

Challenges and opportunities in retail banking

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Abstract

The Retail Banking report encompasses extensive study & analysis of this rapidly growing sector. 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. It primarily covers analysis of the present status, current trends, major issues & challenges in the growth of the retail banking sector. A RB is a bank that works with consumers, otherwise known as 'retail customers'. Retail banks provide basic banking services to the general public, including; checking and saving accounts, CDs, Safe deposit boxes, Mortgages and, Auto loans, Unsecured and revolving loans such as credit cards. Retail banks are the banks you most often see in cities on crowded intersections, the ones you probably use of your personal checking account. In addition to helping consumers, retail banks often serve businesses as well – so they can also serve as commercial banks. This report 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.

Keywords: Banking, Challenges, Opportunities, Retail Banking

1. Introduction

Marketing orientation of Banks is imperative for survival and success.

Marketing by service industries are yet to gain momentum, especially when it comes to marketing by commercial banks. In India, the liberalization of the financial sector has impelled all the players to redefine what business they are in and strategically think how to stay ahead in the existing business. Marketing of financial services by banks is under active and extensive discussion among academicians and bank personnel. Survey and research have been conducted both by academic researchers and practitioners on the various aspects of service marketing in general and financial services marketing by banks in particular both in India as well as abroad.

1.1 Review of Literature

The results indicate that the radical change in management style, training, motivation and recognition of branch sales personnel is called for developing a true sales culture. Bill Stephenson and Julia Kiely (1991) researched into the key issues facing banks in order to become better at selling in the personal banking market. Requires major alterations to management structure and style, and is most likely to be successfully achieved by 'top-down' target setting based on corporate business objective.

James F Devlin (1995) studied the developments in the distribution of retail banking services in the UK, using the case study of First Direct, a subsidiary of Midland Bank that successfully introduced telephone-banking competitive and deregulated environment, superior distribution strategies concerned with how to communicate with, and deliver products to the consumer could provide institutions with significant competitive advantage in the market place."

2. Objectives of the study

1. To know the changing scenario of India Retail Banking.

2. To portray the rivalry sandwiched between local and overseas banks.
3. To spot the challenge and opportunities intended for Retail Banking.

With a jump in the Indian economy from a manufacturing sector, that never really took off, to a nascent service sector, Banking as a whole is undergoing a change. A larger option for the consumer is getting translated into a larger demand for financial products and customization of services is fast becoming the norm than a competitive advantage. With the Retail banking sector expected to grow at a rate of 30% (Chanda Kochhar, ED, ICICI Bank) players are focusing more and more on the Retail and are waking up to the potential of this sector of banking. At the same time, the banking sector as a whole is seeing structural changes in regulatory frameworks and securitization and stringent NPA norms expected to be in place by 2004 means the aster one adapts to these changing dynamics, the faster is one expected to gain the advantage. In this article, we try to study the reasons behind the euphemism regarding the Retail –focus of the Indian banks and try to assess how much of it is worth the attention that it is attracting.

2.1 Potential for retail in India: is sky the limit

The Indian players are bullish on the Retail business and this is not totally unfounded. The direct fallout of such a change will be the consumption patterns and hence the banking habits of Indians, which will now be skewed towards Retail products. There are two main reasons behind this. Firstly, it is now undeniable that the face of the Indian consumer is changing. For instance, while the total outstanding Retail loans in Taiwan is around 41% of GDP, the figure in India stands at less than 5%. The comparison with the West is even more staggering. Another comparison that is natural when comparing Retail sectors is the use of credit cards. Here also, the potential lies in the fact that of all the consumer expenditure in India in 2001, less than 1% was through plastic, the corresponding US figure standing at 18%. This is reflected in a change in the urban

household income pattern. At the same time, India compares pretty poorly with the other economies of the world that are now becoming comparable in terms of spending patterns with the opening up of our economy.

