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Research Paper

Growth and Development of Retail Banking In India

Dr. Veeresh Kumar Sharma
Assistant Professor, Department of Commerce (Accounts and Law) Seth Phool Chand Bagla P.G. College Hathras

ABSTRACT
Retail Banking as a business model is adopted by all the banks on account of multiple comfort factors for the banks viz. acquisition of a huge customer base, multiple product offerings, better pricing and profitability, scope for cross selling and up selling financial and beyond financial products for increased per customer revenue and of course better risk proposition. With the changing paradigm of technology as the driver for retail banking explosion, banks are embracing different strategies by redesigning their conventional business silos, re-engineering existing products and inventing products, services, channels, relationships to increase the share of the customers' wallet.
KEY WORDS: *retail banking, customer*

I. INTRODUCTION

Globally, the financial services Industry is in the midst of aggressive competition with the compulsive convergence of banking, insurance, mutual funds and capital market spaces seamlessly integrating to offer holistic financial services. Retail Banking has emerged as an essential enabler to translate these spaces into profitable business models of banks across the globe. The objective is to expand and hold the customer universe and increase the profitability on account of the attractive margins in the retail asset space and also fee-based income space through third party distribution. Banks are dynamically reengineering their retail strategies on four basic parameters viz., Product, Process, Technology and People, to realise their business objectives. The approaches of the banks to retail business run concurrently along with the corporate business objectives and subject to market dynamics in other business spaces of banks. Globally, at the micro level, the principal attraction for banks for retail banking stems from the fact that the revenues are stable and can offset the volatility in non retail businesses. At the macro level, the interest in retail banking fluctuates in rather predictable ways with the performance of non retail banking and financial market activities. (Timothy Clark et al, 2006).

In recent years, retail banking has become a key area of strategic importance across some of the largest U.S banks and 'Return to Retail' has become the new mantra among these banks. This was in stark contrast to the strategies adopted by them in the 1990s when banks sought to diversify revenues, de-emphasise branch networks and target financial services to a broader range of clients. The 2014 Annual Reports of major US banks reveal their renewed interest in retail banking and the exhaustive information provided in the reports show their confidence in the model and also their level of activities in different retail initiatives. Bank of America serves more than 38 million customers in the retail space and the complete range of services are provided through more than 5800 banking centres and nearly 17000 ATMs in 29 states and the District of Columbia. The bank has grown to become the nation's largest provider of checking and savings accounts, the No.1 credit and debit card provider, leading home equity lender and the fifth largest originator of consumer mortgages.

In India, total asset size of the retail banking industry grew at a rate of 120% to reach a value of $87 billion in 2014. This growth in retail banking sector has helped in the growth of the overall banking sector. In future the retail banking industry in India is likely to reach a value of $325 billion by 2014. Capgemini, ING and the European Financial Management & Marketing Association (EFMA) have studied the global Retail Banking market with the aim of providing insights to financial services community through the World Retail Banking Report(WRBR).The study conducted in 2008 covered 147 banks in 23 countries covering the geographies of Europe - eurozone (Austria, Belgium, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain),Europe-non eurozone (Czech Republic, Norway, Poland, Slovakia, Sweden, Switzerland, UK), North America and Asia Pacific (Australia, Canada, China, US). The WRBR 2014 gives an overview of the dynamics at work in this retail banking industry .The report profiles indicated what the end consumers pay in a given country for day to day banking services and also the channel strategies.

