

# Review Paper on Retail Banking in India

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**Abstract:** *Banking is the financial function that is important not only for the individual but also for the economy as a whole. With the face of the overall economy changing, the face of banking services is also changing and has become more appealing. Numerous new features have been added to banking services in an effort to attract more and more customers. Retail Banking has always been an integral part of banking activities around the globe, but it has only gained significant momentum in recent years. Although this revolution began internationally in the 1980s with the introduction of credit cards and other retail financial products, in India it began in 1995 with Foreign Banks and new generation Private Banks at the forefront. In this paper, an attempt has been made to cover the theoretical aspects of retail banking, including the issues and challenges in retail banking, the recent trends in retail banking, the future growth of retail banking in India, and the challenges facing retail banking in India.*

**Keywords:** Portfolio of Banking, Challenges, Retail Banking, Strategies.

## I. INTRODUCTION

Banking holds one of the most significant positions in the contemporary global economy. It is required for commerce and industry. Therefore, it is one of the major commercial agencies. Although banking has existed in one form or another since ancient times, modern banking is relatively new. It is a byproduct of the Industrial Revolution and a product of economic necessity. Its presence is extremely beneficial to a nation's economic and industrial development.

## II. BANKING IN INDIA

In terms of size, products, and services, India's banking industry is not yet on par with global norms, despite its highly developed nature. In order to be competitive with other market participants, Indian banks have realised that they must also grow inorganically in addition to organically. In this scenario, the banking industry has been primarily focused on retail banking. Emergence of new economies and their rapid expansion have been the most significant contributors to the revival of retail banking. Changing lifestyles, rapid advancements in information technology and other service sectors, and rising income levels have all contributed to the expansion of retail banking in rapidly developing nations like India.

The Indian banks are competing for a piece of the retail banking sector, which has enormous growth potential; retail loans account for only 8 to 9 percent of India's GDP, compared to 35 percent in other Asian economies. However, retail banking also faces obstacles such as customer retention, introduction of tech-savvy facilities and investments in such facilities, security concerns, Know Your Customer (KYC) regulations, credit evaluation regulations, etc.

## III. RETAIL BANKING IN INDIA: AN OVERVIEW

"Banking for the people, operated by the people, and owned by the people"

Retail banking is the provision of banking services to individuals and small businesses by financial institutions that handle a high volume of low-value transactions. The concept is not new to banks, but it is now viewed as a significant and lucrative market segment that offers growth and profit opportunities. Banks have shifted from wholesale banking to retail banking as a result of excess liquidity, increased corporate dependence on capital markets, the rising income of the middle class with increased purchasing power and ability to handle debts, the increasing amount of nonperforming assets (NPAs) from corporate portfolios, and the growth and future growth potential of the credit card business. In India's burgeoning economy, retail banking offers a wealth of opportunities. As India's growth story unfolds, retail banking will emerge as a major catalyst. 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. In India, the credit portfolio of banks is rapidly changing. Bank credit is becoming increasingly dominated by retail lending. Consequently, interest rates on retail lending have also decreased. Regarding retail banking, banks' risk management should centre on the risk and return characteristics of consumer loans, revenues from consumer loans, consumer loan losses, collection strategies, product structuring, and lending policies.

#### **IV. MEANING OF RETAIL BANKING**

Retail banking encompasses retail deposit schemes, retail credit, retail loans, credit cards, debit cards, insurance products, mutual funds, and depository services, as well as demand facilities and customer-specific services. Consequently, retail banking encompasses various financial services and products constituting a portion of both the banks' assets and liabilities. On the assets side of the balance sheet for retail banking is a vast array of loan products, including mortgage, auto, consumer, and educational loans. The following characteristics characterize retail banking:

- Strong credit evaluation skills;
- Continuous and consistent follow-up;
- Powerful processing ability;
- Capable human capital;
- Technical assistance; and
- Reliable documentation

#### **V. GENESIS OF RETAIL BANKING IN INDIA**

The concept of "retail banking" is not new to banks, but it is now viewed as a significant and profitable market segment that offers growth and profit opportunities. Retail banking and retail lending are frequently used interchangeably, but the latter is merely a subset of retail banking. In retail banking, all individual customers' needs are addressed in an integrated manner. The retail banking sector of today is distinguished by three fundamental characteristics:

- A variety of products (deposits, credit cards, insurance, investments, and securities);
- Multiple distribution channels (call centre, branch, web) and
- Multiple customer groups (consumer, small business, and corporate).