2.2 But now competitive are the players?

The fact that the statistics reveal a huge potential also brings with it a threat that is true for any sector of a country that is opening up. Just how competitive are our banks? Is the threat of getting drubbed by foreign competition real? To analyze this, one needs to get into the shoes of the foreign banks. In other words, how do they see us? Are we good takeover targets?

Going by international standards, a large portion of the Indian population is simply not “Bankable” taking profitability into consideration. On the other hand, the financial services market is highly over – leveraged in India. Competition is fierce, particularly from local private banks such as HDFC and ICICI, in the business of home, car and consumer loans. There, precisely lie the pitfalls of such explosive growth. All banks are targeting the fluffiest segment i.e. the upwardly mobile urban salaried class. Although the players are spreading their operations into segments like self-employed and the semi-urban rich, it is an open secret that the big city Indian yuppies form the most profitable segment. Over – dependence on this segment is bound to bring in inflexibility in the business. This will perhaps be the most wrongful inference that can be drawn from the above. We just cannot afford to look inwards and repeat the mistakes that were the side effects of the Nationalization of the Banking System.

2.3 What about the foreign giants?

The foreign banks have identified this problem but there are certain systematic risks involved in operating in the Retail market for them.

These include regulatory restrictions that prevent them from expanding their branch network. So these banks often take the Direct Selling Agent (DSA) route whereby low –end jobs like sourcing or transaction processing are outsourced to small regional layers. So now on, when you see a loan mela or a road show showcasing the retail bouquet of an elite MNC giant, you know that a significant commission earned out of any such booking gets ploughed back to our own economy. Perhaps, one of the biggest impediments in foreign players leveraging the Indian markets is the absence of positive credit bureaus. In the west the risk profile can be easily mapped to things like SSNs and this information can be publicly traded. PAN is a step in this direction but lot more work need to be done. What has been a positive step towards this is a negative file sharing started by a consortium of 11 banks. However, as a McKinsey study points out actual write – offs on NPAs show a strong negative correlation with sharing of positive information. On top of this, spend now – pay – later “credit culture” in India is just not picking up. A swift legal procedure against consumers creating bad debt is virtually no-existent. Finally, the vast geographical and cultural diversity of the country makes credit policy formulation a tough job and it simply cannot be dictated from a Wall Street or a Singapore boardroom! All these add up to the unattractiveness of the Indian retail market to the foreign players.

So over the past few years, in spite of the entry of MNCs in many industries, Retail Banking has seen a flurry of panicky

exits. Fewer than 40 remain in India and their share of total bank assets currently 7.2% is falling. Those that remain might be thought to be likely buyers of Indian Banks. Yet Citibank, HSBC and Standard Chartered all in India for more than a century, and with relatively large retail networks seem to have no pressing need to acquire a local bank. Established foreign banks have preferred to take over customers or businesses from other foreign banks that want to leave. Thus HSBC, in recent years, has acquired customers from France’s BNP, Germany’s Deutsche Bank and Japan’s Bank of Tokyo – Mitsubishi, ABN Amro took over Bank of America’s retail business.

A growing market can never be an alibi for lack of innovation. Indian banks have shown little or no interest in innovative tailor-made products. They have often tried to copy process designs that have been tested, albeit successfully, in the West. Each economic culture has its own traits and one who successfully adapts whose to the business is the eventual winner. A case in point is the successful implementation of micro – credit networks in Bangladesh, Positioning a bank as a teach – savvy financial vendor in a country where Internet penetration is an abysmal 1.65% can only add to the over leveraging as pointed out earlier. The focus of the sector should remain in macroeconomic wealth creation and not increasing the per capita indebtedness that will do little but add to the NPA burden. Retail Banking in India has to be developed in the Indian way, notwithstanding the long queues in front of the teller counters in the Public sector banks.