THE INDIAN SCENARIO

Retail Banking as a business model is adopted by all the banks in India on account of multiple comfort factors for the banks viz. acquisition of a huge customer base, multiple product offerings, better pricing and profitability, scope for cross selling and up selling financial and beyond financial products for increased per customer revenue and of course better risk proposition. With the changing paradigm of technology as the driver for retail banking explosion, banks are embracing different strategies by redesigning their conventional business silos, re-engineering existing products and inventing products, services, channels, relationships to increase the share of the customers' wallet. The evolution of retail banking in India can be traced back to the entry of foreign banks. The conventional banking business by Public Sector Banks (PSBs) was done on a more generalized approach and there was no specific demarcation as retail and non retail activities. Customer and Industry segmentation was adopted within the overall business plan of banks. Offering products and services based on specific consumer segments was not attempted in a focused way. Foreign banks operating in India set the trend and in the late 1970 and early 1980s and came out with their consumer banking models with hybrid liability and asset products specifically targeted at the personal segment. Standard Chartered Bank and Grindlays Bank were the pioneers in introducing these types of products. Citibank created waves in the early 1980s with their credit card products and spurred the retail banking space. State Bank of India and some public sector banks like Indian Overseas Bank, Bank of India, Bank of Baroda and Andhra Bank developed and marketed asset products and card products to cater to retail segment. In fact, Bank of Baroda and Andhra Bank were two of the early players in the credit card business in the PSB space. The entry of new generation private sector banks in early 1990s has created a new approach to retail banking by banks. With the advantage of technology right from start, these banks had a clear positioning for retail banking and aggressively strategised for creating new markets for the retail segment. In addition, the new generation private banks have posed a threat to the retail business of foreign banks that have by now well defined business models for retail banking. To add to the fuel, PSBs also with technology initiatives and redefined business model for retail have aggressively entered the market space, creating a retail war and capture their share of the pie in the liberalized economic environment and the resultant opportunities in retail banking. The retail war is in full swing now with a win - win situation for all the players and the focus is on capturing and improving the market share and customer base.

ECONOMIC AND BANKING SECTOR REFORMS

Retail banking is not an invention or innovation in itself. In India, it has been in existence right from the time banking operations started. However, not much emphasis was given to it since corporate banking was the preferred goal for the banks. Right from independence up to 1990s, big corporate houses and industries depended heavily on banks to finance their projects since a limited number of financial sources were available to them. The capital market was not well developed and a number of restrictions were in place on raising capital from the overseas markets. There was no free run for joint ventures and multinational companies. In addition, government norms earmarked priority sectors which were to be financed by the banks. Thus banks had not much option but to finance the corporate sector. The origin of retail banking in India can be traced to a number of developments which occurred on the economic front both in national and international arena. Many challenges emerged for the banks along with many opportunities. The challenges were in the form of decline in the traditional lines of business, heavy competition, changing economic preferences and declining profitability. The opportunities emerged on account of many changes taking place on the socioeconomic and also on the technological front. Thus, to face the challenges and also to cash in on the emerging opportunities, banks operating in public, private or foreign sector began to place a great deal of emphasis on retail banking.

The decade of 1990s saw the implementation of economic and financial sector reforms in a phased manner to tide over the deteriorating economic conditions of the country. The liberalization of financial sector has widened the scope of financial sources for the corporate. They can now go in for External Commercial Borrowing (ECB) from any internationally recognized banks, export credit agencies, international capital markets, suppliers of equipments etc. Corporate can raise loans from international sources up to a predetermined amount without the need of getting approval from either the government or the Reserve Bank. The Government has also liberalized the norms for joint ventures which is facilitating the way for Foreign Direct Investment (FDI) in core as well as non-core sectors of the economy. Thus, the financial dependence of corporate on public sector banks reduced considerably.

GLOBAL RETAIL BANKING SCENARIO

Retail banking across the globe has been a showcase of innovation in the commercial banking sector. Countries like China and India have emerged as potential markets with huge investment opportunities. The higher growth of retail lending in emerging economies is attributable to fast growth of personal wealth, favorable demographic profile, rapid development in information technology, the conducive macro — economic environment, financial market reforms, and several micro level supply side factors. The global retail banking strategies of banks are undergoing major transformation, as banks adopt a mix of strategies like organic growth, acquisitions and alliances. This has resulted in paradigm shift in the marketing strategies of the banks. Public Sector Banks players are adopting aggressive strategies, leveraging their branch network and their customer base to earn a larger share of the retail pie. Banks are also going in for innovative strategies like cross selling and packaged selling of retail products. At the same time, new foreign players are also entering this high growth sector. The boom in retail banking has helped in increasing the competition from upcoming sectors like mutual funds. The banking scenario in India is at the crossroads and is continuously evolving, but progress has been remarkable over the past decade. With the exponential growth of touch points and sophistication, the frontline sales force is assuming the role of a relationship personnel which is continuously under the microscopic observation of the customer. At a time when channel innovation has become the order of the day to encourage effective banking habits among customers, a vital component of the supply chain namely, customer interface is totally missing. With the advent of liberalization the banking industry had made a head start towards the best banking practices at each interaction point of the supply chain.

