RETAIL BANKING CHALLENGES AND LATEST TRENDS IN INDIA

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ABSTRACT: Retail is the major point of contact between the general public and the banking industry. Retail banking is the provision of banking products and services to individual consumers, usually for personal rather than business reasons. Offering a variety of products on both the liability and asset sides of the balance sheet is a big aspect of retail banking. Offering fixed, current, and savings accounts as liabilities and mortgages and various types of loans (such as personal, home, vehicle, and educational loans) as assets is one example. Retail banking involves the selling of credit cards, depository services, and other non-banking products and services such as capital market products and insurance. Retail banking services are relatively comparable to those provided during the middle stage of banking growth. While retail banking offers great opportunities for growth and success, it also poses several hurdles. Due to strict regulatory requirements to protect consumer interests, the challenges provided by a faltering global economy, and rising client expectations, banks are pushed to innovate in order to develop. This article focuses mostly on the difficulties and current trends in retail banking in India.
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1. INTRODUCTION

Retail Banking

The supply of banking products and services to individual consumers, often for personal rather than business objectives, is referred to as retail banking. Banking has always relied on retail deposits as a source of cash on the liability side. When it comes to retail banking, our focus is on the asset side, specifically lending to the retail sector. Retail banking entails providing a variety of financial products, such as fixed, current, and savings accounts as liabilities and mortgages and loans (such as personal, house, auto, and educational loans) as assets. Retail banking includes the sale of credit cards, depository services, and other non-banking products and services such as capital market products and insurance. Retail banking services are very similar to those offered during the middle stage of banking growth. It is critical to recognize that the economies of most developing countries have matured to the point that they can now seek goods and services that were previously only available in more sophisticated economies. As a result, retail banking, which includes all goods and services related to the consumer and speculative parts of the economy, has grown in importance in these areas.

Retail banking is the primary point of contact between the general population and the banking business. These services are typically provided through ATMs as well as physical brick-and-mortar companies. The retail banking distribution channel includes telephone services, physical branches, and ATMs, as well as the increasingly growing internet channel. Many western retail banks do not have physical locations and rather function through online platforms. Nonetheless, there are usually just a few banks that specialize in catering to retail customers, and retail banking operations are frequently allocated to different divisions inside banks.

Typically, retail banking services are aimed at the general public, and they grow over time to a level known as "class retail banking." The term mass retail banking' refers to the point at which a bank provides standardized banking goods and services to its consumers. During this phase, banks work hard to build a large customer base that can serve as a reliable source of funding. In contrast, "class retail banking" refers to the stage at which the bank provides specialized goods and services geared to a certain customer segment, particularly high net worth individuals. Private banking, sometimes known as retail banking, serves a narrow market sector.

Banking services given to small borrowers and SME clients are sometimes included in the scope of mass retail banking. In the future, retail banking may evolve into specialized banking services that serve to specific groups of people, such as agricultural entrepreneurs or small and medium-sized organizations (SMEs). This is especially true given that certain aspects of retail banking, such as the provision of services (including numerous low-value transactions) and the use of risk management approaches (such as score models and model-based capital evaluation), are equally applicable to sole proprietorship microbusinesses.

Characteristics of Retail (Mass) Banking

Retail banking is designed to deliver consistent products and services. Simply said, these are standardized things that cannot be changed for particular customers. Let us compare them to things sold in a branded retail setting for the sake of comparison. In stores, you are charged for the products you see and the information on the price tag. The goods and services provided are consistent, accessible, and free of bias. Given this, it is critical that retail banks' products share some qualities. Retail banking services are available through a variety of channels and locations, including branches, the internet, ATMs, and phone calls. Banks must strive to provide these services as efficiently as possible. Given that retail banking entails interacting with a group of people, banks must build proper systems, structures, staff, and processes to effectively manage the group, including the characteristics, behaviors, and interactions of its members.

