

## A Study on Retail Banking Opportunities and Challenges in India

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### Abstract

The topic of Retail banking is very important and essential. Across the world, retail lending has been a remarkable innovation in the field of commercial banking in recent years. The retail lending especially, increases growth rate at macro level in field of information technology and also at micro level changes in the need based demand and supply side factors in the financial markets.

India is also moving towards retail banking innovations and out of total banking lending's, retail loans plays a vital role in recent years, and it is believed that retail banking services are reaching each and every different customers at their door step at low and affordable cost because of the new technological changes in the banking industry.

India's banking and financial sector is expanding rapidly. The Indian Banking industry is currently worth Rs. 81 trillion (US \$ 1.31 trillion) and banks are now utilizing the latest technologies like internet and mobile devices to carry out transactions and communicate with the masses. The Indian banking sector consists of 26 public sector banks, 21 private sector banks and 40 foreign banks along with 56 regional rural banks (RRBs) and more than 80,000 credit cooperatives. According to the global perspective it has potentials to become the third largest by 2025. The present study aims to focusing on the contemporary challenges and opportunities of the Retail Banking sector in India.

**KEYWORDS:** Retail Banking, Digital Innovation, retail services, challenges, opportunities, Growth.

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### INTRODUCTION

Retail Banking is also known as Consumer Banking is the delivery of services by a bank to individual consumers, rather than to companies, corporations or other banks. Services offered include savings and transaction accounts, mortgages, personal loans, debit cards, and credit cards. India too experienced a surge in retail banking after the financial sector reforms in early nineties. There are various pointers towards this. Retail banking in India has fast emerged as one of the major drivers of the overall banking industry and has witnessed enormous growth in the recent past. Retail banking is the cluster of products and services that banks provide to consumers and small businesses through branches, the Internet, and other channels. In recent years, retail banking has become a key area of strategic emphasis in the Indian banking industry, as evidenced by rising trends in retail loan and deposit shares on commercial bank balance sheets and a continuing increase in the number of bank branches. Across the globe, retail lending has been a spectacular innovation in the commercial banking sector in recent years.

## **OBJECTIVES OF THE STUDY**

The objective of this paper is to explain the changing banking scenario, to analyze the opportunities and challenges of Retail Banking in India. The main objectives of the study are:

- 1 To know the nature of Retail banking in India.
2. To know the reasons for adopting retail banking services in India
- 3.To analyse the Scope of retail banking in india and Reasons for investment in it.
4. To highlight various Opportunities & Challenges to Retail Banking in India
5. To give suggestions to expand Retail Banking in India

## **RESEARCH METHODOLOGY**

All information included in this paper are based on Secondary data collected from Books, News papers & Journals and Internet.

Meaning of Retail Banking:-

It refers to the dealing of commercial banks with individual customer, both on liabilities and assets sides of the balance sheet. Fixed, Current/Savings accounts on the liabilities side; and mortgages, customers loans on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services.

## **NATURE OF RETAIL BANKING;-**

Retail banking includes all activities associated with providing merchandise at the right price for the needed movement, at the needed place. A retailing mix is a combination of the banks goods and services, physical facilities, promotion, price merchandising. Location, sales personnel, reputation and image, which when blended creates an atmosphere to satisfy customers by offering different retail products, through different retail channels for different groups of customers to achieve banks goals and objectives. Hence Nature of retail banking can be stated as follows.

- It is Flexible and Adoptable according to consumer expectations, lifestyles, tastes and values.
- It has strong credit assessment capability.
- It will give opted services to the needed consumers
- It helps to attract customers in the present competitive market.
- It increases the purchasing power of customers
- It acts as a tool to increase profit of the bank.

The success with which a bank can provide value to customers is an important determinant of the future of retail commercial banking. The challenge is to perceive the needs of the public and organize the functions of the banks according to customer needs, and look out for strategic advantages.

By looking at the value adding activities of bank, a framework can be analyzed for thinking about the profitable opportunities and a way to face the competition from other banks, Retail banking is an augmenting tool for any bank to get good profit.

## **REASONS FOR ADOPTING RETAIL BANKING SERVICES IN INDIA**

Profit is the core reason for the perpetual of a commercial organization:

- It is an indicator of viability, faith and trust to its customers.

- With gradual slow down of the economy and stiff competition from foreign multinationals, the traditional products of the bank became risky and the margin of the profit started declining.

Because of the above reason the banks moved towards retail banking services to increase their profit and sustain competition.