Banking operations are basically divided into two segments. One is the corporate banking or wholesale banking and the other retail banking. Corporate banking sees the financial needs of corporate houses, companies and other financial institutions. On the other hand, retail banking is a form of mass banking where financial needs of individuals like professionals, salaried persons, self-employed, housewives, students etc., are met. The two things which distinguish corporate banking and retail banking are the size of the customer account and the number of customers. In wholesale banking or corporate banking, the customer is not a living entity but is an association of people. The directors of the company operate the corporate account on behalf of the shareholders. The size of the account is very big and may sometimes run into billions of dollars. The services offered under corporate banking include cash management, general banking and trade finance. Banks are subjected to high risk when offering credit facility to corporate customers. Hence, where the amount of loan is very large, banks form a consortium to finance the projects.

INDIAN RETAIL BANKING SCENARIO

Retail Banking has been described as “hotter than vindaloo” considering the fact that vindaloo, the Indian English innovative curry available in umpteen numbers of restaurants of London, is indeed very hot and spicy. It seems that in today’s world of Banking, 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. The Retail Banking Report encompasses extensive study & analysis of their growing sector.

It primarily covers analysis of the present status, current trend, major issues & challenges in the growth of the retail banking sector. This study helps in Banks, Financial institutions, MNC Banks, Academicians, Consultants and researchers to have a better understanding of the booming opportunities in retail banking in India. The issue of retail banking is extremely important and topical. Across the globe, retail lending has been a spectacular innovation in the commercial banking sector in recent years. The growth of retail lending, especially, in emerging economics, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors. India too experienced a surge in retail banking. Retail loan is estimated to have accounted for nearly one — fifth of all bank credit. Housing sector is experiencing a boom in its credit. The retail loan market has decisively got transformed from a seller’s market to a buyer’s market. All these emphasize the movement that retail banking is experiencing in the Indian economy in recent years. The banking scenario in India is at the crossroad and is continuously evolving, but the progress has been remarkable over the past decade.

Retail banking has immense opportunities in a growing economy like India. India is recognized as the second most attractive retail destination. The rise of Indian middle class is an important contributory factor in this regard. The percentage of middle to high income in Indian household is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to India’s retail banking system. The combination of the above factors promises substantial growth in the retail sector, which at present is in the nascent stage. Due to building of services and delivery channels, the areas of potential conflicts of interest tend to increase in universal banks and financial conglomerates. Some of the key policy issues relevant to the retail banking sector are: financial inclusion, responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

Role of IT in Retail Banking

The growth of Information Technology (IT) and its remarkable application to banking and financial sector has greatly facilitated the growth of retail banking to a very large extent. When the banking sector reforms were introduced, the public sector banks were in advantageous position because of their wide network of physical branches in urban and rural areas. To compete with the public sector banks, private and foreign banks adopted IT as a major cost effective tool in their expansion drive. Since the success rate in retail banking is measured based on the volume of customer base, IT has made it possible for banks to reach and serve a large number of individual customers in the shortest possible time and also reduce the cost of banking transactions. According to ICICI bank officials, a physical transaction costs the bank Rs.30-50, a cheque transaction Rs.13-17, while a debit transaction costs only Rs.2-5. Therefore, riding on the technological wave, private and foreign banks tried to capture the market in a big way. Private and foreign banks who were the pioneers of applying IT in the banking sector have laid more stress on virtual banking when compared to brick and mortar structure of the public sector banks. Private and foreign banks have state-of-the-art websites which provide information to the customers (individual or corporate), about the banking products and services and also help them to avail these products through some easy steps.