Growing interest in Retail Banking

Understanding the growing interest of banks in retail banking requires first understanding the evolution of banking. Throughout its history, banking in developed markets has gone through three important stages of evolution. These three stages roughly correspond to the stages of actual economic advancement under various legal regimes.

Initial phase:

Banks were largely engaged in the critical service of intermediation during the period, which comprised allowing access to savings accounts and loans for productive reasons. They also provided payment services such as remittances.

Intermediate phase:

In addition to the services provided during the early time, the banks expanded their activities by entering the consumer lending market. Furthermore, banks began to offer parabanking services such as insurance and other associated services. The demand for these services is mostly driven by the economy's transition from an investment-driven to a consumption-driven phase of expansion. Retail banking is critical at this point in economic and societal development.

Advanced phase:

In addition to their current intermediate services, banks have expanded their offerings to include high-end savings and investment products, wealth management services, and structured solutions for individuals and businesses. In other words, the financial system today not only funds production and consumption, but also speculative activities. Private banking, which caters to distinct "classes," is becoming increasingly important as a more polished type of retail banking at this point.

Several prominent variables can explain the increased interest in retail banking in emerging markets. This indicates the economy's shift towards the intermediate stage. During the early stages of banking's development, regulators were primarily concerned with ensuring the smooth flow of bank credit to the productive sectors of the economy. Nonetheless, as demand for loans in the infrastructure and basic industrial sectors has declined, regulators have been more lax in providing banks the right to lend for consumer purposes. The second element that has strengthened banks' goals for retail banking is the greater accessibility of advanced technologies. As retail banking necessitates large-scale production methods, technological improvements have enabled banks to establish efficient technology-driven delivery channels. Since the global financial crisis, regulators and policymakers have worked to promote inclusive growth, which has impacted retail banking.

Banks are viewed as critical by governments around the world for increasing financial inclusion. There has been a drive in India to pursue a bank-led approach to increase financial inclusion. This plan prioritizes retail mass banking as a first step toward achieving widespread financial inclusion. Banks' quest of additional income streams and profit-generating opportunities is a major factor driving the increased interest in retail banking. The excluded masses are increasingly recognized by banks as a potential source of long-term profit as they gradually realize that trading for the poor is more viable than dealing for the rich wherever in the world. Commercial banks cannot afford to disregard the claim that "Retail Banking is the Future of Banking."

2. ANALYSIS OF RETAIL BANKING

STRENGTHS

Diversified Asset Portfolio:

Retail banking provides access to a wide range of financial goods and services. These include deposit products, mortgage loans, home loans, loans backed by equity shares, vehicle loans, automobile loans, bill payment services, credit cards, debit cards, and other financial goods. Banks benefit from diversifying their asset portfolios since they generate higher profits and have lower levels of non-performing assets (NPAs).

Upcoming as a new growth driver:

Commercial loan proliferation and profitability have declined in recent years as a result of strong competition. Furthermore, as a result of deregulation and higher interest rates for consumer lending, the retail industry has obtained a greater risk-adjusted return than commercial loans.

CRM tools:

Banks can increase client acceptance of their banking products and achieve customer pleasure by embracing customer care and assuring excellent quality, resulting in financial prosperity.

Innovative product development:

The financial services industry offers limitless opportunities for growth and innovation. Banks should communicate directly with their customers in order to understand their financial needs and challenges. This will allow them to modify their plans for product and service development, marketing, and ultimately sales in order to satisfy their customers.

Increase in Income:

People's lifestyles have been dramatically altered as a result of urbanization and rising per capita wealth. Individuals' demands and expectations have grown. As a result, the importance of retail banking has grown. Retail banking helps the maintenance of changing consumer lifestyles by making credit available to its clients through a variety of products and services such as personal loans, student loans, and house loans.

Economies of Scale:

Banks can benefit from the collecting and processing of data and financial transactions via retail banking. Banks now have better access to information as a result of expanding offerings. It is critical to diligently keep this client data because it will aid in identifying new market niches and promoting their current services.

