The future of retail banking is likely to be shaped by several trends, including:

1. Digital Transformation: Greater adoption of digital channels and technologies to enhance customer convenience, streamline processes, and offer personalized, on-demand services.

2. Data Analytics: Leveraging data analytics and machine learning to gain insights into customer behavior, improve risk management, personalize product offerings, and enhance decision-making.

3. Open Banking: Embracing open banking initiatives to promote collaboration, interoperability, and innovation across the financial services ecosystem, enabling customers to access a wider range of products and services from multiple providers.

4. Customer Experience: Focusing on delivering seamless, omnichannel customer experiences through personalized interactions, proactive advice, and tailored solutions to meet individual needs and preferences.

Product and services

Banks offer a range of products and services in retail banking, though there may be distinctions in the offerings, including products, fees, and interest rates. Here's a breakdown of the common offerings:

Saving account	Phone banking
Current account	Mobile banking
Demat account	Electronic transfer of funds
Fixed account	Mutual funds
ATM	Door step delivery
Net banking	Forex services
Debit cards	Wealth management services
Credit cards	Loans

Objectives of the study

- Examining the Concept of Retail Banking in India
- Gaining Insight into the Indian Banking System
- Exploring Modern Retail Banks' Adoption of Retail Trends
- Assessing the Performance of Retail Banking in Indian Banks

Scope of study:

- This study aims to enhance understanding of the Indian banking system and to ascertain the current market reputation of existing banks.
- Additionally, it will offer insights into the common practices employed by various banks to conduct their retail banking operations.

Literature Review

The retail banking sector in India has undergone significant evolution in recent years some are giving below:

Research conducted by Das and Ghosh (2019) underscores the robust growth trajectory of the Indian retail banking sector. Factors such as increasing urbanization, rising disposable incomes, and government-led initiatives promoting financial inclusion have contributed to the expansion of the customer base for retail banks. The study highlights the importance of understanding market dynamics and consumer preferences to capitalize on growth opportunities effectively.

Gupta and Gupta (2020) emphasize the transformative impact of technology on retail banking operations in India. The adoption of digital banking channels, including mobile banking and internet banking, has reshaped customer interactions and service delivery models. However, challenges related to cybersecurity and digital literacy necessitate continuous investment in technology infrastructure and customer education to ensure inclusive growth in the digital era.

Sharma and Kaur (2019) examine the regulatory framework governing retail banking operations in India and its implications for industry stakeholders. While regulatory oversight by the Reserve Bank of India (RBI) ensures financial stability and consumer protection, compliance requirements related to AML, KYC, and data privacy pose significant challenges for retail banks. The study emphasizes the need for proactive risk management and regulatory compliance to maintain trust and credibility in the banking ecosystem.

Singh and Arora (2021) explore the evolving preferences and behavior of retail banking customers in India amidst changing socio-economic dynamics and technological advancements. The findings suggest a growing inclination towards digital banking channels for routine transactions, coupled with a demand for personalized financial advice and support. Trust, transparency, and reliability emerge as critical factors shaping customer loyalty and satisfaction in the retail banking sector.

Mishra et al. (2020) identify a range of challenges and opportunities confronting retail banks in India, including intensifying competition, margin pressures, and regulatory complexity. However, the research also highlights avenues for differentiation and innovation through strategic partnerships, fintech integration, and customer-centric initiatives. The study underscores the importance of agility and adaptability in navigating the dynamic landscape of retail banking.

Research Methodology:

The exploration methodology for the paper" Product and services of retail banking in India" involves a quantitative approach. It includes a comprehensive review of being literature on retail banking practices. Also primary data collection will be conducted through checks and interviews with banks employee to assess their comprehensions and preferences regarding product and services of the bank. Statistical analysis will be employed to assay the collected data and draw meaningful conclusions.

Testing

For the purpose of this study I decided to take 10 major players in the banking assiduity. These banks are chosen from the city area and hence all my findings are pertaining to the city area only.

Data Collection:

Quantitative Data Collection: The data was collected through questionnaire(check), in which different question were asked

Data Analysis and Interpretation:

I conducted a survey to explore the methods employed by these banks (ICICI, SBI, AXIS, Bank of Baroda, HSBC, IDBI, HDFC, Indian Overseas Bank, KOTAK MAHINDRA BANK, Vijaya Bank) in carrying out their retail banking activities. The questionnaire was designed to gain insights into the typical practices utilized by these banks in their retail banking operations.

Analysis:

1. **Products and Services does your bank provide to its customer.**

Based on the survey findings, it is evident that all banks included offer traditional services like savings accounts, current accounts, and fixed deposits. However, demat account services are available in only 80% of the banks surveyed. Home loans are universally provided, while vehicle and personal loans are extended by 80% and 60% of the banks respectively. Loans against shares are an option at 70% of the surveyed banks.