Private and foreign banks are found to encourage their customers, to move over to virtual banking in a big way by offering incentives and promotional schemes. These banks discourage physical branch banking by charging extra amount. In addition to websites, they have introduced ATMs, Internet banking. Phone banking, mobile banking etc. In a big way by computerizing and networking their branches. IT has enabled the integration of ATMs, Internet, phone banking and mobile banking such that banking transactions are reflected irrespective of any convenient medium used by the customers. The development of software industry in India also helped the cause of these banks. Major Banks have tie-ups with software companies for developing the requisite software.

GROWTH OF RETAIL INDUSTRY

The income levels and employment opportunities for young people have risen in the *IT, ITES* and *BPO* fields where salaries are generally higher by about 20 to 30%. According to the officials of Standard Chartered Bank, the number of young people in the age group of 20 to 24 who join the workforce is around three million. With a large amount of disposable income and no financial commitments towards the family, they form a major chunk of customers for consumer durables and FMCG. Retail industry is the fastest growing industry in India, whose growth is attributed to ideal breeding ground in the form of huge market, rising income levels, surplus disposable income, increasing awareness due to growth of advertisement and cable television channels and the entry of multinational brands. It is estimated that the retail market is about Rs.9,00,000 cr and growing at the rate of 8.5% per annum. Based on market figures, it is estimated that the retailing industry will grow from 2 to 10% in next five years. Added to this is the fact that growth in retail industry has increased employment opportunities in this field which in turn raises the demand for retail and consumer goods. Banks and supermarket chains have been luring customers with custom made credit cards which promise fabulous discounts and free gifts. They are particularly targeting young customers like employees of BPO firms who have high amount of disposable income, who change their preferences at a rapid pace and who have very less time at their disposal. For instance, Standard Chartered Bank has designed credit cards whose size is 43% smaller than the normal cards, in order to make shopping easy, convenient and hassle-free. Major Banks like HDFC, ICICI and SBI have introduced reward points (which can be redeemed for free gifts) and cash back schemes on the amount spent through credit cards. Banks have also developed strategic relationship with retail businesses so that customers can pay their credit card dues in interest free installments. The rise in retail industry has led to the spurt in construction of shopping complexes, supermarkets, food chains and malls in almost all the major cities of India. In addition, loans can be availed on credit cards. Banks have been aggressively trying to lure customers to transfer their credit card loans to their bank on attractive terms.

GROWTH OF ATMS

The entry of private and foreign banks led to the growth of ATMs because these banks found a cost effective alternative to compete with public sector banks and also to capture larger market share without much expenditure on physical infrastructure or branches. Most of the major banks have a network of ATMs which are spread throughout the country.

In the initial period, each bank had its own network of ATMs which were used exclusively only by its account holders. But to cut costs, cover larger geographical area and for the convenience of the customers, banks have reached an agreement amongst themselves wherein customers can utilize the ATMs of other banks where they have no account. For instance, SBI and ICICI have signed a Memorandum of Understanding (MoU) wherein customers of both the banks would share the ATM networks of each other. This MoU will enable customers to access a total network of 3793 ATMs spread across 600 locations in the country. Another MoU, signed by ICICI bank with Andhra Bank enables customers of both the banks to have access to a total of 2000 ATMs. In. addition to ICICI bank and SBI, other banks have also entered into mutual agreement in this regard, wherein customers can have access to the ATMs of other banks by paying nominal fees. This scheme is known as Swadhan scheme. Under this scheme, banks have also come to an understanding on the maximum amount that account holders can withdraw from their accounts through ATMs. However, SBI and ICICI banks have kept themselves out of this scheme.

ATMs are cost effective because a transaction conducted at an ATM would cost only Rs.15 while the same transaction conducted at a branch would cost Rs.50. Banks like HDFC bank and Citibank encourage their customers to use ATMs by levying extra charges for carrying out banking transactions through physical branches.

