

Retail Banking

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Abstract- Retail banking is when a bank executes transactions directly with consumers, rather than corporations or other banks. Services offered include savings and transactional accounts, mortgages, personal loans, debit cards, and cards. Today, retail banking is being considered as one of the most innovative financial services provided by the various commercial Public Sector Banks (PSBs), private sector and foreign banks. Retail banking has a huge potential considering the growing demand for its products namely, term deposits, consumer durable loans, auto loans, debit card, credit cards, ATM facilities, insurance, online banking, etc. The growing sector of retail lending has contributed significantly to the development of the economy. Like other developed countries, India too, has a developed retail banking sector which accounts for one-fifth of all banks credit.

services, including offering savings and checking accounts, bill paying services, as well as debit and credit cards. Through retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses. Today much of retail banking is streamlined electronically via Automated Teller Machines (ATMs), or through virtual retail banking known as online banking.

Retail Banking deals with lending money to consumers. This includes a wide variety of loans, including credit cards, mortgage loans and auto loans, and can also be used to refer to loans taken out at either the prime rate or the sub prime rate.

I. INTRODUCTION

Retail banking, also known as consumer banking, is the provision of services .by a bank to the general public, rather than to companies, corporations or other banks, which are often described as wholesale banking. Banking services which are regarded as retail include provision of savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards. Retail banking is also distinguished from investment banking or commercial banking. It may also refer to a division or department of a bank which deals with individual customers. In the U.S., the term commercial bank is used for a normal bank to distinguish it from an investment bank. After the Great Depression, the Glass–Steagall Act restricted normal banks to banking activities, and investment banks were limited to engaging capital market activities. That distinction was repealed in the 1990s. Commercial bank can also refer to a bank or a division of a bank that deals mostly with deposits and loans from corporations or large businesses, as opposed to individual members of the public (retail banking).

What is retail banking?

What is Retail Banking: "Retail Banking is a banking service that is geared primarily toward individual consumers. Retail banking is usually made available by commercial banks, as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking entities provide a wide range of personal banking

Features of Retail Banking :

- Retail Banking is a banking service that is geared primarily toward individual consumers.
- .Retail banking is usually made available by commercial banks, as well as smaller community banks.
- Retail banking focuses strictly on consumer markets.
- .Retail banking is, generally mass-market driven but many retail banking products may also extend to small and medium sized businesses.
- It is focused towards mass market segment covering a large population of individuals.
- It offers different liability, asset and a plethora of service products to the individual customers.
- The delivery model of retail banking is both physical and virtual i.e. services are extended through branches and also through technology driven electronic off site delivery channels like ATM's, Internet Banking and Mobile Banking. 8.It may be extended to small and medium size businesses.

Retail Banking in India :

- The evolution of retail banking in India can be traced back to the entry of foreign banks.
- In Public Sector Banks (PSBs) there was no specific demarcation as retail and non retail activities. Customer and Industry segmentation was adopted within the overall business plan of banks.

- Foreign banks operating in India came out with their consumer banking models with hybrid liability and asset products specifically targeted at the personal segment in the late 1970 and early 1980s.
- Standard Chartered Bank and Grindlays Bank were the pioneers in introducing retail banking products.
- 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.
- Bank of Baroda and Andhra Bank were two early players in the credit card business among public sector banks.
- The entry of new generation private sector banks in early 1990s 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.
- PSBs also redefined business model for retail had aggressively entered the retail market space thereafter.
- Presently, the retail segment has become an important component in the business design of the banks in India and almost all players in the foreign, public and private (old and new) space are in this.

Reasons for emergence of retail banking business in India:

- Strong economic fundamentals.
- Growing urban population.
- Higher disposable incomes.
- Rise in young population.
- Emergence of new customer segments.
- Rise in the mass affluent space.
- Explosion of service economy in addition to manufacturing space.
- Opportunities across geographies and customer segments .
- Huge untapped potential for retail banking in India whereas till recently retail banking was confined only to the top and higher middle end of the customer segment.
- Non Banking Finance Companies (NBFCs) have also aggressively entered in this 'Bottom of the Pyramid' segment and posing a big threat to the conventional banking players.