In terms of technology-driven services, electronic transfers are offered by every bank, while debit/credit cards, phone banking, net banking, and mobile banking are provided by a significant majority (ranging from 70% to 100%) of the banks. This suggests a widespread adoption of innovative technologies to cater to customer demands.

As international transactions increase, all surveyed banks are involved in foreign exchange transactions. However, wealth management services and doorstep delivery are limited to only 50% of the banks, indicating potential areas for expansion and enhancement.

S. No.	Details	No. of Banks	%
1.	Saving account	10	100
2.	Current account	10	100
3.	Fixed deposit	10	100
4.	Demat account	8	80
5.	Personal loan	6	60
6.	Vehicle loan	8	80
7.	Home loan	10	100
8.	Loan against shares	7	70
9.	ATM	10	100
10.	Net banking	9	90
11.	Phone banking	9	90
12.	Electronic transfer	10	100
13.	Mobile banking	7	70
14.	Door step delivery	5	50
15.	Utility payment service	7	70
16.	Debit/credit card	9	90
17.	Mutual funds	6	60

2. Customer visit your bank in person each day.

S.no	Customer	No. of Banks	%
I	Less than 20	0	0
Ii	20 to 40	2	20
Iii	40 to 60	0	0
Iv	60 and above	8	80

Based on the survey results, it was found that 80% of the banks receive a daily footfall of around 60 customers or more. This indicates that there continues to be a preference among customers for conducting their banking transactions in person, resulting in an approximate average of 500 walk-in customers per day across these banks.

3. Customer who visit your bank

Sno.	customers	Most	Least
I	Individuals	10	0
Ii	Corporate firms	6	4
Iii	Co-operative society	4	6
Iv	Local authorities	4	6
V	Illiterates	2	8

Individuals form the predominant group visiting banks for diverse financial transactions, alongside corporate firms and cooperative societies engaging in banking activities regularly. However, it's evident that the illiterate population has not fully integrated into regular banking practices, possibly due to their reliance on informal lenders like moneylenders. Therefore, banks should prioritize reaching out to this demographic, particularly in remote areas, among their efforts to expand their customer base. Encouraging illiterate individuals to utilize banking services can foster financial inclusion and encourage savings

4. Customer segment does your bank prioritize the most.

Sno	Customer segment	Most	Least
I	Students	6	4
Ii	Professionals	7	3
Iii	Corporate	8	2
Iv	HNIs	6	4
V	Senior citizens	9	1

Considering the competitive environment, banks are making concerted efforts to cater to diverse customer segments. Professionals, appreciated for their consistent income, and senior citizens, known for their disciplined saving habits in response to evolving needs, are among the primary targets.

In addition, banks such as ICICI are placing emphasis on serving Non-Resident Indians (NRIs), recognizing the importance of this demographic in their customer outreach initiative.

5. Channels utilized by your bank to deliver product to customers.

V	Channels	Most	Least
I	Personal banking	10	0
Ii	Internet banking	7	3
Iii	ATMs	7	3

According to banks' assessments, personal banking emerges as the primary channel for product delivery. Additionally, banks have embraced technological advancements, with widespread adoption of resources like internet banking and ATMs,

reflecting the trends highlighted in the findings. Notably, telephone banking remains the least utilized medium among customers.

6. Bank convey information regarding new product.

VI	Modes	No. of banks	%
I	Pamphlet/booklet	6	60
Ii	Telemarketing	2	20
Iii	Bill statement	5	50
Iv	Picked up from ATM	5	50
V	Newspapers	8	80

To expand their market presence, nearly every bank prioritizes communicating with customers regarding their new offerings. According to 80% of banks, newspapers serve as the most common medium for disseminating information about products and services to potential customers. This preference is due to newspapers' ability to reach a broader audience economically and effectively. Additionally, 60% of banks utilize booklets and pamphlets for their promotional activities. Telemarketing, however, remains the least favored option, with only a 20% share among banks.

7. Proportion of bank overall business is comprised of retail banking.

VII	proportion	No. of banks	%
I	Less than 15%	3	30
Ii	15% to 30%	2	20
Iii	30% to 50%	1	10
Iv	More than 50%	4	40

Approximately 40% of banks report that retail activities comprise over 50% of their total banking business. Another 30% of banks have less than 15% of their operations dedicated to retail. This suggests that the majority of banks are either heavily focused on retail or have minimal involvement in it. This trend underscores the increasing significance of retail products like loans and credit/debit cards, driving the expansion of retail banking within the industry.

