

The Study of Opportunities and Challenges of Retail Banking in Indian Economy

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Abstract

The increase in retail lending in developing economies can be attributed to the rapid growth of personal wealth, favorable demographic profile, and development in information technology, the conducive macroeconomic environment, financial market reforms etc. The retail banking strategies of banks are undergoing a major transformation and have 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. 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. Retail banking is widely recognized as an important factor for the economic development of a country. Retail banking helps the Indian banking industry by providing a wide range of innovative services. Retail loan is estimated to have accounted for nearly one-fifth of all bank credit. Over the past few years housing sector is experiencing a boom in its availability of credit. The retail loan market has decisively got transformed from a seller's market to a buyer's market. The days are gone when getting a retail loan was difficult. All the above statements bring out the speed of development that retail banking is experiencing in India.

Key Words : Retail Banking, Macro Economic Environment, Information Technology, Financial Market Reforms.

1. INTRODUCTION

Retail banking has immense opportunities in India. India has been identified as the “second most attractive destination of 30 emergent markets”. The rise of the middle class is an important contributory factor in this regard. Increase in the consumer purchasing power, coupled with more liberal

attitudes toward personal debt is contributing to India's retail banking segment. The SEZs will also provide growth opportunity for retail banking. The combination of these factors promises growth in the retail sector.

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 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

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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.

Retail banking helps the Indian banking industry by providing a wide range of innovative services. Retail loan is estimated to have accounted for nearly one-fifth of all bank credit. Over the past few years housing sector is experiencing a boom in its availability of credit. The retail loan market has decisively got transformed from a seller's market to a buyer's market. The days are gone when getting a retail loan was difficult. All the above statements bring out the speed of development that retail banking is experiencing in India. Retail banking is a very wide term that refers to the dealings of commercial banks with individual customers, both on liabilities and assets side. Mortgages, loans (e.g., personal/housing, auto and educational) on the asset side are the more important products offered by the banks.

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. 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.

2. OBJECTIVES OF THE STUDY

- (i) To study the concept of retail banking.
- (ii) To study the opportunities and challenges of retail banking in India.

3. OPPORTUNITIES OF RETAIL BANKING IN INDIA

Retail banking has immense opportunities in India. India has been identified as the "second most attractive destination of 30 emergent markets". The rise of the middle class is an important contributory factor in this regard. Increase in the consumer purchasing power, coupled with more liberal attitudes toward personal debt is contributing to India's retail banking segment. The SEZs will also provide growth opportunity for retail banking. The combination of these factors promises growth in the retail sector.

The development of Information technology and its application in the banking sector provides both opportunities as well as challenges. Most of the retail banks are witnessing a tremendous expansion in their customer base. However, on the other hand there is increase in the number and types of cyber crimes like spam, scam, spy ware, phishing, and embezzlement etc. The number of complaints regarding various undesirable practices and cheating of credit card account holders is increasing. The RBI is considering bringing credit card disputes within the ambit of the Banking Ombudsman scheme. Banks have to be very careful and cautious and try to prevent the malpractices done by the misuse of technological advancements. The Information technology has to be properly adhered and the customers have to be protected from all the risks arising in this behalf. Though building a regulatory oversight in this regard is essential, it is to be ensured that the regulations do not reduce the efficiency of the system nor does it hamper the credit card usage. 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 the customers. It is necessary for the banks to upgrade their existing manpower and retention or

lock in the best talents for having competitive advantage in terms of human resources. Maintaining the performance of retail banking network and ensuring that all bank products and services are available at all times is also a necessary for customer satisfaction.

(a) Technology Advancement

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. 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.

(b) Financial Market Reforms

The subject matter of retail banking is of prime importance. In recent years, commercial banks have witnessed development in the form of retail lending, all over the world. The growth in the field of retail lending is primarily because of the speedy advancement in the IT sector, evolving macroeconomic environment, numerous micro level demand and supply side factors and financial market reform. This criterion is based on the market research report on retail banking

(c) Wide Customer Base

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 etc.

(d) Use of Plastic Money

The total number of cards issued by banks has dramatically increased. As the usage of plastic

money has increased a Working Group was set up for regulatory mechanism for cards. The terms 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 for encouraging their growth in a safe, secure and efficient manner, and also to take care of the best customer practices and grievances handling mechanism for the card users. The credit card holders and loan availed by them through various forms have contributed to the growth of retail banking to a large extent.

(e) Lower interest rates

The interest rates were decreased in Indian money market which has also contributed to the growth of retail credit by generating the demand for such credit. Liquidity in the banking system and falling global interest rates have compelled the domestic banks to reduce it. 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. This has contributed to the increase in retail lending.

(f) Strong Credit Assessment Capability

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.

(g) 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.

(h) 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.

4. CHALLENGES OF RETAIL BANKING IN INDIA

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 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.

(a) Retention of customers

According to a research by Reichheld and Sasser in the Harvard Business Review, 5 per cent increase in customer retention can increase profitability by 35 per cent in banking business, 50 per cent in insurance and brokerage, and 125 per cent in the consumer credit card market. Thus, banks need to emphasize retaining customers and increasing market share.

(b) Rising indebtedness

India's position, of course, is not comparable to that of the developed world where household debt as a proportion of disposable income is much higher. Such a scenario creates high uncertainty.

(c) Network management challenges

Difficulty in maintaining and optimizing the performance of retail banking networks. Illustratively, ensuring that all bank products and services are available, at all times, and across the entire organization is essential for today's retail banks to generate revenues and remain competitive. Besides, there are network management challenges, whereby keeping these complex, distributed networks and applications operating properly in support of business objectives becomes essential. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers.

5. CONCLUSION

The rise of the middle class is an important contributory factor in this regard. Increase in the consumer purchasing power, coupled with more liberal attitudes toward personal debt is contributing to India's retail banking segment. 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. 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. Now that the customer has the choice, banks need to move from a product-centric model to a customer-centric model. Banks have to plan for it in advance and be at the forefront in catering to the customer's needs. As retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. The retail banks have to market their products

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