

INNOVATIONS IN RETAIL BANKING IN INDIA

Dr. Raghavendra B.N., Usha C.,

Abstract: In the recent years, the financial institutions has been characterised by increased global competition and a raft of regulatory changes. The use of technology has allowed banks to extend the scope of their activities and increase their operational efficiency. At the same time, banks in emerging markets are exploring the potential of online and telephone channels to deliver services to rural, geographically-distributed populations in the most cost-effective way possible. Retail banking segment in the banking industry is continuously undergoing innovations, product reengineering, adjustments and alignments and it has vast opportunity as well as challenges in a growing economy like India. Therefore, India too experienced a surge in retail banking. Banking industry in India has achieved a new height with the changing times. Most of the Indian banks are gradually filling the customer gap and improving their business and offering to attain higher levels of customer satisfaction. Thus, banks have recognized the importance of retail banking. In this paper an attempt is made to analyse the retail banking scenario in India, study the opportunities and challenges of retail banking in India.

Keywords: Global Competition, Innovations, Re-engineering, Retail Banking, Technology

INTRODUCTION

Retail banking in the banking industry has always been important in India where banks were nationalized with the objective of reaching the masses. A sound and evolved banking system is essential for sustained economic development. India is one of the fastest growing economies after financial and banking sector reforms since 1991. However, the growth in retail banking has been quite prominent retail in the recent years. Retail banking has been facilitated by growth in banking technology and automation of the banking process. Technological development has been hugely responsible for the rapid growth and spread of retail banking. There is also an expansion in the nature and products offered under retail banking. Retail banking has vast opportunity as well as challenges in a growing economy like India.

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. This is in contrast to wholesale banking where the customers are large, often multinational companies, governments and government enterprise and the financial institution deal in small numbers of high value transactions. Retail banking is quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. The Retail Banking environment today is changing fast. The changing customer demand creates a differentiated application based on scalable technology, improved service and banking convenience. Higher penetration of technology and increase in global literacy levels has set up the expectations of the customer higher than never before. Increasing use of modern technology has further enhanced reach and accessibility.

Innovative banks will also be investing in new technologies that increase security across multiple channels. These may include biometric scanners for use with ATM machines, data warehousing solutions that guarantee protection for sensitive customer data and next-generation authentication for online users. Finally, technology innovation is likely to change the appearance of bank branches beyond recognition. Understanding that face-to-face service delivery is critical to customer satisfaction, banks are investing in new solutions that balance personalised service delivery with the need to maintain operational efficiency. Banks recognise the need for increased investment in the latest technologies. In fact, 67 per cent of respondents in a recent McKinsey Global Survey consider that their 'Innovation-related initiatives and investments' will be important for meeting long term as well as short term performance targets.

A.T. Kearney, a global management-consulting firm, recently identifies India as the second most attractive retail destination of 30 emergent markets. India has the world's second largest mobile phone user base with over 929.37 million users as of May 2012. In India almost 960.9 million people used internet till the end of May 2012, it seems that there is a bright future of the innovative banking services in India. With increasing focus on global retail operations, many banking organisations will look to segregate their retail business from wholesale, with the inevitable divestment of non-core activities and new levels of consolidation. Increasingly, for example, banks will outsource low value commoditised banking operations to the low wage economies, while maintaining corporate headquarters in the smart cities. Banking product focus will be increasingly risk driven, although the regulators

want to see the industry’s ability to measure and manage that risk effectively.

OBJECTIVES OF THE STUDY

In this paper, our basic aim is to focus on the following aspects:

1. To study the various opportunities and challenges of retail banking in India.
2. To study the technological inventions in retail banking

OPPORTUNITIES AND CHALLENGES OF RETAIL BANKING IN INDIA

Retail banking is a mass-market banking where individual customers use local branches of larger commercial banks. The services offered by retail banking includes saving and checking accounts, mortgages, personal loans, debit cards, credit cards etc. It takes care of the diverse banking needs of an individual customer. It provides banking products and services to individuals. Retail banking contains feature like multiple products, channels and customer groups. Most of the Indian banks have been retail banks in their business composition. Retail banking in India is growing and the same expected in the future. The various reasons for the growth of retail banking in India are:

1. Technology.
2. Introduction of Private and foreign banks.
3. Increased competition.
4. Retention of customers
5. Innovation in banking products and services.
6. Economic growth.
7. Rising indebtedness.
8. Deregulation of interest rates.
9. Information technology
10. KYC and Money laundering risks
11. Outsourcing
12. Changes in life style of working/middle class.
13. Focus on productivity and profitability.
14. Drive towards low NPAs.
15. Changing consumer demographics.

TECHNOLOGY BASED INNOVATIVE RETAIL BANKING SERVICES

Over the years, the Reserve Bank has laid special emphasis on technology infusion in the day to day operations of banks. Technology, apart from increasing the efficiency of banking services, is expected to boost the ongoing process of financial inclusion emphasised by the Reserve Bank. In recent years, increase in the number of off-site ATMs in

various locations as well as use of mobile phones for delivering banking technology has further facilitated banking outreach in remote areas. The IT Vision Document, 2011-17 of the Reserve Bank sets out the roadmap for implementation of key IT applications in banking with special emphasis on seamless delivery of banking services through effective implementation of Business Continuity Management (BCM), Information Security Policy and Business Process Re-engineering (BPR).