WEAKNESSES

Reduces the profitability:

Retail banking necessitates a huge capital investment due to the wide range of products and services available, as well as the necessity for a large staff and cutting-edge technology. This reduces the overall profitability of the banks.

Avoids Corporate Sector:

Retail banking generally avoids the corporate sector, which is the backbone of the Indian economy. Banks should efficiently manage their corporate clients by increasing loan amounts, lowering credit standards, and other similar methods. Because of their well-defined financial objectives and projects, managing corporate clients is simple.

Changes in Technology:

Banks' expansion may be hampered if they are unable to keep up with modern technology. Furthermore, the technology necessitates a significant financial commitment, and if it fails, the bank's reputation and a chunk of its clients may suffer.

Marketing:

Retail banking institutions must implement strong internal and external marketing strategies. Effective retail banking management necessitates staff who can competently present things to customers. If this is not the case, even an incredibly good product may fail. The team must have a thorough understanding of the products they are promoting. Furthermore, the bank must devote large resources to promote its products to a broader population. These considerations raise the costs and time restrictions for banks in launching the product.

OPPORTUNITIES

Increase in per capita income:

Per capita income has increased steadily in recent years and is expected to continue rising. Furthermore, when compared to prior generations, the younger generation is more comfortable accruing personal debt. Their purchasing power has increased as a result of economic growth and increased employment. Furthermore, because the government was created by a majority rather than a previous government coalition, India's GDP is predicted to expand significantly.

Innovation in products and services:

This sector has numerous chances for innovation as banks strive to deliver an increasing variety of products and services to suit consumer needs. Financial institutions must be able to continually adapt their products and services in order to suit consumers' ever-changing wants and prosper in this fiercely competitive environment.

Growing economy:

An growing economy like India offers numerous chances for retail banking. A.T. Kearney, a worldwide management consulting firm, has called India the "second most attractive retail destination" among the 30 rising nations.

THREATS

Large pay-outs of loans:

Due to increased competition, banks are now giving a large range of client loans, including auto loans, mortgages, credit cards, student loans, and other types, with simple terms and low inspection. As a result, the frequency of instances where borrowers fail to repay their loans has increased. As a result, the bank's nonperforming assets (NPA) and bad debts have increased. This had a critical role in the global economic downturn.

Customer privacy issues:

Customers are concerned about unsolicited calls from bank customer care representatives to their workplaces advising them about new products and services. This can be inconvenient for busy customers. Furthermore, banks must ensure that no third-party entities, such as market research firms or other advertising agencies, get any personal information about their clients.

Information Technology:

A slew of fraudulent operations have evolved in tandem with the evolution of information technology, and they are now carried out through electronic means. Cybercrime includes these deceptive behaviors in its definition. Banks have consistently been targeted by dishonest people. These individuals have repeatedly engaged in the illegal acquisition of client credit card numbers, passwords, and other personal information.

Advantages and Disadvantages of Retail Banking

Resource side

- Retail banking deposits, excluding current and savings accounts, tend to be stable. These deposits make up the majority of the area.
- Promotes the expansion of the banks' subsidiary firms.
- Interest rate adjustments have no effect on current and savings accounts.
- In the industry, these funds are inexpensive.
- Aids in the development of a strong clientele.

Assets side

- In retail banking, major marketing activities are not required due to high demand for banking products and services.
- Consumer loans are widely thought to have a lower perceived non-performing asset (NPA) rate and to be less risky overall.
- It contributes to the revitalization of the country's economy by investing in initiatives that boost productivity.
- This banking industry enhances people's lives and helps them achieve their goals by making loans available to them.
- A large customer base results in a diverse portfolio, which decreases risk for the bank.

