

# An Analysis of the Pros and Cons Faced by Retail Banking in the Context of the Indian Banking Industry

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**Abstract:** *India ranks second in attractiveness as a retail banking destination among 30 emerging nations, as stated in a report published by A.T. Kearney, a worldwide management consulting firm. India has experienced a transition from providing loans in large quantities to providing loans to individual customers, especially in private sector banks. The Housing Loan holds a major role and constitutes around 50 to 60 percent of the total credit of nearly all banks. The retail banking portfolio in India is multifaceted. Although there is a clear change in the quantity and characteristics of products being offered and the methods used to deliver banking services, there is also a worry that the expansion of retail banking is focused more on assets and lacks a proportional increase in liabilities (retail deposits). Another issue of concern is the lack of outreach by banks to those with lower incomes. Nevertheless, Indian banks have already initiated the incorporation of individuals who were previously excluded from conventional banking services. In order to promote the expansion of retail banking, banks have been enhancing their services through various channels, while still prioritizing the bank branch as the major focal point*

**Keywords:** Retail banking, Indian banking sector, problems, scope, possibilities

## I. INTRODUCTION

India's economic growth rate is one of the most rapid globally. India's economy has had an annual growth rate of around 5 percent for the past two decades. As to a report published by Goldman Sachs, which investment bank is projected to become the third largest economy globally by the year 2050? Individuals are motivated to invest in different banking products offered by banks due to the excess funds they have after fulfilling their essential demands. Hence, the retail banking sector in India has been experiencing significant growth and is poised for more expansion in the future. Retail lending has played a significant role in driving economic growth in India, enabling banks to generate huge profits and contribute to the overall economy. India ranks second in attractiveness as a retail banking destination among 30 emerging nations, as stated in a report published by A.T. Kearney, a worldwide management consulting firm. India has experienced a transition from providing loans in large quantities to providing loans to individual customers, especially in private sector banks. Housing loans hold a major role and make up around 50 to 60 percent of the total credit of nearly all banks. This is mostly attributed to the loan being backed by a mortgage or property finance, and the average yearly default rate being below 1%. Auto loans have become a lucrative financing activity for banks in the retail credit industry. As per the Chairman of RBI, banks provide financial support for 82% of newly purchased vehicles, 50% motorcycles, and 90% of trucks. The rise in demand for educational loans can be attributed to the necessity of funding higher education and employment prospects abroad, as well as the emergence of reputable private Indian institutions and deemed universities that offer quality education and job placements. Due to their high fees, banks have become the most convenient and affordable option for students and their parents to secure loans. In India, many supplementary retail banking services such as ATMs, Mobile Banking, Internet Banking, Debit/Credit Cards, Phone Banking, etc., as well as the banks' Depository Services, have gained significant importance in the last 5-6 years. In India, the yearly growth rate of both debit cards and credit cards exceeds 25 percent. The Indian banking system has a total of around 14 million credit cards, while the number of debit cards in circulation is approximately 25 million, which is nearly double the number of credit cards. The increase in the number of ATMs can be attributed to the

entrance of private and foreign banks, who saw them as a cost-efficient option compared to Public Sector Banks. ATMs also provided a way for these banks to expand their market share without having to spend too much on building infrastructure and branches. Banks now have greater ease in accessing clients throughout all regions of the country. Subsequently, banks established a consensus that permits consumers to utilize ATMs of other banks, even if they do not hold an account with those banks. This arrangement aims to save expenses, expand the coverage of services throughout a wider geographical region, and enhance customer convenience. Therefore, customers' utilization of ATMs became exceedingly common, advantageous, and convenient. Mobile phones have emerged as a highly handy and efficient means of conducting banking transactions on a global scale. Furthermore, the surge in mobile usage is primarily attributed to India's staggering number of over 47 million mobile subscribers, with an additional 2 million users being added each month. The number of individuals utilizing mobile banking will expand in the future due to awareness efforts and increased familiarity with the service. Nevertheless, there is a substantial amount of work that has to be accomplished. Given India's population exceeding one billion and the fact that retail banking has not yet achieved its maximum capacity, there is significant opportunity for further growth and expansion in this sector.

Exploring the potential and challenges in retail banking

Retail banking in India's rapidly growing economy presents abundant prospects.

India has been named as the second most appealing retail destination among 30 emerging nations by A.T. Kearney, a worldwide management consulting organization. The expansion of the Indian middle class is a noteworthy aspect in this context. There is an expectation that the percentage of Indian households with middle to high incomes would continue to increase. The younger generation exhibits an increasing ability to make purchases and may have a lower tendency to accumulate personal debt compared to prior generations. The retail banking sector in India is being strengthened by the combination of rising consumer purchasing power and more lenient attitudes towards personal debt. Currently, the retail industry is in its early stages, but a combination of the elements described above predicts significant expansion. In universal banks and financial conglomerates, the combination of services and delivery channels often leads to a rise in possible conflicts of interest. Key policy concerns in the sector include financial inclusion, responsible lending, access to financing, long-term savings, financial capacity, consumer protection, regulation, and prevention of financial crime.