With the computerisation and adoption of Core Banking Solutions in banks almost reaching the final stage of completion, the focus has now shifted to adoption of more advanced technologies in banking, which would use analytics and business intelligence to enhance their Customer Relationship Management (CRM) and improve internal effectiveness including Management Information Systems (MIS) and managing risks arising out of IT implementation.

Retail banking segment in the banking industry is continuously undergoing innovations, product reengineering, adjustments and alignments. Indian retail banking segment includes:

1. Credit cards, debit cards and ATM.
 2. Housing loans.
 3. Personal loans
 4. Consumption loans
 5. Education loans
 6. Vehicle loans.
 7. Insurance.
 8. Demat services.
- Online services

Table 1: Retail Portfolio of Banks

(Amount in ` billion)

| Item | Outstanding as at end-March | | Percentage Variation | |
|---------------------------|-----------------------------|--------------------|----------------------|-------------|
| | 2011 | 2012 | 2010-11 | 2011-12 |
| 1 Housing Loans | 3607 | 4118 | 15.1 | 14.2 |
| 2 Consumer Durables | 46 | 27 | 50.3 | -40.9 |
| 3 Credit Card Receivables | 187 | 223 | -13.5 | 19.6 |
| 4 Auto Loans | 1002 | 1162 | 27.8 | 16.0 |
| 5 Other Personal Loans | 2469 | 3069 | 18.5 | 24.3 |
| Total Retail Loans | 7310 (18.3) | 8599 (18.4) | 17.0 | 17.6 |

Note:

1. Figures in parentheses represent percentage share of retail loans in total loans and advances.
2. The amount of total loans and advances are as provided in the off-site returns (domestic) of SCBs.
3. Percentage variation could be slightly different as absolute numbers have been rounded off to ' billion.
4. Components may not add up to total due to rounding off numbers to ' billion.

Source: Based on Off-site returns (domestic).

Table-1 shows that, during 2011-12, banks' retail loan portfolio witnessed expansion at a higher rate as compared with the previous year, mainly led by growth in credit card receivables and other personal loans. Housing loans continued to constitute almost half of total retail portfolio of banks.

ATMs of Scheduled Commercial Banks

Sustained increase in total number of ATMs indicating move towards door-step banking. During 2011-12, an additional 21,000 ATMs were deployed by the banks. Public sector banks accounted for more than 60 per cent of the total

number of ATMs as at end-March 2012, while close to one-third of the total ATMs were attributable to new private sector banks shown in Table -2.

Table 2: ATMs of Scheduled Commercial Banks
(As at end-March 2012)

| Sl. No. | Bank Group | On-site ATMs | Off-site ATMs | Total number of ATMs |
|-------------------------|-----------------------------|--------------|---------------|----------------------|
| 1. | Public Sector Banks | 34012 | 24181 | 58193 |
| 1.1 | Nationalised Banks | 18277 | 12773 | 31050 |
| 1.2 | SBI Group | 15735 | 11408 | 27143 |
| 2. | Private Sector Banks | 13249 | 22830 | 36079 |
| 2.1 | Old Private Sector Banks | 3342 | 2429 | 5771 |
| 2.2 | New Private Sector Banks | 9907 | 20401 | 30308 |
| 3. | Foreign Banks | 284 | 1130 | 1414 |
| All SCBs (1+2+3) | | 47545 | 48141 | 95686 |

Note: *, Excluding IDBI Bank Ltd.

Source: Report on Trends and Progress of banking in India 2011-12

Table 3: Credit and Debit Cards Issued by Scheduled Commercial Banks
(As at end-March)

(in million)

| Sl.No. | Bank Group | Outstanding Number of Credit Cards | | Outstanding Number of Debit Cards | |
|-------------------------|-----------------------------|------------------------------------|--------------|-----------------------------------|------------|
| | | 2011 | 2012 | 2010-11 | 2011-12 |
| 1. | Public Sector Banks | 3.08 | 3.06 | 170 | 215 |
| 1.1 | Nationalised Banks | 0.78 | 0.84 | 80 | 103 |
| 1.2 | SBI Group | 2.30 | 2.22 | 90 | 112 |
| 2. | Private Sector Banks | 9.32 | 9.67 | 53 | 60 |
| 2.1 | Old Private Sector Banks | 0.04 | 0.04 | 12 | 14 |
| 2.2 | New Private Sector Banks | 9.28 | 9.63 | 41 | 46 |
| 3. | Foreign Banks | 5.64 | 4.92 | 3.9 | 3.8 |
| All SCBs (1+2+3) | | 18.04 | 17.65 | 228 | 278 |

Note: Components may not add up to total due to rounding off numbers to million

Source: Report on Trends and Progress of banking in India 2011-12

From the above table-3 it is clear that, Issuance of credit cards declined, while debit cards showed a high growth trend. Foreign banks, however, showed a small decline in the issuance of debit cards. More than three-fourths of the total debit cards outstanding as at the end of March 2012 were issued by public sector banks. In contrast, more than half of the outstanding credit cards as at the end of March 2012 were issued by new private sector banks

Volume and Value of Transactions through major Electronic Payment Systems:

A trend in favour of cashless payments is discernible in recent years with both volume and value of transactions through major electronic modes of payments registering an increase shown below in Table-4.