8. Retail banking is significance for your Bank.

VIII	Significanse of retail banking	No. of banks	%
I	Gives more margin	4	40
Ii	Growth prospects	6	60
Iii	Revenue from rural segment	3	30
Iv	Cross selling	5	50
V	Expand customer	8	80

80% of banks acknowledge the importance of retail banking, recognizing its potential to expand their customer base and drive better growth prospects, a sentiment echoed by 60% of banks. They anticipate benefits such as increased revenue generation and a competitive advantage over their peers. However, only 30% of banks view the retail segment as crucial for reaching rural markets, indicating that its significance in this regard is less universally recognized.

9. Challenges faced by banks while carrying out retail activities:

Banks say their main problems in retail banking are day-to-day issues and tough competition from other banks. This makes it hard for them to make money. They also worry about loans that customers can't pay back.

10. Strategy for Risk Management:

According to the banks surveyed, they are being extra careful in the current situation to reduce their risks. They aim to find reliable borrowers who are creditworthy and follow KYC (Know Your Customer) rules. Additionally, each bank has its own strategy to minimize risks:

- HDFC uses the CIBIL system recommended by RBI to assess borrowers' details and predict default rates, taking corrective actions as needed.
- HSBC has a dedicated team focused on risk management.
- AXIS has its own policy tailored specifically for risk management.
- IDBI prioritizes operational efficiency to control risk levels.
- SBI maintains continuous monitoring to detect and address any uncertainties promptly.
- Bank of Baroda takes a comprehensive approach to risk management, not only relying on internal data but also considering market reports and trends.

These strategies help banks mitigate risks and ensure a stable financial environment.

11. Reasons for non-performing assets:

According to banking institutions, Non-Performing Assets (NPAs) stem from multiple factors such as operational inefficiencies, failure to adhere to KYC norms, and inadequate comprehension of financial products and schemes. Regarding customers, reasons for NPAs vary from individual to individual; for instance, customers may struggle to repay installments and principal amounts due to insufficient income or losses incurred in the ventures for which loans were obtained. One bank's response suggests that intentional default by customers is estimated to be as low as 0.1%. Additionally, market conditions also play a significant role in NPAs.

CONCLUSION

Retail banks encounter several operational challenges, including:

1. Investment in Sales and Promotion: Establishing a strong brand identity demands significant expenditure on sales and promotional activities to stand out in a competitive market.
2. Human Resource Management: Recruiting and retaining skilled staff is crucial for delivering high-quality services, but it entails managing HR issues and costs effectively.
3. Technology Management: While essential for modern banking, technology implementation and maintenance incur substantial expenses. Banks must efficiently handle technology to offer convenient services.
4. Margin Pressures: To stay competitive, banks face pressure to maintain low prices, which can strain profit margins and necessitate careful financial management.
5. Continuous Customer Engagement: As customer bases expand, maintaining relationships and managing issues like NPAs and payment delays become challenging, requiring resource-intensive follow-up programs.
6. Overcoming Attitudinal Barriers: Despite technological advancements, some customers, particularly in rural areas, may prefer traditional banking methods. Educating and changing attitudes toward digital banking poses a challenge for banks aiming to broaden their reach.
7. Security Concerns: With increased reliance on technology, ensuring the security of customer data and transactions is paramount. Banks must implement robust security measures to mitigate cyber threats and uphold customer trust.

SUGGESTION

Since 2002, the global banking industry has shown consistent growth, largely driven by the rise of retail banking in the Asia Pacific region and Latin American countries. Notably, Brazil, Russia, India, and China have experienced remarkable growth in their banking sectors due to factors like economic improvement, liberalization, changing consumer demographics, and a sizable untapped population. These nations have seen significant uptake in retail loans, particularly for housing, cars, education, credit cards, and personal loans. In India, the retail banking industry's total asset size surged by 120% to $66 billion in 2005, contributing to overall sector growth. Projections indicate that by 2029, India's retail banking industry could reach a value of USD 166.78 billion, with rural banking, Bancassurance, financial cards, mobile banking, technology's role in rural banking, and pension funds emerging as key areas of focus. Global players eyeing the Indian market must prioritize marketing strategies to establish brand presence and adapt to the unique characteristics of the Indian retail banking market. Expectedly, India's retail banking assets are forecasted to grow at an annual rate of 8.5% over the next four years (2023-2029), with retail loans, particularly housing loans, driving growth. However, Indian banks face challenges such as intensifying competition, cybersecurity risks, and evolving customer expectations. Given the significant losses suffered by banks with heavy exposure to equity markets during the recent stock market decline, there is a push for diversification into more profitable markets to offset losses. Consequently, banks must adopt strategic measures in anticipation of the uncertain external environment in the near future.

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