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THE SIGNIFICANCE OF RETAIL BANKING IN THE INDIAN ECONOMY

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ABSTRACT

Retail banking connects banks and customers. Neither business nor interbank banking. Services include mortgages, loans, debit cards, savings, trade, and cards. Commercial PSBs, private firms, and international organizations offer retail banking as one of their most innovative financial services. Retail banking can grow because more individuals need term deposits, consumer durable loans, auto loans, debit and credit cards, ATM services, insurance, online banking, and more. Economic growth has benefited from retail lending. Retail banking in India accounts for 20% of bank lending and is virtually as large as in rich countries. Retail lending helps commercial banks globally showcase their latest products. China and India draw investors owing to uncertainties. The rapid expansion of information technology, the economy, financial markets, people's wealth increase, and small supply-side variables has driven retail lending in emerging countries. Banks are altering private banking by merging, partnering, and growing. The way institutions promote themselves has altered tremendously. PSBs are strategically exploiting branch facilities to increase retail market share. The paper highlights retail banking's significance in India. All agree retail banking influences a nation's economy. Many new private banking offers help Indian banks. Individual loans made up 25% of bank credit. Recent years have seen more house loans. The retail credit industry is now buyer-favored. Store loans were once difficult, but not anymore. India's retail banking sector is booming. This contains assets and liabilities. "Retail banking" comprises all commercial bank consumer transactions. Many people view bank loans and mortgages as big assets for vehicles, school, and homes. Bank and credit card services are secondary.

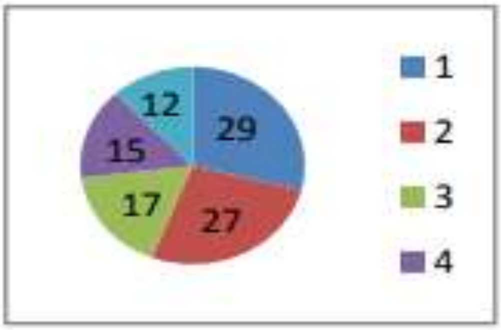
Keywords: *Retail Banking, Information Technology, Financial Market Reforms, Public Sector Banks, Retail Banking Sectors, , Commercial Banks, Indian Banking Industry, Economic Development.*

1. INTRODUCTION

Retail banking refers to the direct relationship between a bank and its consumers. Credit cards, mortgages, debit and credit cards, personal loans, and mortgages are a few examples of common items. Reasonable thought: Modeling using the Large-Number Law and Probability Important aspects of success include: The distribution procedure: Channels and forks Fees for transactions and accounts are considered when calculating unit expenses. Keeping risk costs within control. This phrase is frequently used to distinguish these financial services from business banking, investment banking, and wholesale banking. It can also refer to a bank branch that serves regular individuals; these types of businesses are known as personal banking services. The Report's Customer Experience Index is based on a survey of more than 18,000 bank customers in 35 districts. According to the findings, 10% of retail banking clients are unsure whether they would stay with their present bank or switch within the next six months. According to the survey, banks may improve their customer-bank relationships by focusing more on clients and developing stronger human ties. Individuals in need of banking services What has been successful for Indian banks since deregulation has not kept pace with the country's rapid growth: CAGR of about 30% to reach 9700 billion INR. From 2007 to 2011, the CAGR for families who can borrow money was 28%. What motivates this desire to expand? Growth rate and economic well-being Seventy percent of the population is under the age of 35. ATMs, POS terminals, the internet, and cell phones are all instances of technology channels. Store loans account for 35% of the economy in other Asian countries. They account for only 7% of the population in our country. Only 25% of all assets owned by banks are classified as "retail assets." 41% of adults in India do not have a bank account. The loan amount is equivalent to 14% of the adult population. The vast majority (73% of farming families) lack access to institutional funding. From 1991 to 2002, the proportion of the country's debt owed to moneylenders increased from 17% to 30%.

