

EMERGING TRENDS IN RETAIL BANKING IN INDIA

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Abstract: *The banking system is central to India's economy. Banks are contributing significantly in the growth and development of economy. However, banking sector in India is currently passing through an exciting and challenging phase. Though, India Banking System registered tremendous growth and reforms were introduced to improve the performance and efficiency in banking system. The reform measures have brought about sweeping changes in banking sector. The economic reforms have also generated new and powerful customers and new mix up players – public, private and foreign banks. The expectations of consumers are also growing in the competitive and changing business environment. The changing business environment has created big opportunity for Indian Banking System as demographic shifts in terms of income levels and cultural shifts in terms of life style aspirations are changing the profile of the Indian consumers. The retail banking has emerged in a big way and thus, the scope of electronic banking services has widened. In the context of changing business environment, Indian banking sector has to cop up with the changes and improve the efficiency and performance to satisfy the growing expectations of consumers and market demands. Present paper examines the growth trends in retail banking in India.*

INTRODUCTION

Retail banking in India is not a new phenomenon. It has always been prevalent in India in various forms ever since banking was first established here. Cooperative banks that have been in existence in India for over a century have always had retail thrust. It is only since the mid-nineties that the term “retail banking” has been used as a means of reinforcing a conscious foray into this particular line of business. For the last few years it has become synonymous with mainstream banking for many banks. The typical products offered in the Indian retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. These loans are marketed under attractive brand names to differentiate the products offered by different banks. The retail loan portfolio of Indian private sector banks has been growing speedily in the recent past. The entry of new generation banks and foreign banks with innovative technology and technology-driven products has changed the entire scenario. The retail sector which remained unobserved earlier is now the most important area of concern for banks. Banks are offering so many products to the customers and they can choose the one which suits them. As the competition is growing in retail banking, maintaining service quality in banks is becoming essential. The Indian retail banking is expected to grow tremendously because of the changing attitude of customers toward borrowings, low cost of borrowings and optimism regarding economic growth.

Retail banking is a system wherein a bank executes transactions directly with the customers. There are various services in retail banking such as savings account, *vehicle*

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finance, mortgages, credit cards, debit cards etc. 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. Retail banking is an effective tool not only to improve the bottom lines of the banks but it is also helpful in contributing to the development of the individual consumers and to the overall development of the society. With the changing paradigm of technology as the driver for retail banking explosion, banks are using different strategies like - redesigning their conventional business methods, re-engineering existing products and inventing products and services, channels of distribution. The objective of retail banking is to provide customers a full range of financial products and banking services.

The origin of retail banking can be traced back to the entry of foreign banks. The conventional banking business by Public Sector Banks (PSBs) was done without any specific demarcation for retail and non retail activities. Foreign banks operating in India set the trend and in the late 1970 and early 1980s and came out with their consumer banking models. Standard Chartered Bank and Grindlays Bank were the pioneers. Citibank created waves in the early 1980s with their credit card 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. The entry of 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 strategized for creating new markets for the retail segment. India's banking system has seen some major financial innovations in the past decade as well as steps to promote financial inclusion, schemes that aim to take banking services to yet-to-be-banked areas. The various innovations in banking and financial sector are ECS, RTGS, NEFT, ATM, Retail Banking, Debit & Credit Cards, implementation of standing instructions of customers, payments of utility bills, fund transfers, internet banking, mobile banking, selling insurance products, traveler's cheques and many more value added service.

The growth in banking technology and automation of the banking process facilitated retail banking. The rapid growth and spread of retail banking is due to the technological development. The nature of products offered in retail banking is also expanded. In a growing economy like India retail banking has vast opportunities and challenges. The basic reasons for which Indian banks have diversified into retail banking are the following. The retail banking products are customer oriented. Transactions with small value may be cost ineffective in a highly competitive environment. But retail banking eliminates market risk.. In India the demand for consumer durables has increased owing to the economic growth and prosperity and the consequent increase in the purchasing power of the people. Retail banking consists of a wide range of financial products and services. These include deposit product, home loan, loan against equity shares, mortgage loan, auto loan, car loan, payment of bills, credit card, debit card etc. Over past few years, fierce competition has lowered the spread & profitability from a commercial