#### **VI. REASONS FOR BANKING UPON RETAIL BANKING**

- The financial sector reforms undertaken by the government since 1991 have resulted in a cutthroat competition among banks for corporate loans, causing them to lend even at PLR or sub PLR and offer other valued services to large, high-value corporations at comparatively cheaper rates. Consequently, the majority of banks have experienced a reduction in interest spreads and a decline in profitability.
- While corporate loans yield an average return of only 0.5% to 1.5%, retail advances offer an attractive interest spread of 3% to 4% because retail borrowers are less sensitive to interest rate fluctuations than corporate borrowers. Also contributing to the high interest spreads on retail advances is the fact that retail customers are too fragmented to effectively negotiate. While corporate loans are subject to frequent fluctuations in trade, retail loans are relatively immune to recession and continue to deliver even during a period of economic slowdown.
- Compared to corporate banking, retail banking provides banks with greater stability and public image.
- The increased amount of consumerism in the country, coupled with the rising income levels of a growing middle class with a propensity to consume in order to improve their standard of living, is expanding retail markets. This market is expanding by 2.50 percent annually, thereby increasing household demand for credit. The country's current penetration rate is just over 2%, so the potential is enormous. Given the country's abundant liquidity, the growth rate of this industry is likely to multiply in the coming years. This presents a significant opportunity for banks to expand their loan portfolios.
- Innovative products such as asset securitization can provide banks with new opportunities for maintaining optimal capital adequacy and asset liability management.
- Retail Banking allows banks to cross-sell other retail products to depositors and investors, such as credit cards, insurance, mutual fund products, demat facilities, etc.

## VII. DRIVERS OF RETAIL BANKING BUSINESS IN INDIA

What has contributed to this expansion of retail? Let me briefly describe some of the fundamental reasons.

Initially, economic growth and the resulting increase in purchasing power have fueled a consumer boom. During the ten years following 1992, India's economy grew at a rate of 6.8 percent on average, and it continues to grow at a similar rate – this is a performance that few countries can match.

Second, shifting consumer demographics indicate vast qualitative and quantitative growth potential in consumption. India is one of the nations with the highest percentage (70%) of its population under the age of 35. (young population). The Goldman-Sachs BRIC report, which predicted a bright future for Brazil, Russia, India, and China, cited India's demographic advantage as a significant positive factor.

Thirdly, technological factors were crucial. Numerous new customers have entered the banking industry as a result of debit cards, internet and telephone banking, and banking anywhere and at any time. The proliferation of credit/debit cards, automated teller machines, direct debits, and phone banking has contributed to the expansion of retail banking in India.

Fourth, the banks' Treasury income, which had bolstered their bottom lines over the past few years, has been declining over the past two years. In such a situation, retail business is an excellent method for maximising profits.

Fifth, the decline in interest rates has also contributed to the expansion of retail credit by increasing demand for it.

## VIII. RETAIL BANKING PRODUCTS & SERVICES

### (A) Retail Deposit Products

There are many retail banking products, such as Savings A/c, Current A/c, Recurring A/c, Fixed Deposit A/c, NRI A/c, Corporate Salary A/c, Free Demat A/c, Kid's A/c, Senior Citizen Scheme, Cheque Facilities, Overdraft Facilities, Free Demand Draft Facilities, Locker Facilities, Cash Credit Facilities, etc.

### (B) Retail Loan Products

Banks offer loans for various terms, including short-term, medium-term, and long-term, and for various purposes. Personal Loans, Housing Loans, Education Loans, Vehicle Loans, Professional Loans, Durable Goods Loans, and Loans Against Shares and Securities.

### (C) Retail Services

This includes Lockers, Depository Services, Credit Cards, Debit Cards, Internet Banking, Mobile Banking, Phone Banking, Anytime, Anywhere, Anyhow banking, Automated Teller Machines, Gift Cards, etc.

## IX. CONCLUSION

The Indian mentality is also evolving, and consumers prefer to improve their quality of life, even if it requires borrowing for housing, consumer goods vehicles, and vacations, etc. Lending and borrowing are no longer considered taboo. Peer pressure and the demonstration effect exert additional upward pressure on the demand for housing loans, consumer goods, and automobiles. All of these developments give Retail Banking a substantial boost.

Retail Banking clients are typically loyal and do not typically switch banks frequently. Numerous Retail clients facilitate marketing, mass selling, and the ability to classify/select clients using a scoring system and data mining. A robust increase in retail business volume allows banks to reduce expenses, achieve economies of scale, and improve their bottom line. Through product innovations and competitive pricing strategies, banks can cultivate business relationships with customers in order to retain existing customers and attract new ones.

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