Table 4: Volume and Value of Electronic Transactions by SCBs

(Volume in million, Value in ` billion)

| Year | Volume | | Percentage of variation | | Value | | Percentage of variation | |
|--------------|---------|---------|-------------------------|---------|---------|---------|-------------------------|---------|
| | 2010-11 | 2011-12 | 2010-11 | 2011-12 | 2010-11 | 2011-12 | 2010-11 | 2011-12 |
| ECS Credit | 117 | 122 | 19.5 | 3.6 | 1817 | 1838 | 54.5 | 1.2 |
| ECS Debit | 157 | 165 | 5.0 | 5.1 | 736 | 834 | 5.9 | 13.3 |
| Credit Cards | 265 | 320 | 13.2 | 20.7 | 755 | 966 | 22.2 | 27.9 |
| Debit Cards | 237 | 328 | 39.3 | 38.2 | 387 | 534 | 46.6 | 38.0 |
| NEFT | 132 | 226 | 99.5 | 70.9 | 9321 | 17903 | 127.6 | 92.1 |
| RTGS | 49 | 55.0 | 48.5 | 11.6 | 484872 | 539307 | 22.9 | 11.2 |

Note: Percentage variation could be slightly different as absolute numbers have been rounded off to million/` billion.

Source: Report on Trends and Progress of banking in India 2011-12

Mobile Banking

M-Banking is that banking in which a person can check or transact from his account from anywhere in world with the help of his mobile. The wireless customer based in India is given below in table-5.

Table 5: Wireless subscriber base in India

| Sl. No. | Operator | Subscriber Base |
|---------|------------------------|-----------------|
| 1 | Bharati Airtel | 183290119 |
| 2 | Reliance Communication | 153548424 |
| 3 | Vodafone Essar | 151284403 |
| 4 | Idea Cellular | 114209668 |
| 5 | BSNL | 81229732 |

Source: Various companies' websites

Changing Trend of the Payment Systems from Cash to Cashless

In India, cash continues to be the predominant mode of payment. The policy initiatives and the regulatory stance of the Reserve Bank has continued to focus on increasing the acceptance and penetration

payment modes comprising cheques, credit/debit cards, and transactions through ECS/RTGS/NEFT, over the years. Due to these measures the average ratio of non-cash retail payment to GDP continues to hover around 6 per cent over the last three years indicated in table-6

Table 6: Trend in Payments Systems

(` billion)

| Year | Non-cash retail payments* | Non-cash retail payments to GDP Ratio | Currency in circulation as a percentage of GDP |
|---------|---------------------------|---------------------------------------|--|
| 2006-07 | 194459 | 4.53 | 11.77 |
| 2007-08 | 305382 | 6.12 | 11.85 |
| 2008-09 | 329736 | 5.91 | 12.38 |
| 2009-10 | 406116 | 6.29 | 12.38 |
| 2010-11 | 476291 | 6.21 | 12.36 |
| 2011-12 | 516332 | 5.83 | 12.04 |

* Cheques, ECS, NEFT, Cards, RTGS Customer transactions.

Source: Various RBI publications and Database on Indian Economy (DBIE)

CONCLUSION

The key innovation drivers for banks in all regions are increasing revenues and acquiring customers, with cost reduction and regulatory compliance being relatively weak drivers. This is generally true, although the cost management focus in India seems to be higher than in other regions. Innovation is not as high a strategic priority in developing country like India and this is a challenge for Indian banks seeking to grow in the long term. The focus of banks on innovation in the online and mobile channels reflects the reality that these channels are growing fastest and have the potential to deliver a much improved customer experience. However, the kind of technology used and the efficiency of operations would provide the much needed competitive edge for success in retail banking business.

Furthermore, innovation continues to offer great potential for developing the financial services industry. This will support the convergence of banks and their networking infrastructures globally, increasing automation, reducing transaction costs, and helping to fight fraud. For customers, the future will bring a number of developments that personalise service and cater for specific lifestyle requirements.

Those who prefer to visit branches, including older members of the community, will see next-generation authentication systems and video links to remote service agents. By contrast, those who are comfortable to conduct transactions online and by phone will have a range of new self-service options that reduce waiting times and improve the customer experience.

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Dr. Raghavendra B.N., Assistant Professor,
PG Dept. of Commerce and Management,
East-West College of Management, Bangalore – 560091.
Karnataka. bnraghavendra2005@gmail.com

Usha C., Assistant Professor,
DoS & R in Commerce, Karnataka State Open University,
Mysore – 570006. Karnataka. usharaghu.ur@gmail.com