loan. Also, with the deregulation and increase in consumer loan rate, the risk adjusted return in retail sector has exceeded beyond the return on commercial loan. In India, banks hope to maximize expensive existing networks by selling a range of products. An increase in Market Promotion appears to lead to an increase in profitability. Marketing promotion mix elements viz. Advertising and personal selling are moderately effective in providing information, creating awareness and changing attitude whereas ineffective in building company image and enforcing brand loyalty. The retail loan portfolio of scheduled commercial banks in India consists of housing loan, loan for the purchase of consumer durables, credit card, auto loans and other personal loans.

REVIEW OF LITERATURE

Rao (2014) has opined that 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. Retail banking is considered as innovative financial services being provided by the banks. Rao is of the view that 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 role of bank credit in raising the level of economic activity in a country, and in promoting the rapid development of its economy, was stressed by many writers in the models of economic growth put forward by them from time to time. Schumpeter (1961) pioneered the discussion on the role of bank credit in economic development through innovations financed by bank credit. The World Bank (1996) stressed the role of a developed and efficient financial system in promoting rapid economic growth of developing countries. Iyengar (2007) pointed out that the phrase retail banking is not restricted to only lending but includes activities of banks on the asset side as well as on the liability side of their activities. Gopinath (2005) explained the salient features of retail banking and points out that retail banking should include, in its purview, not only the lending or asset side, but also the deposit mobilisation or liability side of banking activity. Retail banking/personal banking, involving the collection of deposits from individuals and households and financing their credit-needs in small amounts, is emerging as a growing and lucrative field of banking activity in India in recent years with implications to the expansion of the commercial banking system and to the level of economic activity in the country and to its rapid economic development. Sukanya (2016) analysed the expansion of commercial banking in India since 2001 with a focus on retail financing by the banks. It outlines its implications and also points out the precautions to be adopted by the banks while expanding their activity in this field.

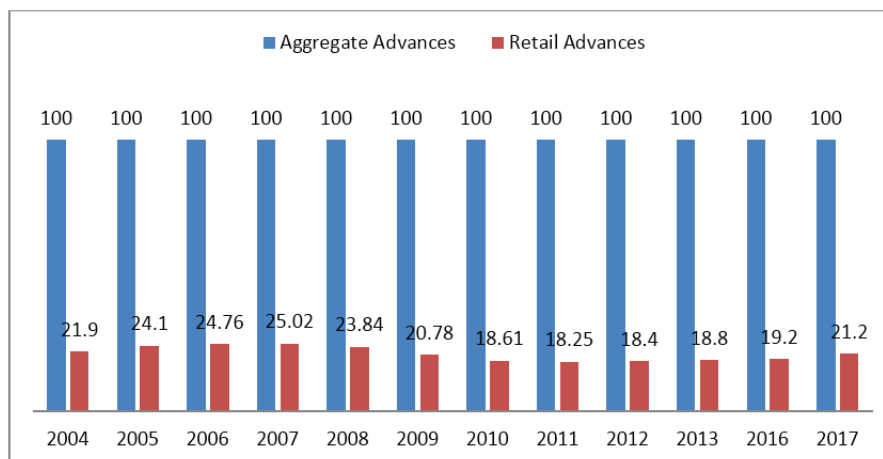
The retail lending has significantly contributed to the development of the economy. India has also developed retail banking sector and it accounts for one-fifth of all banks credit. The retail banking strategies of banks are undergoing a major transformation and have resulted in a paradigm shift in the marketing strategies of the banks. PSBs are adopting aggressive strategies, leveraging their branch network to garner a large share of the retail market (Rozario, 2015) . There is shift from mass banking products to class

banking with an introduction of value added and customized products. Banks have all jumped into retail band wagon. Kumar and Parashuramulu (2013) have attempted to ascertain the extent of the customer's awareness and their level of satisfaction regarding retail banking. In a study on Internet banking, consumers gave the highest weight to the quality of service while selecting a particular bank (Geetika et al. 2008). In another study of customer satisfaction with banking services, factors of customer satisfaction were traditional (basic) facilities, convenience, behavior of employees, and the environment of bank (Jham and Khan 2008). J. D. Power and Associates (2008) measured overall customer satisfaction of electric utilities through six factors: power quality and reliability, customer service, company image, billing and payment, price, and communications. J. D. Power and Associates (2008) also measured customer satisfaction with high-speed and dialup Internet service providers based on five factors: performance and reliability cost of service, customer service, billing, and offerings and promotions. In another study, J. D. Power and Associates (2008) found communication (information systems) to be a determinant of customer satisfaction for customers of utility companies.