Challenges encountered by the retail banking sector in India

Money laundering is a highly significant concern in the field of retail banking. Therefore, it is imperative for all banks to thoroughly assess all loan-approval documentation they receive.

Indian banks are delegating some essential tasks to external parties, such as the upkeep of hardware and software, the whole installation and operation of ATMs (including the replenishment of currency), and more.

It is anticipated that banks will use maximum effort to uphold the faith of the general people. The paramount focus of retail banking should be on customer service. One individual previously stated, "The process of acquiring a valuable customer can span several months, while the act of losing one can occur within a matter of seconds." This assertion is correct. Therefore, the implementation of the Know Your Customer (KYC) strategy is crucial. Consequently, banks must use inventive tactics to fulfill the demands and prerequisites of clients regarding services, products, and more.

The reliance on technology has led to increased obligations and difficulties for IT departments in overseeing, upkeeping, and enhancing the operation of retail banking networks. In order to uphold the confidence of customers, it is imperative for banks to maintain a high level of security. In the future, the key factor that will determine the success of retail banking is the level of operational efficiency.

Customer retention is vital for the profitability of retail banking enterprises. Consequently, banks must focus on retaining their customers in order to enhance their market share. A major obstacle to the growth of this industry is the acute shortage of skilled professionals with expertise in modern banking for a contemporary banking sector.

If banks solve these difficulties with careful consideration, retail banking is anticipated to have a substantial impact in the future, similar to other countries.

Methods for enhancing the profitability of retail banking operations

A. Continual product innovation to align with client segment demands: The bank's customer database serves as the most reliable repository of their customers' demographic and financial data, enabling them to effectively cater to certain

customer segments by introducing new or changed products. The banks are required to introduce novel financial instruments such as securities, mutual funds, and insurance products.

B. Service quality and delivery speed: Given that most banks offer identical retail goods, clients can readily move to a bank that offers better service at relatively cheaper costs. The key elements encompass the caliber of service rendered by banks and the level of satisfaction experienced by their consumers. Thus, in order to maintain customer loyalty, banks must provide competitive goods that can be easily accessed with a single click.

C. Implementation of additional channels for delivery: Customers have a preference for engaging with their bank through several channels. Hence, it is imperative for banks to endeavour to deliver exceptional service across various channels, such as branches, the Internet, ATMs, and so on.

D. Exploiting untapped potential and expanding the business volume. This will compensate for the limited width of the margins: The Indian retail banking industry remains predominantly unexplored, presenting banks and financial institutions with ample opportunities for growth and expansion. Given the shifting mindset of Indian consumers, who are now open to the concept of acquiring personal loans, this particular market sector gives a significant opportunity for banks. The marketing departments of banks should be strengthened and provided with specialized training in order to effectively capture a growing portion of the retail market.

E. Infrastructure outsourcing can effectively lower service channel costs while maintaining high quality and speed.

F. Comprehensive market research: Banks may opt to carry out comprehensive market research, which will aid them in comprehending the offerings of their competitors to clients. By offering greater products and services, they can gain a competitive edge over their rivals and expand their market share in retail banking. One advantage of having a large branch network for banks is the ability to engage in cross-selling of third-party products through these branches.

G. Business process outsourcing (BPO) offers the dual benefits of cost and time savings, enabling banks to concentrate on their primary operations. Banks can allocate extra time to the promotion of their products and services, enhancing customer support, and cultivating their brand. ATM management can be delegated to external parties, such as outsourcing companies. This will spare the banks from grappling with the complexities of technology.

## II. CONCLUSION

Currently, banks are required to utilize retail as a means to stimulate growth. This necessitates the implementation of product development and differentiation strategies, innovation, re-engineering of business processes, meticulous planning, sensible pricing in marketing, customization, technical advancement, the incorporation of home/electronic/mobile banking services, cost reduction measures, and cross-selling. Although retail banking offers significant development prospects, it also faces equally formidable challenges. The future expansion of the banking industry will rely on the profitable ability of banks to effectively address difficulties and take advantage of possibilities in retail banking. Nevertheless, the specific type of technology employed and the level of operational efficiency will be crucial in gaining a significant advantage for success in the retail banking industry. Moreover, in all of these situations, the customers' interest is of utmost significance. The retail banking portfolio in India is multifaceted. Although there is a clear change in the quantity and characteristics of products being introduced and the way banking services are offered, there is also a worry that the expansion in retail banking is focused more on assets and lacks a corresponding development in liabilities (retail deposits). Another issue is that banks are failing to engage with individuals who have lower incomes. Indian banks have initiated the process of including those who were previously excluded from formal financial services. In order to promote the expansion of retail banking, banks have started enhancing their services through various channels, with the bank branch continuing to be the major emphasis. Banks may face difficulties in maintaining costs at a level that does not impact their profitability, which could soon become a major focus for them in the near future.

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