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# THE ROLE OF RETAIL BANKING IN INDIAN ECONOMY

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**ABSTRACT:**

*Banks play many different roles in local and global economy. Retail banking is that part of banking which deals with individual customers and small businesses. In contrast, commercial banks deal with big businesses and corporations. Retail banking, compared to other kinds of retail businesses, lags behind as far as coming up with innovative products. This is partly due to the nature of the banking business as a whole. Retail banking in many, if not most, countries adheres to the conservative banking philosophy.*


**KEYWORDS**: *Retail banking, Commercial banking, global economy.*

## INTRODUCTION

One of the spectacular innovations in the commercial banking sector is the retail banking. It refers to banking in which banks undergo transactions directly with consumers rather than with corporates or other bank s. Consumer credit is the heart of retail banking. In retail banking the banks provide services to individuals and small business concerns and the dealings are in large volumes and low values. The retail banking portfolio includes stores and a ssets connected items just as other budgetary administrations offered to people for individual utilization. Retail banking is progressively seen by banks as an alluring business sector fragment with open doors for development and benefit.

The fastest growing division in the banking sector is the retail sector. Retail banking is a system of providing soft loans to the general public like family loans, house loans, personal loans, loans against property, car loans, auto loans etc. The products are backed by world-class service standards and delivered to the customers through the growing branch network, as well as through alternative delivery channels like ATMs, Phone Banking, Net Banking and Mobile Banking.

**Today's retail banking sector is characterised by three basic features; viz: -**

- Multiple products-deposits, credit cards, insurance, investment and securities -
- Multiple channels of distribution- call centre, branch, internet -
- Multiple customer groups- consumer, small business and corporate.

## RETAIL BANKING:

Retail banking alludes to the managing of business saves money with individual buyers, both the liabilities and the benefit side of the accounting report.

The important products offered by banks in retail banking are fix ed, current/ savings account on liabilities side; and personal loans, house loans, auto loans and educational loans on the asset side. Today's retail banking sector is characterised by the following features:

- Retail banking aims at doing banking business in large volume of transactions involving low value.
- The retail banking portfolio incorporates stores and resources connected items just as other money related administrations gave to people to individual utilization.
- Retail banking business is an alluring business sector portion with open doors for development and benefits.
- It gives a chance to banks to differentiate their advantage portfolio. Since advances are given to an enormous number of customers and exchanges have low esteem, the danger of NPA is decreased in light of the fact that every one of the buyers don't make default in making advance reimbursement at once.
- Retail banking depends on the saying "don't keep a ll the eggs in a single crate"
- Retail banking industry is various and focused. There is an enormous number of retail banking items that are very client agreeable and are offered by numerous banks.
- Banks adopt multiple channels of distribution of retail banking products. The channels include call centre, branch, internet, mobile phones, ATMs etc.

## ADVANTAGES OF RETAIL BANKING

- Retail banking is mass market banking, where individual consumer's diverse needs are fulfilled at the local level i.e. by providing multiple products.
- It has been encouraged by development of banking innovation and robotization of banking process.
- Retail banking has the following advantages.
- Retail deposits are stable and constitute core deposits.
- They are interest insensitive and less bargaining for additional interest.
- Effective customer relationship management with retail customers builds a strong customer base.
- Retail banking increases the subsidiary business of banks.
- Retail banking results in better yield and improved bottom line for banks.
- Retail segment is a good avenue for funds deployment.
- Consumer loans are presumed to be of lower risk and NPA perception.
- Improves lifestyle and fulfils aspirations of people through affordable credit.
- Retail banking provides an opportunity for banks to innovate banking products as per the expectations of various classes of customers.
- Retail banking involves minimum marketing efforts in a demand-driven economy.
- Diversified portfolio due to huge customer base enables banks to reduce their dependence on a few or single borrower.
- Banks can earn good profits by providing non-fund based or fee based services without deploying their funds.
- Credit risk tends to be well diversified as loan amounts are relatively small

## RETAIL BANKING IN INDIA

In the post independence era the evolution and grow the of banking sector has gone through innumerable twists and turns. In India banks are nationalised with the main objective of reaching out to the unbanked massages and so retail banking is important in India to provide banking services to unbanked masses.

Retail banking in India is not a new phenomenon. It has always been prevalent in India in various forms ever since bank ing was first established here. Cooperative banks that have been in existence in India for over a century have always had retail thrust. It is only since the mid-nineties that the term "retail banking" has been used as a means of reinforcing a conscious foray into this particular line of business. For the last few years it has become synonymous with mainstream banking for many banks.