DISCUSSION OF RESULTS

Growth of retail advances in India is shown in Chart 1. There has been phenomenon growth in aggregate advances as well as retail advances in India. The retail advances during 2004 were recorded Rs. 189041 crores which increased to Rs. 1607400 crores. Thus, retail advances increased by 8.5 times. Retail advances constituted 21.90 per cent during 2004 which increased to 25.02 per cent during 2007 and declined to 18.25 per cent during 2011. However, it increased to 21.2 per cent in 2017.

Chart 1: Growth of Retail Advances in India



Source: Reserve Bank of India.

Product-wise growth of retail assets in India is shown in Chart 2. Out of total retail loans provided by Commercial Banks of India, about half of loans constituted

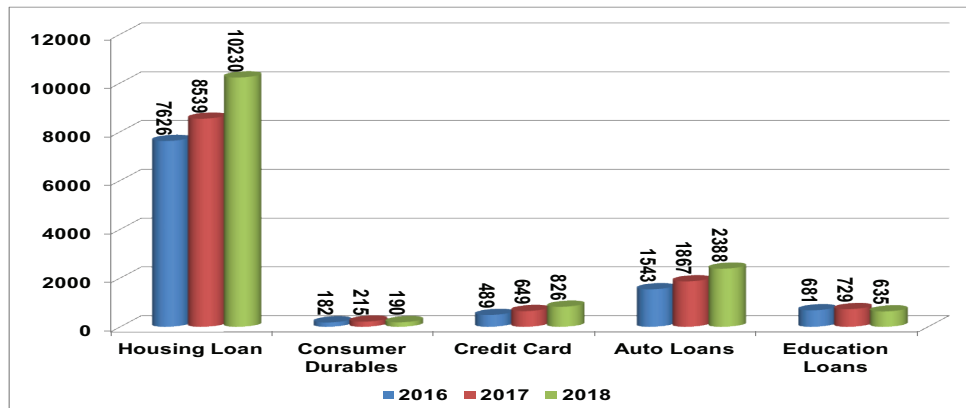
housing loans while about 1/3rd retail advances comprises of personal loans. Auto loans constituted about 14 per cent during 2013. The share of credit card receivables has declined over the period of 2008 to 2013. Similarly, the share of other personal loans and consumer durables has also declined over the period of 2004 to 2013. There has been significant progress in housing loans, credit cards auto loans and , however, education loan has declined over the period of 2010 to 2018(able 1)

Table 1: Retail Loan Outstanding of Banks (Rs. In Billion)

Sector	2016	2017	2018
Housing Loan	7626	8539	10230
Consumer Durables	182	215	190
Credit Card	489	649	826
Auto Loans	1543	1867	2388
Education Loans	681	729	635
Advances to Individuals	723	31	64
Others	--	3369	4192
Total	13965	16126	19255

Source: Trends and Progress of Banking in India , RBI

Chart 2: Retail Loan Outstanding of Banks (Rs. In Billion)



Source: Trends and Progress of Banking in India, RBI

Retail loan portfolio of Scheduled Commercial Banks is shown in Table 2. Retail loans during 2017 have amounted Rs. 16074 billion which constituted about 21.2 per cent against the total amount of advances. There has been increase in the amount of retail loans as well as its share in total advances in 2017 as compared to 2016. Housing loans constituted about 54 per cent while auto loans comprises of 11.6 per cent during 2017. Educational loans accounted for 4.53 per cent while advances against fixed deposit accounted for 4.23 per cent.

