

A study of Retail Banking and its Challenges

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Abstract: *According to a report published by A.T. Kearney (a global management consulting firm), India is the second most attractive retail banking destination among 30 emerging markets. In reality, India has witnessed a shift from wholesale lending to retails lending, particularly in the private sector banks. Housing Loan occupies a prominent position and accounts for more than 50 to 60 percent of almost all banks' total credit. The changing retail banking portfolio in India has multiple dimensions. While there is a noticeable shift in the number and nature of products introduced and the manner in which banking services are provided, there is also a concern that growth in retail banking is skewed toward assets and not balanced with growth in liabilities (retail deposits). A further concern is that banks are not reaching out to individuals with lower incomes. However, Indian banks have already begun to include those previously excluded from formal banking services. To foster the growth of retail banking, banks have begun bolstering their services through multiple channels, with the bank branch remaining the primary focus.*

Keywords: Retail banking, Indian Banking sector, challenges, scope, opportunities

I. INTRODUCTION

India's economic growth rate is among the fastest in the world. India's economy has grown by more than 5 percent annually over the past two decades. According to a report by Goldman Sachs, which of the leading investment banks will be the third largest economy in the world by 2050? The desire to invest in various banking products offered by banks is prompted by the surplus funds that remain in the hands of individuals after their basic needs have been met. Thus, Retail Banking in India has been expanding at an impressive rate, and it has a great deal of growth potential in the coming years. The emergence of Retail Lending has propelled the Indian economy towards economic growth, and retail lending has aided banks in generating substantial profits while boosting the economy. According to a report published by A.T. Kearney (a global management consulting firm), India is the second most attractive retail banking destination among 30 emerging markets. In reality, India has witnessed a shift from wholesale lending to retails lending, particularly in the private sector banks. Housing Loan occupies a prominent position and accounts for more than 50 to 60 percent of almost all banks' total credit. This is also due to the fact that the loan is supported by mortgage or property finance and the average annual default rate is less than 1%. Another very popular retail loan has emerged as a profitable financing activity for banks in the Auto Loan market. According to the Chairman of RBI, banks finance 82% of all new cars, 50% motorcycles, and 90% of trucks. The increase in demand for educational loans is attributable to the need to finance higher education and employment opportunities in other countries, as well as the Indian institutions and deemed universities of repute that have emerged in the private sector, which provide quality and placements, and whose high fees make banks the most convenient and affordable place for students and their parents to obtain loans. Other ancillary retail banking services in India, such as ATMs, Mobile Banking, Internet Banking, Debit/Credit Cards, Phone Banking, etc., and the banks' Depository Services, have risen to prominence over the past 5-6 years. The annual growth rate of debit cards and credit cards in India is greater than 25 percent. The total number of credit cards in the Indian banking system is approximately 14 million, while the circulation of debit cards is approximately 25 million, nearly double the number of credit cards. The influx of ATMs has resulted from the entry of private and foreign banks, which viewed them as a cost-effective alternative to Public Sector Banks and a means of capturing a larger market without excessive expenditure on infrastructure and branches. It became simpler for banks to reach customers in every region of the nation. Later, banks reached an agreement allowing customers to use the ATMs of other banks where they do not have an account in order to reduce costs, cover a larger geographical area, and increase customer convenience. Thus, customers' use of ATMs became extremely frequent, useful, and convenient. Globally, mobile phones have become one

of the most convenient, quick, and time-saving ways to conduct banking transactions. It has also increased significantly due to the fact that India has more than 47 million mobile users and is adding nearly 2 million per month. And awareness campaigns and familiarity with mobile banking will increase the number in the coming years. However, there is still much work to be done. Since India has a population of over one billion and retail banking has not reached its full potential, there is ample room for its continued development and expansion.

Retail banking: opportunities and challenges

In India's burgeoning economy, retail banking offers a wealth of opportunities.

A global management consulting firm, A.T. Kearney, recently ranked India as the second most attractive retail destination among 30 emerging markets. The growth of the Indian middle class is a significant factor in this regard. It is anticipated that the proportion of Indian households with middle to high incomes will continue to rise. The younger generation not only possesses a growing purchasing power, but they may also be less prone to incurring personal debt than previous generations. Increasing consumer purchasing power and more permissive attitudes towards personal debt are bolstering India's retail banking sector. At present, the retail sector is in its infancy, but a combination of the aforementioned factors forecasts substantial growth. In universal banks and financial conglomerates, potential areas of conflict of interest tend to increase as a result of the bundling of services and delivery channels. Financial inclusion, responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation, and financial crime prevention are some of the sector's most important policy concerns.

