ISSN: 0976-3031

Available Online at http://www.recentscientific.com

International Journal of Recent Scientific Research
Vol. 6, Issue, 4, pp.3295-3299, April, 2015

International Journal of Recent Scientific Research

RESEARCH ARTICLE

IMPACT OF RETAIL BANKING IN INDIAN ECONOMY

Parmanand Barodiya[1] and Anita Singh Chauhan[2]

[1]Commerce Department, Madhav Mahavidyalaya, Gwalior (MP)
[2]Management Department VISM College, Gwalior (MP)

ARTICLE INFO

Article History:

Received 14th, March, 2015
Received in revised form 23th, March, 2015
Accepted 13th, April, 2015
Published online 28th, April, 2015

Key words:

Retail banking in the World, Trends in Retail Banking, Challenges and opportunities of Retail Banking in India, Retail Banking, Retail Banking Sector.

ABSTRACT

Retail banking is a bank executes transactions directly with consumers, rather than corporations or other banks. Services offered include savings and transactional accounts, mortgages, personal loans, debit cards, and cards. Today, retail banking is being considered as one of the most innovative financial services provided by the various commercial Public Sector Banks (PSBs), private sector and foreign banks. Retail banking has a huge potential considering the growing demand for its products namely, term deposits, consumer durable loans, auto loans, debit card, credit cards, ATM facilities, insurance, online banking, etc. The growing sector of retail lending has contributed significantly to the development of the economy. Like other developed countries, India too, has a developed retail banking sector which accounts for one-fifth of all banks credit. Retail lending across the globe has been a showcase of innovative services in the commercial banking sector. Countries, like India, have emerged as potential markets with changing investment opportunities. The higher growth of retail lending in emerging economies can be attributed to the rapid growth of personal wealth, favorable demographic profile, rapid development in information technology, the conducive macroeconomic environment, financial market reforms and small micro-level supply side factors. The retail banking strategies of banks are undergoing a major transformation, as banks are beginning to adopt a mix of strategies like organic growth acquisition and alliance formation. This has resulted in a paradigm shift in the marketing strategies of the banks. PSBs are adopting aggressive strategies, leveraging their branch network to garner a large share of the retail market. This article attempts to highlight the prospects and the future role of retail banking in India.

INTRODUCTION

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. The Retail Banking Report encompasses extensive study & analysis of this rapidly growing sector. It primarily covers analysis of the present status, current trends, major issues & challenges in the growth of the retail banking sector.

This report helps in Banks, financial institutions, MNC Banks, academicians, consultants and researchers to have a better understanding of the booming opportunities in retail banking in India. Retail banking can be defined as.

"Retail banking is typically mass market banking where individual customers use local branches of larger commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit cards, credit cards and so".

The concept of Retail Banking is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Retail banking and retail lending are often used as synonyms but in fact, the later is just the part of retail banking. In retail banking all the needs of individual customers are taken care of in a well – integrated manner. Retail banking in the country is characterized by multiple products, multiple channels and multiple customer groups. This multiplicity of the roles to be played by the retail bankers adds to the excitement as well as the challenges faced by the bankers.

Objective

1. To study of Retail banking.
2. To find the impact of impact of retail banking on Indian economy.
3. To study the various challenges and opportunities of retail banking in India.

RESEARCH METHODOLOGY

The researchers have adopted descriptive methodology for this study Research has been placed on secondary data sources such as books, journals, newspapers and online database.

Corresponding author:* **Parmanand Barodiya
Madhav Mahavidyalaya, Gwalior (MP)

Retail Banking in The World

North America continues to lead the Customer Experience Index with Canada (81%), and the United States (80%) in the lead. Italy, Saudi Arabia and China reported the largest relative gains in share of customers with positive experience this year. Fees, Mobile Capabilities, Quality of Service or Knowledge of Customers? This is the single most important factor driving customers to switch banks. The World Retail Banking Report provides insights into customer attitudes towards retail banking using a comprehensive Voice of the Customer survey which polled over 18,000 retail banking customers in 35 countries. The survey analyzes customer experiences across 80 banking touch points that span the products banks offer, the importance of different channels for obtaining services and the transactions that occur over the lifecycle of a banking relationship some banks turned to consolidation as a way of cutting expenses in order to survive difficult economic conditions. Often consolidation works as intended, but it also has its limitations. Federal law prohibits any single bank in the United States from holding more than 10 percent of the U.S. customer market. When banks merge, they also make gains in their customer base. Several banks in the United States are approaching the 10-percent mark, so for those banks, further consolidation may not be a way to solve their problems. Global Retail Banking 2020 study, up to 50 percent of branches in today's U.S. bank networks may be declared obsolete -- although not necessarily defunct -- by 2020. Given that branches constitute 75 percent of a bank's total retail distribution costs, according to research from Capgemini, implementing smart, technologically savvy retail strategies will be critical to driving shareholder value.

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, many consumers still prefer the personal touch of their neighborhood branch bank. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and rapid movement of money for stock transfer 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, offering high-tech lounge environments with relaxing furnishings and Wi-Fi access along with ATMs, self-service kiosks, areas for plug-in consumer devices, tutorials for mobile and Web banking and videoconferencing for service consultations delivered by call center staff. Furthermore, the move to a cash-light society will trigger still more changes in how branches are deployed.

The Impact 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 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. 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 1993- 2004, 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 already pointed out, direct housing loans up to Rs. 15 lack irrespective of the location now qualify as priority sector lending; housing loans are understood to form a large component of such lending.

Support to Indian middle class People: The rise of the Indian middle class is an important contributory factor in this regard. The percentage of middle to high income Indian households is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes toward personal debt, is contributing to India's retail banking segment.