The regular items offered in the Indian retail banking fragment are lodging advances, utilization advances for buy of durables, vehicle advances, charge cards and instructive advances.These loans are marketed under attractive brand names to differentiate the products offered by different banks. Unlike wholesale banking, retail banking has high sized business with many banks competing for market share. Retail banks focus mainly on consumer markets.

Here the transactions of the banks are directly with consumers and not with corporations or other banks. It alludes to the managing of business keeps money with individual clients, both on liabilities and resource s side of the monetary record.

Although retail banking is, for the most part, mass-market determined, many retail banking products may also extend to small and medium sized business. Nowadays much of retail banking is streamlined electronically via ATMs, or through virtual retail banking known as online banking.

The retail loan portfolio of Indian private sector banks has been growing speedily in the recent past. The entry of new generation banks and foreign banks with innovative technology and technology-driven products has changed the entire scenario. The retail sector which remained unobserved earlier is now the most important area of concern for banks. Banks are offering so many products to the customers and they can choose the one which suits them. As the competition is growing in retail banking, maintaining service quality in banks is becoming essential. The Indian retail banking is expected to grow tremendously because of the changing attitude of customers toward borrowings, low cost of borrowings and optimism regarding economic growth.

## The role of Retail Banking in Indian Economy

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 for many banks. The common items offered in the Indian retail banking fragment are lodging advances, utilization advances for buy of durables, automobile advances, Mastercards and instructive advances.The loans are marketed under attractive brand names to differentiate the products offered by different banks. As the Report on Trend and Progress of India, 2003-04 has shown that the loan values of these retail lending typically range between Rs.20, 000 to Rs.100 lack. The loans are generally for duration of five to seven years with housing loans granted for a longer duration of 15 years. Credit card is another rapidly growing sub-segment of this product group. In recent past retail lending has turned out to be a key profit driver for banks with retail portfolio constituting 21.5 per cent of total outstanding advances as on March 2004. The overall impairment of the retail loan portfolio worked out much less then the Gross NPA ratio for the entire loan portfolio. Within the retail segment, the housing loans had the least gross asset impairment. In fact, retailing make ample business sense in the banking sector. While new generation private sector banks have been able to create a niche in this regard, the public sector banks have not lagged behind. Leveraging their vast branch network and outreach, public sector banks have aggressively forayed to garner a larger slice of the retail pie. By international standards, however, there is still much scope for retail banking in India. After all, retail loans constitute less than seven per cent of GDP in India *vis-à-vis* about 35 per cent for other Asian economies — South Korea (55 per cent), Taiwan (52 per cent), Malaysia (33 per cent) and Thailand (18 per cent). As retail banking in India is still growing from modest base, there is a likelihood that the growth number
Seem to get somewhat exaggerated. One, thus, has to exercise caution is interpreting the growth of retail banking in India .The following away the retail Banking Contributing service to development of Indian Economy.

**Credit Cards:** While usage of cards by customers of banks in India has been in vogue since the mid-1980s, it is only since the early 1990s that the market had witnessed a quantum jump. The total number of cards issued by 42 banks and outstanding, increased from 2.69 core as on end December 2003 to 4.33 core as on end December 2004. In view of this ever increasing role of credit cards a Working Group was set up for regulatory mechanism for cards. The terms of reference of the Working Group were fairly broad and the Group was to look into the type of regulatory measures that are to be introduced for plastic cards (credit, debit and smart cards) for encouraging their growth in a safe, secure and efficient manner, as also to take care of the best customer practices and grievances redressed mechanism for the card users. The Reserve Bank has been receiving a number of complaints regarding various undesirable practices by credit card issuing institutions and their agents. The RBI and a set of guidelines would be issued which are going to pave the path of a healthy growth in the development of plastic money in India. The RBI is also considering bringing credit card disputes within the ambit of the Banking Ombudsman scheme. While building a regulatory oversight in this regard we need to ensure that neither does it reduce the efficiency of the system nor does it hamper the credit card usage.

**Housing Credit:** Housing credit has increased substantially over last few years, but from a very low base. During the period 19932004, outstanding housing loans by scheduled commercial banks and housing finance companies grew at a trend rate of 23 per cent. The share of housing loans in total non-food credit of scheduled commercial banks has increased from about 3 per cent in 1992-93 to about 7 per cent in 2003-04. Recent data reveal that non-priority sector housing loans outstanding as on February 18, 2005 were around Rs. 74 thousand core, which is, however, only 8.0 per cent of the gross bank credit. As officially brought up, direct lodging credits up to Rs. 15 need independent of the area presently qualify as need segment loaning;housing loans are understood to form a large component of such lending.