Difficulties faced by Retail Banking in India

In retail banking, the issue of money laundering is extremely important. This necessitates that all banks carefully evaluate all loan-approval documents they accept.

Indian banks are outsourcing various core activities, including hardware and software maintenance, entire ATM installation and operation (including cash replenishment), etc.

Banks are expected to make every effort to maintain the public's trust. Customer service should be the most important aspect of retail banking. Someone once said, "It takes months to find a good customer, but only seconds to lose one." This statement is accurate. Thus, the Know Your Customer (KYC) strategy is essential. Therefore, banks must adopt innovative strategies to meet the needs and requirements of customers in terms of services/products, etc.

The dependence on technology has resulted in additional responsibilities and challenges for IT departments in managing, maintaining, and optimising retail banking network performance. To preserve the customer's trust, it is crucial that banks maintain security at an advanced level. In the coming years, the competitive advantage for the success of retail banking would be the efficiency of operations.

Customer retention is crucial to the profitability of retail banking businesses; therefore, banks must retain their customers to increase their market share. One of the most significant impediments to the expansion of this sector is the severe lack of talent of this specific nature, a modern banking professional, for a modern banking sector.

As in other nations, retail banking is expected to play a significant role in the coming years if all these challenges are addressed with the utmost care and deliberation by banks.

Strategies for increasing retail banking business

A. Constant product innovation to match customer segment requirements: The bank's customer database is the best source of their demographic and financial information, and it can be used to target specific customer segments with new or modified products. The banks must launch new securities, mutual funds, and insurance products.

B. Quality of service and quickness of delivery: Since the majority of banks offer retail products of a similar nature, customers can easily switch to a bank that provides superior service at comparatively lower prices. The most important factors are the quality of service that banks provide and the experience of their customers. Therefore, in order to retain customers, banks must offer competitive products that can be accessed at the click of a button.

C. Introduction of new channels for delivery: Customers prefer interacting with their bank via multiple channels. Therefore, banks should strive to provide superior service across all channels, including branches, the Internet, ATMs, etc.

D. Tapping of unexploited potential and increasing the volume of business: This will make up for the narrow margins: The Indian retail banking market is still largely untapped, giving banks and financial institutions room for expansion. With the changing mentality of Indian consumers, who are now receptive to the idea of obtaining personal loans, this market segment represents a tremendous opportunity for banks. The marketing departments of banks should be bolstered and given specialised training so that they can successfully capture an increasing share of the retail market.

E. Infrastructure outsourcing: This will help reduce the cost of service channels without sacrificing quality or speed.

F. Detailed market research: Banks may choose to conduct detailed market research, which will assist them in understanding what their competitors are offering to clients. This will allow them to have a competitive advantage over their rivals and increase their share of the retail banking market by providing superior products and services.

G. Cross-selling of products: Having a vast branch network gives banks the opportunity to sell third-party products through these branches, which is an added benefit.

H. Business process outsourcing: Not only would outsourcing requirements save money and time, but it would also allow banks to focus on their core business. Banks can devote additional time to marketing, customer service, and brand development. For example, Management of ATMs can be outsourced. This will save the banks from dealing with the intricacies of technology.

II. CONCLUSION

Now, banks must use retail as a growth catalyst. This requires product development and differentiation, innovation, business process re-engineering, micro-planning, marketing prudent pricing, customization, technological up-grading, home/electronic/mobile banking, cost reduction, and cross-selling. While retail banking provides incredible opportunities for growth presents equally daunting challenges. The extent to which retail banking can lead the growth of the banking industry in the future will depend on the banks' ability to meet the challenges and capitalise on 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. The changing retail banking portfolio in India has multiple dimensions. While there is a noticeable shift in the number and nature of products introduced and the manner in which banking services are provided, there is also a concern that growth in retail banking is skewed toward assets and not balanced with growth in liabilities (retail deposits). A further concern is that banks are not reaching out to individuals with lower incomes. However, Indian banks have already begun to include those previously excluded from formal banking services. To foster the growth of retail banking, banks have begun bolstering their services through multiple channels, with the bank branch remaining the primary focus. It is going to be challenging for banks to maintain costs at a level such that there profitability is not affected; a concern that soon may become a top priority for them in the near future.

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