Retail Banking as a Business Model :

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 2006 covered 142 banks in 20 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). Its findings are related to (i) Pricing of Banking Services and (ii) Delivery Channels.

Findings on Pricing of Banking Services :

Findings on Pricing of Banking Services The average price of banking services increased by over 3%. However this trend had marked differences between zones, especially between North America, where prices went down and the euro zone where they rose. Price were converging slowly in the euro zone even as price differences between countries including neighbours remained high. This trend will continue as a result of central initiatives such as the Single.

Price were converging slowly in the euro zone even as price differences between countries including neighbours remained high. This trend will continue as a result of central initiatives such as the Single Euro Payments Area (SEPA). The SEPA initiative aims to create a domestic payments market across the euro zone by 2010 and will result in competition, price transparency and homogeneity and will affect the revenue structure of the banks.

The pricing indices were developed based on three usage patterns viz., less active, active and very active users. Usage pattern for particular products vary significantly between countries, leading to major differences between global and local prices. The average price of basic banking services based on the local active customer profile was 76 Euros in 2005.

In a given region, prices varied according to usage pattern, with a ratio of up to one to 4.6 between prices paid by very active and less active users. Although similar prices observed within a given region, they were the result of very different pricing models. Fierce competition (US) and evolving retail banking markets (Eastern Europe, China) have prompted changing price structures.

Technology Models in Retail Banking :

- Technology is the backbone of the process and delivery efficiencies of banks. Technology and Retail Banking are inseparables. Technology is the foundation on which the retail banking edifice is built across the globe.

Technology is the enabler for building and translating a customer data base into retail banking business.

- The technology models basically adopted by banks are In House Models, Outsourced Models, Partially In House and Partially Outsourced Models.
- Most of the PSBs have primarily in house models with partial outsourcing also. Total in house development and implementation by the in house team is practiced by some banks whereas in some other banks, the development is done by some vendor and implementation is taken care of by the bank. In case of total, in house development, the cost factor will be favourable.
- Almost all old private banks follow outsourced model for technology basically because of the scale to migrate to Core Banking Model.
- In case of new private banks, the model is predominantly outsourced with partial in house model. In foreign banks, outsourced model is mostly adopted.
- The levels of technology implementation in PSBs started from stand alone Automated Ledger Posting Machines (ALPMs) and then moved to total branch automation and regional net worked hubs.
- New private banks started with technology advantage of a single server environment which gave them the edge over other banks.

Advantages of Retail Banking :

- Client base will be large and therefore risk is spread over large customer base.
- Customer Loyalty is strong and customers generally do not change from one bank to another.
- There are attractive interest spreads, since customers are too fragmented to bargain effectively.
- Credit risk tends to be well diversified; as loan amounts are relatively small.
- There is less volatility in demand compared to large corporates.
- Large numbers of clients can facilitate marketing, mass selling and the ability to categorise/select clients using scoring systems/data

Disadvantages of Retail Banking :

- Designing own and new financial products is very costly and time consuming for the bank.
- Customers now-a-days prefer net banking to branch banking. The banks that are slow in introducing technology-based products, are finding it difficult to retain the customers who wish to opt for net banking.

- Customers are attracted towards other financial products like mutual funds etc.
- Though banks are investing heavily in technology, they are not able to exploit the same to the full extent.
- A major disadvantage is monitoring and follow up of huge volume of loan accounts inducing banks to spend heavily in human resource department
- Long term loans like housing loan due to its long repayment term in the absence of proper follow-up, can become NPAs.

II. CONCLUSION

- Retail banking has a great scope in India due to increase in consumerism, purchasing power of customers
- banking, phone banking, Mobile banking. ATM, have become necessity, and are no more factor of differentiation in urban and semi urban cities.
- Bankers can adopt strategies used by retail stores to very large extent to woo the customers and survive in competition.
- The prospect for retail financing is very huge.
- Studies have shown that in difficult situation, the retail banking is the last segment of banking that will be effected .
- The purpose of retail financing is basically to meet the needs of clients, The first and foremost, all the products must comply with the Shariah and this poses another challenges as the determination of Shariah compliance is also different in certain products.
- So, offering products that are acceptable globally should be one of the priority in product structuring and enhancement