### **SCOPE FOR RETAIL BANKING IN INDIA:-**

The rural areas have the large purchasing power at their disposal and this is an opportunity to market Retail Banking. India has 2000 million households and 400 million middleclass population of which more than 90 per cent of the savings come from the house hold sector. Falling interest rates have resulted in a shift. "Now People Want To Save Less And Spend More. Nuclear family concept is gaining much importance which may lead to large savings, large number of banking services to be provided are day-by-day increasing. Tax benefits are available for example in case of housing loans the borrower can avail tax benefits for the loan repayment and the interest charged for the loan

### **REASONS FOR INVESTMENT IN RETAIL BANKING SERVICES IN INDIA;-**

Profit maximization as it is the key criteria for success.

- Profit is the formula for remaining strong, prosperous and rich
- Profit is the result and content of business growth.
- Profit is the only avenue for banks to raise capital.

### **GROWTH OF RETAIL BANKING IN INDIA**

The concept of retail banking is not new to Indian banking industry; it is existing from olden days but was at lower rate, whereas in the recent years it has grown immensely and became one of the vital services for the banking sectors to survey in Indian economy.

The products offered in the banking sector are need based loans such as vehicle loans, house construction loans, education loans, gold loans, property loans etc. The loans are offered by different banks at different rates based on their level of credibility and also compete in the financial market. In India both public sector and private sector banks are equally competing with each other towards offering Retail Banking services, as these services are highly profitable and has reasonable operating cost. In India retail loans constitute around 7% of GDP which is expected to grow very faster in future because of heavy population in India as compared to other nations.

### **RETAIL BANKING OPPORTUNITIES**

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. The

rise of the Indian middle class is an important contributory factor in this regard. The percentage of middle to high income Indian households 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. Further increased competitions for retail deposits and tighter regulations have created challenges, but also opportunities for banks able to adapt quickly to the new banking environment. While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. How far the retail banking is able to lead growth of the banking industry in future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably.

The combination of the above factors promises substantial growth in the retail sector, which at present is in the nascent stage. Due to bundling 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.

#### **RETAIL BANKING STRENGTH:-**

Largest network is the major strength of the branch which helps to achieve Monopoly by public sector banks. New private banks apply technology where face marketing has less probability, especially in non urban areas. The branch network has to be perceived as a huge strength in retail lending. Hence remote area access has enabled the public sector banks to be very successful in priority sector.

#### **RETAIL BANKING CHALLENGES:-**

- Maintaining the relationship with the customers and holding them is the major challenge.
- Meeting the needs of customers and ensuring their satisfaction is another challenge.
- Expanding the retail banking services according to the situation in the market.
- Establishing the promotional tools for banking products to attract the customers.
- Enabling the customers to gain knowledge about retail banking products.
- Developing Mystery Banking( i.e. giving services as per the needs of every different customers)
- Customer appraisals to be regularly obtained to measure and improve the level of customer satisfaction.

#### **PRIORITIES OF THE NEW MILLENNIUM**

Each bank needs to develop a clear strategy to deal with this transforming landscape. To succeed in this rapidly changing landscape, banks need to have a clear sense of the posture they wish to adopt – whether to shape the industry, rapidly follow the leaders, or manage defensively, putting off change. They need to create ability and optionality, to adapt to rapid change and future uncertainty. Yet, whatever the chosen strategy, success will come from successfully executing the right balance across the following six priorities.

The following six priorities for retail banks to win in 2020:

1. Developing a customer-centric business model.
2. Optimizing distribution.
3. Simplifying business and operating models.
4. Obtaining an information advantage.
5. Enabling innovation and the capabilities required to foster it.
6. Proactively managing risk, regulations and capital.

### **CONCLUSION**

The financial services industry is going through dramatic changes as a consequence of changing customer behaviour, increasing expectations, channel proliferation, disruption, innovative use and adoption of new technologies and the digitization of business and society in general. Cost reductions, increasing top-line revenue and mitigating risk remain the key drivers, also in retail banking 90% of consumers prefer online banking services, regardless of age, income, place of residence or type of bank. However, much of the landscape will change significantly in response to the evolving forces of customer expectations, regulatory requirements, technology, demographics, new competitors and shifting economics. Since retail banking requires mass production techniques, the advent of technology has enabled the banks to design appropriate technology-based delivery channels. Retail banking has also received a thrust from the regulators/policymakers' push for inclusive growth in the wake of the global financial crisis. The Governments across the world view banks as the key component in furthering the cause of financial inclusion. And they need to have a clear strategy to deal with these challenges and address these priorities, including considering partnerships with third parties and applying lessons from other industries. The Retail banks need to do even more to ensure they are well-positioned to succeed in the future.

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