2.4 Challenges and Opportunities

Retail banking in India has vast opportunities and challenges. The rise of the middle class is an important contributory factor in this regard. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt is contributing to India’s retail banking segment. Increase in purchasing power of the younger population would give an immense opportunity. It has been found that younger generation is more comfortable in acquiring debt than the previous generation, thereby improving – purchasing power and liberal attitude towards personal debt, and contributing to India’s retail segment. The SEZs will also provide growth opportunity for retail banking.

The combination of these factors promises growth in the retail sector, which at present is in the nascent stage. As retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. The retail banks have to market their products aggressively. The challenge is to design and innovate the financial products which cater to the target segment needs. In future, retail banking scenario will see a huge proliferation of products. This will in turn require devising product which is easy to understand and at the same time meet the financial goals of the customers. The entry of new generation private sector banks has changed the entire scenario. The retail segment, which was earlier ignored, is now the most important of the lot, with the bank jumping over one another to give out retail loans. With supply for exceeding demand it has been a race to the bottom, with the banks undercutting one another. The nimble footed new generation private sector banks have been losing business to the private sector banks in this segment. PSBs need to figure out the means to generate profitable business from this segment.

Another major challenge in retail banking is attraction as well as retention of customers.

In fact, the retention is more difficult in this competitive effects the profitability. According to a research by Reichheld and Sasser in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business, 50% in insurance and brokerage, and 125% in the consumer credit card market. Thus, banks need to focus on customer retention. Sustainability is another issue, which is becoming increasingly vital with respect to the growth of retail banking in India, due to excessive concentration on the top-line without regard to the quality of growth of the top-line, increasing market share by increasing risk appetite and entering the markets where a bank may not have a competitive advantage. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and rapid movement of money. However this dependency on the network has brought IT department's additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. The network challenges include proper functioning of distributed networks in support of business objectives. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers. Another issue of concern is the rising indebtedness, which could affect the future growth of retail banking. The banks will also have to shore up the image of their brand. A bank has to build its brand by clearly communicating what it stands for and ensure that the brand image is consistently conveyed to its customers.

This would call for seamless integration of channels to ensure optimum customer satisfaction, regardless of the channel being used. Most of the retail banks are witnessing a tremendous expansion in their customer base. However, on the other hand there is increasing menace of hacking, phishing and farming through which scammers are creating havoc indulging in cyber crimes on a large scale. Growth opportunities in banking, especially retail segment is set to witness fast growth due to high consumption. The 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 a paradigm shift in the marketing strategies of the banks. Public Sector Banks players are adopting aggressive strategies, leveraging their rural 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, packaged selling of retail products and technology based banking. At the same time, new foreign players are also entering this high growth sector.

3. Conclusion

The conventional scenario of banks is fast changing. Retail banking has gained enormous momentum in the Indian banking sector during last five years. There is vast opportunity as well as challenges for retail banking in India has many dimensions. There is a need of constant innovation in retail banking. Banks need to use retail segment as a growth trigger. There is a noticeable change in the number and nature of products being tossed up along with the way in which banking services are being offered. Banks require product development and differentiation, innovation and business process re-engineering, micro planning, marketing. Prudent

pricing, customization, technological up gradation and cross selling. The competitive advantage in retail banking that would help each bank to reach out and retain the customer.

The product differentiation will provide a bank with an edge over competition. Efforts should be made to ensure customer delight, which is essential in order to retain the customers in the open competitive business. There should be operational transparency while dealing with the customers. CRM must be used to make customer delight. The delivery channels require comprehensive approach to ensure convenience and reliability. The retail segment can survive only if it is competitive. These challenges demand a well-planned and implemented strategy to cope with the changing business environment. These challenges can be converted into opportunities by enhancing the internal capabilities and providing the innovative products and services fulfilling the diverse needs of the customers. The future growth of the retail banking sector would be the outcome of the strategies of today. Given the size advantages, diverse customer base and scope for future expansion, there is need for evolving a systematic approach to retail banking.

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