

A CONCEPTUAL STUDY ON RETAIL BANKING SERVICES AND ITS IMPACT ON THE ECONOMY

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Abstract

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. Retail banking can be defined as a 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 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 latter 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.

The growth and development of Retail Banking is an important milestone in Indian banking sectors' development, though the growth of Retail banking in India is very small as compared development countries, but its growth is much better than India's counterparts in Asia. In India

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retail banking emerged during mid-1990. The two factors which are important for the growth of retail banking sector are customers and information.

Key words: Retail Banking, Economic Development, Banking Strategies

INTRODUCTION

The retail banking scenario in India is witnessing a dramatic change in the patterns of product creation and consumption. It has evolved from a time when the mindset of a traditional middle class Indians used to be debt averse, which preferred managing under their thrifty means to the current mindset which does not hesitate in taking loans for spending. The influx of consumerism has its natural spillover effect in terms of increased demand of retail banking products- cards, loans, customized products and services. The diversified portfolio characteristic of retail banking brings comfort, profitability and efficiency and it is less risky. Retail banking has immense opportunities in a growing economy like India.

To keep in pace with changing customer profile, the retail banking environment today is changing fast with regard to optimum usage of technology, expanding customer base by targeting rural India towards inclusive banking, improving customer service standards and strategically designing innovative products and services towards targeted segments. 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 in the retail market.

Table showing the CATEGORIZATION OF RETAIL BANK SERVICES

Core Services	Facilitating Services	Supporting Services
Payment services	<ul style="list-style-type: none"> • Cash • Foreign currency requirements • Traveler Cheque • Demand Draft / Bankers 	<ul style="list-style-type: none"> • Making payments at door step • Internet banking • Telephone banking

	<p>Cheque</p> <ul style="list-style-type: none"> • Telegraphic Transfer • Electronic Funds Transfer 	
Current account and savings account	<ul style="list-style-type: none"> • Automatic Teller Machine card • Standing instructions from customers for making payments • Inter branch/ Interbank transfer of funds • Safety vault 	<ul style="list-style-type: none"> • Credit cards • Debit cards • Services to senior citizens • Telephone banking • Internet banking • Conversion of excess balance to Time deposit (Auto Sweep Flexi Deposit)
Loan products: Consumer loans, Personal loans, Housing loans, Educational loans	<ul style="list-style-type: none"> • Current account • Savings account • Time deposit account 	<ul style="list-style-type: none"> • Delivery of loan at promised time period • Interest rate option : Fixed / floating • Flexibility in pre-payment of loan • Counseling on Real-estate markets • Legal services for documentation • Electronic Clearing System for payment of loan installments / periodical interest
Life insurance, Pension schemes Investment banking	<ul style="list-style-type: none"> • Current account • Savings account • Time deposit • Safety deposit lockers • Demat account 	<ul style="list-style-type: none"> • Additional insurance facility for family members • Counseling on post retirement savings. • Investment Management

Source: Professional Banker, January 2003

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. 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 2014. The overall impairment of the retail loan portfolio worked out much less than 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.

Drivers of Retail Business in India

As the face of the Indian consumer is changing, that is reflected in a change in the urban household income pattern, the direct fallout of such change is on the consumption pattern and hence on the banking habits of Indians, which is now skewed towards retail products. Following changing consumer demographics have led to the need for expansion of retail banking activities in India.

- i. **Increasingly Affluent and Bulging Middle Class:** About 320 million people will be added in the middle-income group in a period of 15 years approximately.
- ii. **Youngest Population in the World:** Changing consumer demographics indicate vast potential for growth in consumption both qualitatively and quantitatively, due to increasing affluent with bulging middle class and youngest people in the world. 70per cent of Indian population is below 35 years of age which means that there is tremendous opportunity of 130 million people being added to working population.

- iii. **Increasing Literacy Levels:** Due to increase in the literacy ratio, people have developed a taste for latest technology and variety of products and services. It will lead to greater demand for retail activities specially retail banking activities. □
- iv. **Higher Adaptability to Technology:** 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 card, ATMs, direct debits and phone banking have contributed to the growth of retail banking in India.
- v. **Continuing Trend in Urbanization:** Urbanization of Indian population is also an important feature influencing the retail banking.
- vi. **Increasing Consumption Mindset of Indians:** Economic prosperity and the consequent increase in purchasing power have given a fillip to a consumer boom. During the year 2015-16, the economic growth of India was 7.6 percent and continues to grow at almost the same rate – not many countries in the world match this performance. It means that Indian consumers are now shifting from the tendency of buying more and better quality to new services and products.
- vii. **Declining Treasury Income of the Banks:** The Treasury income of the banks, which had strengthened the bottom lines of banks in the recent past years, (2010 to 2015) has been on the decline trend during 2004-2009. In such a scenario, retail business provides a good vehicle of profit maximisation. 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.
- viii. **Decline in Interest Rates:** Finally, decline in interest rates has also contributed to the growth of retail credit by generating the demand for such credit.

CONCLUSION

Banks are now competing for increasing their retail business. There is a need for constant innovation in retail banking. This requires product development and differentiation, micro-planning, marketing, prudent pricing, customisation, technological up gradation, home / electronic / mobile banking, effective risk management and asset liability management techniques. Finally to conclude, Retail banking is an effective tool in contributing to the development of the individual consumers and to the overall development of the society. To meet the changing preferences of the customers and to stay ahead of competitors, retail bankers are

bound to provide quality and efficient services. Banks can enhance customer service by leveraging on technology, maintenance of efficient service delivery standards and business process re-engineering. As the Indian economy continues to grow and develop markets and competitive structures, customers' needs and expectations will evolve and grow over time, resulting in strategies to meet customer satisfaction.

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