Disadvantages

- Developing new financial products needs a significant financial commitment. It takes a large amount of time and financial resources for the bank.
- Customers now prefer online banking to branch banking. Clients will leave banks if their technology infrastructure is inadequate. Customers who want to use internet banking will have to switch to a different bank.
- Clients are drawn to additional financial products such as mutual funds.
- Banks are unable to fully realize the potential of technology.
- Financial institutions are investing large financial resources to their human resources department in order to manage and track multiple loan accounts meticulously.
- Long-term loans, such as mortgages, can become non-performing assets (NPAs) if adequate follow-up is not provided to ensure prompt repayment.
- Individual consumer borrowing volume in retail banking is much lower than in wholesale banking. As a result, the bank is unable to generate significant revenue from a single client.

3. RETAIL BANKING SUCCESS PRE-REQUISITES

The availability of a very efficient delivery system is an absolute prerequisite for retail banking's triumph. Client loyalty to their bank is mostly determined by the quality of services provided, the fairness and affordability of pricing, and the promptness with which they are served. While banks' basic product and service offerings may not differ considerably, it is critical that they improve the client experience by making services available at all times and in all locations. Furthermore, banks can reduce their service delivery expenses only if they improve their operational efficiency. Simply put, banks should be able to use technology to provide clients with secure, timely, and cost-effective goods and services.

The Reserve Bank of India has examined numerous operational efficiency metrics for the global banking system. It is clear that, notwithstanding differences between banks within each jurisdiction, practically every jurisdiction must significantly increase operational efficiency in order to compete with their counterparts in industrialized countries. The potential for gains is substantial, but the potential for losses is minimal, which benefits our banks.

The appropriateness of the products and services for the consumers is the second important condition for retail banking success. In order to recruit new customers while retaining existing ones, banks must devote significant resources to data analytics and determine the best goods and services for certain client segments. Banks must fulfill the desires and needs of their customers. A migratory worker in an urban region and a rural worker may have the same amount of money in their bank accounts. Banks, however, would be forced to supply separate financial products to these two customer groups due to their distinct needs. Finally, banks must encourage the practice of actively listening to their customers and generating analytical insights based on this engagement, rather than focusing the customers' monetary worth.

The following list of fundamental requirements is concerned with price. In India, commodity and service pricing takes into account the entire retail customer base, including both responsibility and asset value. Indeed, there is solid evidence that retail clients within the same bank receive different interest rates for deposits of the same period. Similarly, I've witnessed substantial changes in the lending rate for a specific bank's auto loans. I'm perplexed by the pricing disparity for different users of a secured loan, such as a vehicle loan, which is a standardized lending product. In such cases, banks should pre-determine whether or not to issue a loan to the consumer, and once that decision is made, I don't see any good reason to differentiate the loan's interest rate. These difficulties are more prevalent in developing economies than in developed economies. This is due to a lack of not only financial education and literacy, but also a severe lack of financial consumer participation. I don't see why banks would prioritize earning on their knowledge asymmetry above implementing a clear pricing strategy for their products.

Banks should use scoring models to analyze client creditworthiness in order to improve clarity and effectiveness in lending assessments undertaken in the retail banking business. A credit scoring model is a statistical technique that analyzes many financial indicators to forecast applicants' future behavior based on the results of past applications. Other than a few international institutions and modern private banks, it appears that none of the other banks, notably those in India, use them. Conversations with bankers reveal a slew of worries about the scoring algorithms, which frequently cause confusion with grading models. Banks' use of credit scoring will enhance standardization, transparency, and equity in the retail lending process.

It is critical to quickly develop a strong consumer protection framework in order for the retail banking sector to prosper in new countries. It is commonly known that authorities and supervisors around the world are becoming less tolerant of market participants' unethical commercial practices. Banks have been fined heavily by regulators, primarily for failing to protect consumers' rights and engaging in unfair business practices. There is a rising opinion that bank supervisors and regulators have failed to adequately protect consumers by failing to restrict these unethical practices. As a result, numerous organizations have been formed to safeguard financial consumers and ensure fair market activity.