**Backing to Indian white collar class People:** The ascent of the Indian working class is a significant contributory factor in such manner. The level of center to high pay Indian family units is relied upon to keep rising. The more youthful populace uses expanding obtaining power, yet to the extent gaining individual obligation is concerned, they are maybe more agreeable than past ages. Improving purchaser obtaining power, combined with progressively liberal mentalities toward individual obligation, is adding to India's retail banking fragment.

**Economic superpower.** Retail banking has played a role in a growing economy of India. As the growth story gets unfolded in India, retail banking is going to emerge a major driver. How does the world view us? I have already referred to the BRIC Report talking India as an economic superpower..

**Expanding acquiring intensity of white collar class individuals:** The ascent of the Indian working class is a significant contributory factor in such manner. The level of center to high salary Indian families is relied upon to keep rising. The more youthful populace employs expanding buying power, however to the extent obtaining individual obligation is concerned, they are maybe more agreeable than past ages. Improving purchaser obtaining power, combined with progressively liberal mentalities toward individual obligation, is adding to India's retail banking portion.

**Financial market reforms: The** subject matter of retail banking is of prime importance. In recent years, commercial banks have witnessed development in the form of retail lending, all over the world. The development in the field of retail loaning is essentially a direct result of the expedient progression in the IT division, advancing macroeconomic condition, various small scale level interest and supply side variables and budgetary market change.This criterion is based on the market research report on retail banking

**Engine of economic growth:** Retail banks play a critical role in their home economies, and their activities have implications for the global economy as well. They offer critical credit functions, which largely fuel the engine of economic growth in their economies. When problems hit the retail banking sector the result is often dire economic circumstances for the economy as a whole. When retail banks are failing, little or no credit is available for credit seekers, and economic activity becomes depressed.

**Mass-market banking**: Retail banks offer a variety of important services to their customers. The retail banking sector is often 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. Retail banks also offer mortgage services, debit and credit card services and ATM services--all of which have become essential to today's consumers.

**Volume driven business**. Retail Credit ensures that the business is widely dispersed among a large customer base unlike in the case of corporate lending, where the risk may be concentrated on a selected few plans. Ability of a bank to administer a large portfolio of retail credit products depends upon such factors like; strong credit assessment capability, sound documentation, strong possessing capability, regular constant follow- up, skilled human resource, technological support.

**Automation of banking process**: The growth in retail banking has been facilitated by growth in banking technology and automation of banking processes to enable extension of reach and rationalization of costs. ATMs have emerged as an alternative banking channels which facilitate low-cost transactions vis-à-vis traditional branches / method of lending. It also has the advantage of reducing the branch traffic and enables banks with small networks to offset the traditional disadvantages by increasing their reach and spread.

**Easy and affordable access:** Retail loans through a wide range of options / flexibility. Banks even finance cost of registration, stamp duty, society charges and other associated expenditures such as furniture and fixtures in case of housing loans and cost of registration and insurance, etc. in case of auto loans.

**Financial Liquidity:** Banks Making financing attractive by offering free / concessional / value added services like issue of credit card, insurance, etc.Continuous waiver of processing fees administration fees, prepayment charges, etc. by the Banks. As of now, the cost of retail lending is restricted to the interest costs.

**Financial flourishing:** The resulting increment in acquiring force has given a fillip to a shopper blast. Note that during the 10 years after 1992, India's economy developed at a normal rate of 6.8 percent and keeps on developing at the nearly a similar rate – very few nations on the planet coordinate this exhibition.

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

**Technological innovations:** Technological factors played a major role. Convenience banking in the form of debit cards, internet and phone-banking, anywhere and anytime banking has attracted many new customers into the banking field. Technological innovations relating to increasing use of credit / debit cards, ATMs, direct debits and phone banking has contributed to the growth of retail banking in India.

**Increase the Bank Liquid cash:** 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 two years. In such a scenario, retail business provides a good vehicle of profit maximization. Considering the fact that retail's share in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.

**Decline in interest rates:** The interest rates were decreased in 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%in1995-96 to presently in the band of 7.5-9%. Ample liquidity in the banking system and falling global interest rates have also compelled the domestic banks to reduce it

**Declining cost of incremental deposits:** Banks could afford to quote lower rate of interest, even below PLR as low cost [saving bank] and no cost [current account] deposits contribute 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 as well as other retail segments loans.

**Change of Terms of Loans:** Offering retail loans for short term, 3 years and long term ranging term ranging from 15/20 years as compared to their earlier 5-7 years only.