Service-based segmentation of retail banking transactions:

Serial NO	Services	Percentage
1	Credit card	29
2	Debit card	27
3	ECS dr	17
4	Neft/Eft	15
5	Necs/Ecs	12



2. RETAIL BANKING IN THE WORLD

The United States continues to lead the Customer Experience Index with an 81% score, while Canada comes in second with an 80% score. This year, China, Saudi Arabia, and Italy experienced the greatest increases in the number of satisfied clients. Mobility, Fees, Excellent Service, or Client Understanding? This is the sole reason why clients opt to move institutions. For the World Retail Banking Report, a big research called "Voice of the Customer" interviewed more than 18,000 retail bank clients in 35 countries. It demonstrates how individuals perceive retail banking. Some financial firms combined to save money in order to survive the difficult economic conditions. The study examines how customers feel about eighty distinct banking touch points, such as the services provided by banks, the importance of multiple channels for purchasing goods, and the transactions that occur during the course of a customer's banking relationship. Even though merging usually produces the desired results, it is not always simple. According to federal law, no American bank can have more than 10% of the total clients in the country. When banks consolidate, they gain additional clients, which is beneficial. A handful of US banks that are approaching the 10% barrier may be unable to solve their problems by combining even further. According to the Global Retail Banking 2020 report, more than half of the current bank branches in the United States may be judged obsolete by 2020, albeit they may not be shuttered entirely. According to a Capgemini analysis, branches account for 75% of a bank's overall retail distribution expenditures. To maximize shareholder value, clever, tech-savvy retail tactics will be required.

3. TRENDS IN RETAIL BANKING

10% of the 18,000 bank customers questioned for the Report's Customer Experience Index from 35 markets said they were inclined to leave their banks within the next six months. Another 41% were undecided about whether they would stay or leave. According to the survey, banks should focus on personal connections and make the consumer more important in order to repair the relationship between customers and banks. Despite the availability of Internet banking and ATMs, many consumers prefer the customized care they receive at their local branch bank. It is now possible to deliver services across the office bank network thanks to technological advances. Customers can now rapidly update their checking accounts and send funds to stock transfers. Retail banking has expanded to cover any location where customers can easily obtain financial services, not only physical locations. It makes no difference whether you operate a service kiosk at a train station, a mini-branch in a supermarket, a premium branch in a key business district, or a bank-on-wheels that visits corporate buildings; what counts is that you be close to your target consumers. Retail banking is increasingly putting technology at the heart of its operations. CEOs will expect their IT staff to identify and implement cutting-edge technologies that improve the customer experience. Banks that demonstrate flexibility and speed will have an advantage over their competition. Even banking institutions are attempting to make their buildings resemble Internet cafes. These locations have Wi-Fi and comfy chairs, as well as self-service kiosks, charging stations for personal electronics, lectures on mobile and web banking, and videoconferencing so consumers may talk to call center professionals regarding services. Branch deployment would vary as a result of the shift to a cashless lifestyle. According to RBI data, the average amount of a personal loan was Rs. 12,463,240 Lakhs between 1998 and 2008, and banks disbursed a total of Rs. 66,899,292 Crores in loans. A mortgage loan is equivalent to purchasing a home, whereas the average personal loan amount is equivalent to the income of 1054 million people. How significant are shopping mall banks to the Indian economy?

In India, there are several loans from private institutions totaling Rs. 70,22,354 Lakhs. Different types of it have always coexisted in India. In recent years, it has evolved to mean the same thing as "traditional banking" for several financial institutions. Some of the common services provided by Indian retail banks are automobile loans, credit cards, home loans, consumer loans for purchasing expensive products, and education loans. There are attractive brand names for loans that are sold to differentiate them from the items that various banks supply. According to the India Trend and Progress Report, the retail lending sector functions best with loans ranging from Rs. 20,000 to Rs. 100,000. Home loans are often granted for five to seven years, however the maximum term available is fifteen years. Credit cards are an additional and rapidly developing submarket for this type of product. Retail loans have become a substantial source of income for banks in recent years. The retail portfolio had 21.5% of all outstanding advances as of March 2004. The total impairment for the retail loan portfolio was substantially lower as compared to the Gross Non-Performing Assets (NPAs) ratio for the entire loan portfolio. The retail category home loans had the lowest level of total asset impairment. Retailing is a very wise way to spend money in the banking business. Despite the fact that junior private sector banks have created a reputation for themselves in this field, public sector banks have not lost money. To gain a larger share of the retail market, public sector banks have leveraged their massive branch networks and outreach activities. On a global scale, India still has a lot of room to expand in retail banking. In conclusion, retail loans account for less than 7% of India's GDP, whereas they account for over 35% in other Asian nations such as South Korea (55%), Taiwan (52%), Malaysia (33%), and Thailand.