4. CHALLENGES

Consumer Protection and Pricing:

Fees are assessed when the required minimum balance is not maintained, when a check bounces, and even when no service is rendered, such as when a customer does not conduct any transactions. The consumer will be penalized just once for failing to maintain the required minimum balance, which is reasonable. What, however, were the causes of this recurrence on the second, third, and fourth occasions? As a result, his balance eventually becomes negative. Why not warn the customer, close their account after the first event, or convert it to a regular savings account? Indeed, banks' pricing of products and services has an additional unsettling element, namely, the less affluent subsidizing the more affluent. Banks have occasionally communicated deposit rates to customers and disclosed borrowing charges for lending products to customers. What is the cause of the lack of yearly equivalent rates and annual percentage rates for banks to use in marketing their deposit and credit products? Pricing must comply to the principles of non-discrimination, risk-based assessment, competition, and value addition in order for the retail banking model to be effective.

The Reserve Bank of India (RBI) has received several complaints, some frivolous, about the fraudulent marketing of items to naïve customers. In order for retail banking to prosper, this shortcoming must be addressed as soon as possible. Otherwise, they would not be as tolerant of applying penalties and rules as they were in the past.

Inadequacy of MIS:

Precise, dependable, and all-encompassing data about a company's numerous elements is critical to its success. Indian banks' information systems are primitive, encouraging subjective rather than data-driven decision-making. Even basic information, such as the number of customers and commodities held by banks, is lacking. The information on divisional revenues and profitability is ambiguous. In these conditions, banks would face substantial difficulties in creating risk-based pricing. As a result, in order to properly integrate retail banking, banks must have a well-suited Management Information System (MIS).

Understanding and Tackling KYC/AML issues:

Banks in developed countries have been fined heavily by authorities for failing to perform proper customer due diligence. In India, the Reserve Bank of India (RBI) had to penalize several banks for failing to conduct adequate due diligence on their clients. Understanding and valuing KYC laws is critical, regardless of whether they apply to balance-sheet assets or liabilities. Banks must also consider KYC due diligence when offering third-party products on their premises or through their distribution networks.

Managing Risk:

When managing a big customer base across many delivery channels during retail banking operations, banks face major systemic vulnerabilities. These vulnerabilities can emerge as insufficient internal policies or employee noncompliance, insufficient technical systems given by vendors, dishonest business tactics used by consumers, or cyberattacks by hackers, among other things. Despite the fact that banks have put in place enough protections to handle operational risk scenarios linked with traditional distribution channels, the introduction of non-traditional delivery channels is projected to put pressure on banks in the future. The increasing rise of technology-related fraudulent activity in Indian banks provides clear evidence of this problem. Although these fraudulent behaviors may not have large financial consequences, they are extremely important on an individual level. Aside from other business risks such as market risk, liquidity risk, and interest rate risk, banks must also assess and manage risks associated with mis-selling and other related issues. Even tiny fraudulent schemes have the potential to harm banks' reputations and result in unjustified legal penalties if not dealt with swiftly. As a result, banks must improve their risk management systems in order to address these weaknesses.

Countering the effects of disruptive new technology:

The emergence of alternative delivery channels, such as ATMs, internet banking, and telephone banking, has had the greatest impact on the retail banking business. The quick adoption of digital technologies by clients in economically deprived countries is astonishing. As a result, traditional distribution channels for banking services have seen a major reduction in utilization. Demographic trends will result in a greater number of "technology acceptors" than "technology deniers" in the near future. As a result, banks should take advantage of this little window of opportunity to appropriately prepare themselves for the disruptions created by this alternative distribution channel. Furthermore, because the internet is always available, banks would need to invest heavily in infrastructure to ensure that their services are available 24 hours a day, seven days a week. The expansion of technology-assisted delivery techniques has resulted in a significant increase in the danger of fraudulent transactions, such as impersonation and identity theft. Furthermore, banks must quickly implement long-term technical steps to resist fraudsters' efforts and limit client complaints. Banks must ensure that their clients remain satisfied and loyal as the use of new distribution channels grows more common.