## CHALLENGES OF RETAIL BANKING IN INDIA

**Retention of customers:** According to a research by Reichheld and Sasser in the Harvard Business Review, 5 per cent increase in customer retention can increase profitability by 35 per cent in banking business, 50 per cent in insurance and brokerage, and 125 per cent in the consumer credit card market. Thus, banks need to emphasize retaining customers and increasing market share.

**Rising obligation:** India's situation, obviously, isn't equivalent to that of the created reality where family unit obligation as an extent of discretionary cashflow is a lot higher. Such a situation makes high vulnerability. Expressing concerns about the high growth witnessed in the consumer credit segments the Reserve Bank has, as a temporary measure, put in place risk containment measures and increased the risk weight from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards (Mid-term Review of Annual Policy, 2004-05).

**Network management challenges:** Difficulty in maintaining and optimizing the performance of retail banking networks. Illustratively, ensuring that all bank products and services are available, at all times, and across the entire organization is essential for today's retails banks to generate revenues and remain competitive. Besides, there are network management challenges, whereby keeping these complex, distributed networks and applications operating properly in support of business objectives becomes essential. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers.

**Money laundering:** KYC Issues and money laundering risks in retail banking is yet another important issue. Retail lending is often regarded as a low risk area for money laundering because of the perception of the sums involved. However, competition for clients may also lead to KYC procedures being waived in the bid for new business. Banks must also consider seriously the type of identification documents they will accept and other processes to be completed. The Reserve Bank has issued details guidelines on application of KYC norms in November 2004.

**Sub-prime crisis**: A major challenge to retail banking surfaced in late 2008. Retail banks as well as commercial banks had provided sub-prime mortgages to consumers who were not qualified for the size of the loans they received. Although this process generated much of the housing boom of the early 21st century, eventually the loans became too cumbersome for borrowers to pay back. This problem led to loan defaults across the United States and led to many bank failures, not only in the United States but around the world. It produced serious deterioration in the global economy and led to the economic and financial crisis that dominated the political landscape in early 2009.

**Massive infusion of capital:** While retail banks have their share of problems, it is anticipated that with the massive infusion of capital into the banking and financial services sector by the federal government's economic stimulus program, most retail banks will survive, and the smaller retail banks may seek to merge with other banks

**Strategy Knowing Your Customer**: service should be at the end all in retail banking. Somebody has appropriately stated, ―It takes a long time to locate a decent client yet just seconds to lose one.‖ Thus, procedure of Knowing Your Customer (KYC) is significant. So the banks are required to embrace creative techniques to address client's issues and necessities as far as administrations/items and so forth.

**Redistributing exercises:** The issue of re-appropriating has turned out to be significant in later past on the grounds that different center exercises, for example, equipment and programming upkeep, whole ATM set up and activity (counting money, refilling) and so forth., are being re-appropriated by Indian banks.

## Trends in Retail Banking

According to the Report's Customer Experience Index, which surveyed over 18,000 bank customers across 35 markets, 10% of retail banking customers is likely to leave their banks in the next six months while an additional 41% say they are unsure if they will stay or go. To re-build the customer-bank relationship, the Report finds banks can become more customer-centric more personal interactions.

ATM machines and Internet Banking, numerous buyers still favor the individual bit of their neighborhood branch bank. Innovation has made it conceivable to convey benefits all through the branch bank organize, giving moment updates to financial records and quick development of cash for stock exchange.

Retail banking now encompasses not just branches, but also anywhere that banking services can be conveniently provided to consumers. Whether it means a service kiosk in a train station, a mini-branch in a grocery store, a premium branch in a central business district, or a bank-on-wheels that visits corporate workplaces, proximity to targeted customers ultimately matters more than having a traditional bank façade. Flexibility and agility will provide a competitive advantage for bank.

Technology is becoming the centerpiece of retail bank executives will expect their IT departments to identify and implement technology-based solutions to enhance the customer experience. Some banks, are even experimenting with quasi-Internet cafes,

## CONCLUSION

There is a need of constant innovation in retail banking. In bracing for tomorrow, a paradigm shift in bank financing through innovative products and mechanisms involving constant up gradation and revalidation of the banks' internal systems and processes is called for. Banks now need to use retail as a growth trigger. This requires item advancement and separation, development and business process reengineering, small scale arranging, promoting, reasonable evaluating, customization, mechanical up degree, home/electronic/portable banking, cost decrease and strategically pitching. While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. How far the retail banking is able to lead growth of the banking industry in future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably. However, the kind of technology used and the efficiency of operations would provide the much needed competitive edge for success in retail banking business. Furthermore, in all these customers' interest is of paramount importance. So, it is vital for banks to improve their customer services and cut off predatory lending strategies, particularly in the area of interest on credit cards.

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