Table-1. Shows the number of ATMs of different banks.

Name of the Bank	Number of ATMs
ICICI	1,880
SBI and its Associates	5,067
HDFC	1,054
Andhra	330
Syndicate	660
Dena	147
UTI	101
IDBI	1,250
HSBC	297

Source: Reserve Bank of India – Report on Trends & Progress in Banking in India

Mobile Banking

Mobile phones have become one of the convenient means of carrying out banking transactions all over the world. In India, the penetration of mobile phones is less when compared to other countries of the world but the market for mobile phones is growing at an impressive rate due to fall in cost of handsets and also tariffs. There are 47 million mobile users in India with nearly two million being added every month. However, the use of mobile phones for banking transactions is very less due to low levels of awareness, inadequate information and some of the complex processes that users find difficult to understand. Customer education and awareness campaigns would go a long way in making mobile phones an effective medium of carrying out banking transactions. The spread of computer virus is not limited to computer systems and Internet but is also affecting mobile phones. The privacy and security risks also haunt potential users of mobile phones. These concerns should be addressed by both the banks and mobile phone companies.

The potential of mobile phones for banking transactions is very high since in future they are likely to replace credit and debit cards. Software development companies are applying their expertise in developing software for mobile payment. Tata Consultancy Services (TCS) Ltd., has entered into strategic alliance with C-Sam Inc. for developing wireless payment platform. Banks have entered into strategic tie-ups with mobile companies so as to offer the services of mobile banking. ICICI bank has a tie-up with Reliance India mobile so that customers can avail banking services free of cost with the help of Reliance handsets.

Table-2: Retail Deposit of Banks in India (Rs. bn)

Bank's Name	Amount	Growth Rate
PNB	224.00	17.0
SBJ	1112.40	19.4
ICICI	998.00	29.0
HDFC IDBI	380.00	22.1
	70.00	11.2

Source: Reserve Bank of India – Report on Trends & Progress in Banking in India

Housing Loan

The market for home loans is on upward swing with every bank ready to grab a pie of the market share.. In fact, housing loans occupy a very prominent place and these loans account for more than 50% to 60% of the total retail credit of almost all the banks. This is because these loans are comparatively safer, supported by mortgage of property finance, and default rate on an average is less than one percent annually. Furthermore, attractive marketing and advertising strategies being adopted by the banks such as free insurance cover, free credit cards etc., enable to attract more and more customers especially young people (study conducted by ICICI and HDFC) towards the housing loan.

Table 3 : Size of Housing Loan of Various Banks in India (Rs. in bn)

Bank's Name	**Housing Loan Disbursed**	**Size of Total Housing Loan**	**% of Total Retail Loan Portfolio**
SBI	19.00	47,00	20.02
PNB	10.02	21.09	13.19
ICICI	79.06	223.81	55.22
HDFC	143.45	314.22	57.98
All India	295.06	750.49	45.22

Source: www.bis.org.reviewcorn, www.pubindia.com

However, the ratio of outstanding home loan, as a percentage of GDP in India is low as compared to other nations especially the developed nations, where it ranges from 25% to 60% as presented in the Table 3. This is because, the retail banking in India has not reached its full potential. However, there is much scope for its progress and growth, since India has a population of over one billion.

II. CONCLUSION

The future looks exotic for retail banking in India and the retail banking business silos will undergo a metamorphic transformation. The emerging customer scenario and technology scenario provides opportunities for all players in the banking and financial space. Some of the influencing elements in retail banking revenues will be third party distribution and wealth management and private banking solutions for the burgeoning mass affluent. Retailing in retail banking will be an emerging area where banks will be extending not only beyond banking solutions to cover the total financial planning of customers but also beyond banking solutions to cover the life style planning of the customers. Integrating banks' data bases with third party financial providers will become the order of the day in the changed scenario and outsourcing will be a natural sales and process model in the changing human resources paradigms in PSBs. Remote channels will rule the transaction banking process and branch format will be mainly used for relationship and advisory banking.

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