18% of the total. Because Indian private banking is still in its early phases, the predicted growth rate may be excessively high. As a result, it is critical to exercise caution when assessing the rise of retail banking in India. The importance of retail banking in the growth of the Indian economy is discussed more below.

Credit Cards: People with bank accounts in India have been using cards since the mid-1980s, but the market has only grown rapidly since the early 1990s. In total, 42 organizations produced more cards than were available at the start of the year.

There were only 2.69 cores before to December 2004. There were 4.33 cores in

December 2004. Given the increasing importance of credit cards, a Working Group was formed to develop card-specific rules. The Working Group's task was to investigate potential standards for plastic cards (such as credit, debit, and smart cards) to ensure their safe, secure, and effective growth. This was a really broad request. The Group was also instructed to investigate ways for cardholders to resolve difficulties and the best ways to give exceptional customer service. Many customers have complained to the Reserve Bank about credit card businesses and their workers. The Reserve Bank of India (RBI) has implemented policies that will facilitate the spread of plastic money in India in a sustainable manner. In addition, the Reserve Bank of India is considering adding credit card complaints to the scope of the Banking Ombudsman scheme. We must ensure that the increased regulatory control in this area does not harm credit card use or make the system less efficient.

Housing Credit: Housing credit has increased significantly in the last five years, but it began at a modest level. From 1993 to 2004, the volume of house loans at major commercial banks and housing finance businesses increased by 23%. Housing loans accounted for approximately 3% of all non-food loans made by scheduled commercial banks during 1992 and 1993. In 2003 and 2004, that figure increased to almost 7%. According to updated numbers as of February 18, 2005, non-priority sector home loans accounted for only 8.0% of all bank credit, with a total outstanding sum of Rs. 74,000. Priority sector financing now includes location-independent direct house loans of up to Rs. 15 lakh, as previously stated. Housing loans are estimated to account for a significant portion of this sort of finance.

Support to Indian middle class People: The rise of India's middle class is a key component of this trend. The proportion of Indian households with middle-class to upper-class incomes is predicted to rise further. Although younger people have more purchasing power than older people, they may also be more inclined to incur personal debt. Because consumers can afford more products and are more ready to take on personal debt, India's retail banking business is performing well.

Economic superpower. A vital component of the economy. Retail banking has a role to play in the expansion of the Indian economy. The expansion of retail banks is one of the most essential factors that will aid India's economy. What are other people's opinions of us? According to the BRIC Report, India is a massive economic power, as I previously stated. A. T is at the top of the list of rising countries. According to Kearney, a worldwide management consulting firm, India is the "second most desirable retail location."

Increasing purchasing power of middle class people: The growing Indian middle class is a major contributor to this trend. Customers from the middle class are getting more able to purchase goods. The proportion of Indian households with middle-class to upper-class incomes is predicted to rise further. Although younger people have more purchasing power than older people, they may also be more inclined to incur personal debt. Because consumers can afford more products and are more ready to take on personal debt, India's retail banking business is performing well.

Financial market reforms: The Nothing is more crucial in retail banking than trust. Global retail lending has emerged as a new trend for corporate banks in recent years. Changes in the macroeconomic environment, the expansion of the IT sector, and a number of micro-level supply- and demand-side factors are all contributing to the increase in retail loans. Reform of the financial markets has also played a significant effect. We utilized the document on the retail banking market analysis as a basis to develop this benchmark.