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.

Economic prosperity: The consequent increase in purchasing power has given a fillip to a consumer boom. Note that during the 10 years after 1992, India's economy grew at an average rate of 6.8 percent and continues to grow at the almost the same rate – not many countries in the world match this performance.

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 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.

Challenges And Opportunities of Retail Banking In India

Retail banking in India has vast opportunities and challenges. The rise of the middle class is an important contributory factor in this regard. Improving consumer purchasing power, coupled with more liberal attitudes toward personal debt is contributing to India's retail banking segment. Increase in purchasing power of the younger population would give an immense opportunity. It has been found that younger generation is more comfortable in acquiring debt than the previous generation, thereby improving-purchasing power and liberal attitude towards personal debt, and contributing to India's retail segment. The SEZs will also provide growth opportunity for retail banking. The combination of these factors promises growth in the retail sector, which at present is in the nascent stage. As retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. The retail banks have to market their products aggressively. The challenge is to design and innovate the financial products which cater to the target segment needs. In future, retail banking scenario will see a huge proliferation of products. This will in turn require devising product which is easy to understand and at the same time meet the financial goals of the customers. The entry of new generation private sector banks has changed the entire scenario. The retail segment, which was earlier ignored, is now the most important of the lot, with the banks jumping over one another to give out retail loans. With supply far exceeding demand it has been a race to the bottom, with the banks undercutting one another. The nimble footed new generation private sector banks have been losing business to the private sector banks in this segment. PSBs need to figure out the means to generate profitable business from this segment. Another major challenge in retail banking is attraction as well as retention of customers. In fact, the retention is more difficult in this competitive environment. Customer retention favorably affects the profitability. According to a research by Reich held and Sesser in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business, 50% in insurance and brokerage, and 125% in the consumer credit card market. Thus, banks need to focus on customer retention. Sustainability is another issue, which is becoming increasingly vital with respect to the growth of retail banking in India, due to excessive concentration on the top-line without regard to the quality of growth of the top-line, increasing market share by increasing risk appetite and entering the markets where a bank may not have a competitive advantage.

Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and rapid movement of money. However this dependency on the network has brought IT department's additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. The network challenges include proper functioning of distributed networks in support of business objectives. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers. Another issue of concern is the rising ineptness, which could affect the future growth of retail banking. The banks will also have to shore up the image of their brand. A bank has to build its brand by clearly communicating what it stands for and ensure that the brand image is consistently conveyed to its customers. This would call for seamless integration of all channels to ensure optimum customer satisfaction, regardless of the channel being used. Most of the retail banks are witnessing a tremendous expansion in their customer base. However, on the other hand there is increasing menace of hacking, phasing and farming through which seamstress are creating havoc indulging in cyber crimes on a large scale. In a service industry the value can be delivered at the moment of interaction with the customers. Banks, in a drive to carry on with tremendous expansion in terms of customer base, need to have requirements of the employees who are well informed about the products as well as have the necessary soft skills to deal and satisfy the customers. It challenges for the bank to upgrade their existing manpower and retention or lock in the best talents for having competitive advantage in terms of human resources.

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 product development and differentiation, innovation and business process reengineering, micro-planning, marketing, prudent pricing, customization, technological up gradation, home / electronic / mobile banking, cost reduction and cross-selling. 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. Finally we say that retail banking is one of the most tremendous areas now days to be looked after by the banking industry.

References

1. "Retail Loans: Is a Buble in the Making", Profesional Banker, January. Sodhi, P.S. (2010), "Retail Banking in the New Flavour",
2. A.S. Chawla, Nationalization and Growth Of Indian Banking[Deep & Deep Publication]
3. Almedia, R.A. (2005), "Retail Banking-A Focus ", IBA Buletin, November. DiVana, J.A. (2005), The Future of retail Banking,
4. Banking- An Overview", Banking Finance, October. RBI (2007), Report on Trend and Progres of Banking in India 205 -06,
5. Council for Innovative Research International Journal of Data & Network Security www.ijdnsonline.com Volume 2 No. 1, Feb10, 2013, ISSN 2319-1236 | P a g e 111
6. http://www.bis.org/review/r050531f.pdf
7. IBA Buletin, December.
8. Mishra and Tandon, (2011), International journal of multidisciplinary research, vol 1. Issue, Zenith 7. Gopinath shyamala (2005), Retail Banking Opportunities and Challenges, IB
9. Mishra, R. and Prabhu, D. (2010) „ Introduction of Retail Banking in India‟, 1st Edition, and New Delhi, India: Tata McGraw Hill.
10. Mori, K. and Parikh, N. (2010) „Retail Banking: The Basics, 4th Edition, and Delhi, India: Pearson.
11. New York: Palgrave Macmilan. Gopinath, S. (206), "Retail Banking", RBI Buletin, June. Padmanabhan, T.S. (2006),
12. Ojha.smiksha (2012), growth and development of retail banking in India drivers of retail banking.

13. Raj janak, rao K.U.B et.al, (2011), Reserve bank of India bulletin, volume LXV number I, Cambridge university press India limited.
14. Reeta Mathur, Recent Trends in Indian Economics [Sublime publications]
15. Sharma, M. (2008), "Retail Banking in India: The Key Growth Drive Profesional Banker,
16. www.aciworldwide.com
17. www.albusines.com
18. www.ibf.org.in
19. www.rbi.org.in
20. www.retailtech.com

How to cite this article:

Parmanand Barodiya and Anita Singh Chauhan., Impact of Retail Banking In Indian Economy. *International Journal of Recent Scientific Research Vol. 6, Issue, 4, pp.3295-3299, April, 2015*

****