Table 2: Retail Loan Portfolio of Scheduled Commercial Banks (Rs. Billion)

Particulars	2016	2017	Percent Variation	Percent Variation
Home Loans	7626	8630	18.5	11.9
Consumer Durables	182	215	-0.3	18.4
Credit Cards Receivables	469	649	24.2	38.3
Vehicle / Auto Loans	1543	1866	24.0	20.9
Educational Loans	681	728	4.6	6.9
Advances against Fixed Deposits	723	680	11.4	-6.0
Advances to Individual against Shares, Bonds, etc.	52	51	-10.0	-2.8
Other Retail Loans	2689	3355	-4.2	24.8
Total	13965	16074	12.9	15.1
%	19.2	21.27		

Source: RBI, 2018]

Retail credit to various sectors by NBFC is shown in Table 3. Retail advances provided by NBFC have amounted Rs. 2.90 billion in 2017 which constituted about 16.8 per cent against total advances. Out of total retail advances, about 42 per cent advances constituted for vehicle/auto loans while credit card receivables comprises of 5.54 per cent.

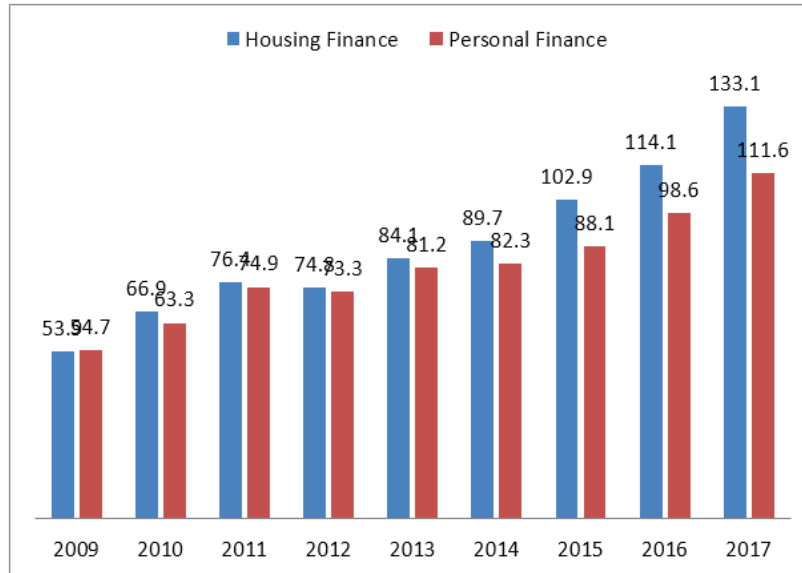
Table 3: Retail Credit to Various Sectors by NBFCs (Rs. Billion)

Particulars	2016	2017	Percentage	Percent Variation
Home Loans	147	106	0.7	-27.9
Consumer Durables	31	57	0.4	83.9
Credit Cards Receivables	92	138	0.9	50.0
Vehicle / Auto Loans	1150	1035	7.0	-10.0
Educational Loans	32	44	0.3	37.5
Advances against Fixed Deposits	1	2	0	100
Advances to Individual against Shares, Bonds, etc.	78	124	0.8	59.0
Other Retail Loans	516	984	0.6	90.7
Total	2047	2490	16.8	21.6

Source: RBI, 2018

Growth of housing and personal finance in India is shown in Chart 3. Housing finance in India was reported US \$ 53.9 billion during 2009 which increased to \$133.1 billion during 2017. During the period, the growth of housing finance increased by 146.94 per cent. Similarly, personal finance also increased by 104.02 per cent during the corresponding period.