Engine of economic growth: Retail banks have an impact on the economies of both the United States and other countries. They facilitate vital credit activities, which are a big part of what fuels their economies' growth. When there are problems in retail banking, the industry as a whole suffers greatly. Retail banks are not performing as effectively as they could, resulting in a lack of credit for those in need and a slowdown in economic activity.

Mass-market banking: Customers of retail banks have access to a variety of vital services. Retail banking, sometimes known as "conventional mass-market banking," provides checking and savings accounts, as well as personal loans such as vehicle and student loans. Retail banks also provide mortgages, ATM, debit, and credit card services, as well as a variety of other key services to modern customers.

Volume driven business. A business driven on numbers. In contrast to corporation financing, where the risk may be focused on a limited number of plans, retail credit ensures that the business is spread out among numerous clients. A bank's ability to analyze credit, record credit, hold credit, do regular follow-up, have access to technology, and have skilled people are all factors that influence its ability to handle a broad portfolio of retail credit products.

Automation of banking process Retail banking has gained in popularity as financial technology has advanced and banking processes have become more automated. Lower expenses and a broader reach make this possible. ATMs have grown in popularity as a low-cost alternative to traditional branch locations and loaning methods. Furthermore, it minimizes traffic at branches, allowing banks with limited networks to compensate for their usual shortcomings by increasing their market presence.

Easy and affordable access: Retail loans that provide you with numerous possibilities and opportunities. Banks will help consumers who acquire home loans pay for furniture and furnishings. Similarly, they will pay for registration, insurance, society fees, and other charges associated with car loans..

Financial Liquidity: To entice customers to apply for loans, banks provide value-added services such as insurance and credit card issuance, which may be provided for free at first. Filing, administrative, and early payment fees are always waived. The only costs associated with private financing at this time are interest rates.

Economic prosperity: As a result, consumers have more money to spend, resulting in a consumer increase. It's vital to recall that India's GDP developed at a 6.8 percent annual rate after 1992. It is currently growing at a rate that no other country in the globe can equal.

Changing consumer demographics: Because there are so many individuals, there is plenty of room for development in terms of both consumption quality and quantity. India has one of the world's youngest populations (70%). The majority of its inhabitants are under the age of 35. The fact that India has a greater population was cited as a significant advantage in the Goldman-Sachs BRIC research, which predicted that China, Brazil, Russia, and India will all have prosperous futures.

Technological innovations: Technology wielded enormous power. Debit cards, mobile and internet banking, and the flexibility to bank at any time and from any location have all recently helped to attract new customers to the banking industry. People are increasingly using credit and debit cards, automated teller machines (ATMs), direct debits, and phone banking, for example. These technical advancements have aided the growth of retail banking in India.

Increase the Bank Liquid cash: Historically, banks' capital income aided their bottom lines. However, it has decreased in the last two years. In this circumstance, running a store is a good approach to make the most money. Retail loans, in addition to assisting banks in other ways, have made provisioning considerably easier for them because they have a lot lower percentage of damaged assets than bank advances and loans as a whole.

Decline in interest rates: Lower interest rates in the Indian money market have aided the rise of retail loans, making consumers desire to borrow money in this manner. Since 1995-1996, when retail loan interest rates were at their peak (16-18%), they have fallen. They are currently between 7.5 and 9%. Because there is so much cash in banks and interest rates have fallen around the world, local banks have had to reduce the amount of cash they hold.

Declining cost of incremental deposits: Over one-third of all bank deposits are in low-cost savings and free checking accounts. This means that banks may offer interest rates lower than the PLR. Because it costs them less to acquire new investments, financial institutions have decreased interest rates on mortgage loans and other consumer loans.

Change of Terms of Loans: Previously, loans could only be obtained for a period of five to seven years. Retail loans can now be obtained for fifteen or twenty years, with shorter durations of three years.