The RBI has made concerted efforts over the last 6-7 years to increase banking penetration and engage the adult population in the formal financial system. Nonetheless, more than half of the desired target population is underutilized. Because of the lack of government financial resources, the cost of other sources of funding for the general people is exorbitant. Because there are no regulatory or governmental restrictions on loan pricing, banks are free to charge a reasonable fee to their customers. These indicators show that India's retail banks have a lot of room to grow in the future. Banks have an additional two years to integrate their accounting systems with IFRS (International Financial Reporting System) due to a government legislation.

Individuals living in remote areas with low reading abilities and knowledge of basic financial services, such as the operation of automated teller machines (ATMs), receive insufficient education or training.

5. RECOMMENDATIONS

Retail banks' primary commodities and facilities are rarely distinguishable from one another. It is vital to highlight, however, that the packaging and branding of goods and services will be the primary means of distinguishing banks from one another. Banks would need to make significant investments in innovation, research, and product development to keep their product and service offerings current and aligned with changing client needs. To do so, they would need to rigorously evaluate the massive volumes of client data generated on a regular basis during transactions and use proper analytics to build goods that accurately represent evolving consumer preferences. In certain cases, banks may consider establishing a special section of their website to accommodate customer feedback or needs.

Banks must always try to improve their productivity and efficiency in order to preserve their return on equity (RoE) while competition reduces earnings and spreads. Technology would be critical in facilitating this advancement. Despite the fact that technology has been available and used in the banking sector for over a decade, the Reserve Bank of India (RBI) claims that its potential has not been completely realized. Technology has the potential to improve all aspect of banking operations, including planning, strategy, management information systems (MIS), processing, delivery, monitoring, and follow-up. It is usually assumed that banks who can effectively build a technology-driven, efficient means of delivering their products and services would eventually succeed.

The requirement to create consistent products and services in order to advance retail banking operations. The introduction of retail lending has caused a recent upheaval in the commercial banking industry worldwide. Retail lending growth, particularly in emerging markets, can be ascribed to a number of factors, including the rapid advancement of information technology, the changing macroeconomic climate, financial sector reform, and various micro-level supply and demand factors. Using scoring algorithms in retail lending would reduce the subjective component and speed up the decision-making process. Mass retail banks in the modern period must chart a clear path from class banking to entrepreneurial banking. Another important criterion that will set banks apart is the quality of their services. Ultimately, improving customer service would be the key to increasing bank revenue.

6. CONCLUSION

Retail banking was a refuge from the Financial Tsunami, which continues today. Retail bank deposits provide steady and consistent funding for most banks. Banks must innovate and experiment in retail banking to survive in this atmosphere. Building a strong customer-bank relationship requires understanding client preferences. As their clientele has increased, banks have lost sight of their consumers' needs. Banks today need an omni-channel presence to serve customers. Alternative distribution mechanisms have increased. As they cannot force customers to utilize a certain channel, banks struggle to create channel-agnostic products and services.

Retail banking has great potential but also many limitations. Due to strong consumer protection regulations, a faltering global economy, and increased customer expectations, banks must innovate to grow. How well future mass retail banking meets its socioeconomic goals depends on banks' willingness to innovate and adapt their operations and structures. Banks must prioritize client interests to avoid large regulatory fines. Some wealthy nations have demanded ethical pricing since the crisis. Social media, especially Facebook and Twitter, can change nonconforming businesses' behavior through unfavorable publicity, therefore banks must acknowledge its importance. To thrive and benefit society, retail banks must use cutting-edge technology to create innovative and unique offerings. They must also increase production and efficiency, establish fair, transparent, and unbiased pricing practices, and show a strong commitment to customer fairness.

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