Chart 3: Growth of Housing and Personal Finance in India



Source: IIBF, 2018

Growth of credit card transactions in India is shown in Table 4. There has been significant increase in credit card transactions in India during the period of 2012 to 2018. Number of transactions grew by 342.87 per cent for Point of Sales while number of transactions of ATMs recorded 288.77 per cent growth over the period. Amount of transactions during the corresponding period registered a high growth in POS (401.37 per cent) as compared to ATMs (205.54 per cent)

Table 4: Growth of Credit Card Transactions in India

Year	No. of Outstanding Cards as at the end of the Month	No. of Transactions (Actual)		Amount of Transactions (Rs. Millions)	
		ATM	POS	ATM	POS
2018	37484955	785732	127292249	3693	443081
2017	29842235	489248	107610258	2291.2	333904.9
2016	24505219	612531	72220394	2803.2	226943.0
2015	21110653	437278	56906942	2344.0	178988.0
2014	19181567	296548	46105415	1661.7	145487.3
2013	19538329	225770	35616482	1492.9	111217.4
2012	17653818	202106	28744710	1208.7	88373.7

Source: Reserve Bank of India.

Growth of debit card transactions in India is shown in Table 5. There has been higher growth in transactions through debit card as against transactions through credit card during the period of 2012-2018. Number of transactions through debit card registered

an increase of 939.81 per cent in case of POS and 64.52 per cent for ATMs. Amount of transactions through debit card at POS recorded higher growth as compared to amount of transactions at ATMs.

Table 5: Growth of Debit Card Transactions in India

Year	No .Of Outstanding Cards As At The End Of The Month	No. Of Transactions (Actual)		Amount Of Transactions (Rs. Millions)	
		ATM	POS	ATM	POS
2018	861076200	774943830	318899139	2663502	418567
2017	771649172	710108656	271172292	2259457.4	356991.3
2016	661824092	731722405	112868336	2245821.8	134631.9
2015	553451553	624205135	76105726	1987480.0	108283.2
2014	394421738	571497661	56981333	1796098.9	85771.0
2013	331196720	482004645	45376619	1556405.6	66873.1
2012	278282839	471031623	30668922	1317167.7	46534.1

Source: Reserve Bank of India.

Credit and debit cards issued by banks are shown in Table 6. Out of total outstanding credit cards during 2016, about 60 per cent credit cards accounted for private sector banks while public sector banks constituted 20.6 per cent credit cards. However, out of total debit cards of all Scheduled Commercial Banks, about 84 per cent debit cards were issued by public sector banks.

Table 6: Credit and Debit Cards Issued by Banks (In Millions)

Bank group	Outstanding Number of Credit Cards		Outstanding Number of Debit Cards	
	2015	2016	2015	2016
Public Sector Banks	4308449	5048354	459626728	548501376
Private Sector Banks	12075440	14731014	90787177	102569319
Foreign Banks	4726764	4725851	3037648	3043526
All SCBs	21110653	24505219	553451553	654114221

Source: Reserve Bank of India.

Retail Banking has been the new focus of the banking industry across the world. The emergence of new economies and their rapid growth has been the most important contributing factor behind this resurgence in Retail Banking. Changing lifestyles, fast improvement in information technology, other service sectors and increasing levels of income have contributed to the growth of retail banking in countries like India that are developing at a good pace. In India, the retail banking scenario has been the market changing from a seller's market to a buyer's market. Retail banks offer services like account opening, credit card, debit card, ATM, internet banking, phone banking, insurance, investment, stock broking and so on.

CONCLUSION

Retail banking has increased with the increasing e-banking services and growth in services sector of economy. There has been boom in retail business and many whole sellers and retailers encourage retail advances which are being provided by public and private sector banks. Retail banking has brought in a drastic make over in the overall banking scenario in India. The exceptional improvement in the banking system in India is a result of strong initiatives taken up by both the government and private companies. Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. 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 has immense opportunities in a growing economy like India. As the growth story gets unfolded in India, retail banking is going to emerge a major driver. Retail banking is the most visible face of banking for the general public. Retail banking refers to provision of banking products and services offered to individual customers, typically for non-entrepreneurial purposes. Retail banking involves offering of products both sides of the balance sheet e.g. fixed, current / savings accounts on the liability side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the asset side. Additionally, retail banking also involves offering of credit cards, depository services and other para-banking products and services viz. insurance products, capital market products etc. to individuals. Thus, retail banking services broadly corresponds to the banking services providing in the intermediate phase of evolution of banking. While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. The exacting regulatory requirements on the consumer protection front, risks from a slowing global economy and increasing customer expectations mean that banks must innovate to grow.

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