4. CHALLENGES OF RETAIL BANKING IN INDIA

Retention of customers: In a Harvard Business Review research, Reichheld and Sasser claim that a 5% increase in client retention can enhance revenues by 35% in the banking business, 50% in the insurance and trading industry, and 125% in the consumer credit card market. Keeping clients and increasing market share must therefore be the top priorities for banks.

Rising indebtedness: It is evident that India's situation differs significantly from that of the developed world, where family debt to discretionary income is substantially larger. This type of situation raises a lot of questions. Concerned about the rapid expansion of consumer credit sectors, the Reserve Bank implemented interim risk-control measures and increased the risk weight of consumer credit (such as credit cards and personal loans) from 100% to 125% (Mid-term Review of Annual Policy, 2004-05).

Network management challenges: The task of keeping retail banking networks working efficiently and improving them. To be profitable and competitive, modern retail banks, for example, must ensure that all of their services and products are available 24 hours a day, seven days a week across the whole firm. Also, maintaining networks can be difficult, emphasizing how critical it is to ensure that these complex, globally dispersed networks and apps function properly so that enterprises can achieve their objectives. Making sure that account transaction tools perform properly between data centers and branch offices is one of the most difficult tasks.

Money laundering: The possibility of money laundering and the requirement for Know Your Customer (KYC) checks is a significant issue in private banking. People frequently believe that retail banking is a low-risk area for money laundering due to the tiny sums of money involved. However, because to competition, KYC processes may not be used to acquire new clients. Banking institutions also place a high value on the types of IDs they accept and on ensuring that all relevant processes are done. The Reserve Bank issued a wide range of recommendations on how to apply the Know Your Customer (KYC) laws in November 2004.

Sub-prime crisis: There was a major threat to the retail banking industry in late 2008. People who did not match the requirements for the loan amounts were provided subprime mortgages by commercial and retail banks. Despite the fact that this procedure was a major contributor to the growth in property values in the early 2000s, borrowers eventually ran into challenges that made repayment impossible. Because of this situation, many banks failed across the country and over the world, and people all over the country stopped paying their loans. It exacerbated the global economy and precipitated the financial and economic calamity that dominated world events in the first few months of 2009.

Massive infusion of capital: A large amount of money has been pushed into the banking and financial services industries as a result of the federal government's economic stimulus package. Despite the difficulties that private banks are facing, the majority of these organizations are anticipated to survive. It is increasingly more likely that smaller retail banks will attempt to merge with larger banks.

Strategy Knowing Your Customer: When it comes to private banking, the most crucial factor should be service. True, acquiring a good customer can take months, but losing one can happen in an instant. As a result, a strategy for "Knowing Your Customer" (KYC) is required. As a result, financial institutions must devise innovative ways to meet clients' wants and needs in terms of services, goods, and other items.

Outsourcing activities: There has recently been a lot of discussion about outsourcing since Indian institutions are engaging other companies to undertake key activities like maintaining software and hardware, building and running ATMs (including taking out and putting back in currency), and other similar operations.

5. CONCLUSION

Retail banking is constantly on the lookout for new ways to accomplish things. To be future-ready, banks must transform the way they fund things by developing new products and approaches, as well as continuously upgrading and validating existing systems and procedures. Currently, retail must assist financial firms in growing. Cross-selling, product creation and differentiation, micro-planning, marketing, smart pricing, personalization, technological advances, home, electronic, and mobile banking, and cost containment are all required to achieve this. Retail banking has a lot of space to develop, but it also has some major issues that must be addressed. Retail banking may or may not play a significant role in the banking sector's future growth, depending on how successfully banks handle challenges and capitalize on opportunities. Regardless, the most essential competitive advantage for success in the retail banking industry would still be how well the firm operates and what technology is employed. The objectives of each of these clients are also given careful consideration. As a result, it is critical for banks to enhance their customer service and stop lending money to people who cannot afford it, particularly when it comes to credit card interest that accumulates over time. Last but not least, retail banking, which employs 14% of the workforce and accounts for 7% of GDP, is one of the most crucial areas for the banking industry to focus on right now

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