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Research Article Analysing the State of Retail Banking in India

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Abstract: *Banking is a crucial financial activity that holds significance not just for individuals, but also for the overall economy. As the entire economy evolves, the banking services sector is also undergoing a transformation and has become increasingly attractive. Banking services have incorporated a multitude of novel features with the aim of enticing an increasing number of consumers.*

Retail banking has always been a fundamental aspect of banking operations worldwide, although it has only recently experienced substantial growth and progress. The change in retail financial goods, including credit cards, began internationally in the 1980s. However, in India, this revolution started in 1995 with the emergence of Foreign Banks and new generation Private Banks leading the way. This article aims to comprehensively address the theoretical aspects of retail banking, encompassing the challenges and issues encountered in this sector, the latest trends observed, the projected expansion of retail banking in India, and the specific obstacles faced by retail banking in India.

Keywords: banking portfolio, problems, retail banking, strategies

I. INTRODUCTION

Banking plays a crucial role in the modern global economy. It is essential for commerce and industry. Consequently, it is considered one of the primary commercial agencies. While banking has been around in various forms since ancient times, the concept of modern banking is relatively recent. It is a consequence of the Industrial Revolution and a result of economic necessity. The presence of it greatly enhances a nation's economic and industrial progress.

1.1 Banking in India

India's banking industry, despite being highly developed, does not now meet global standards in terms of scale, products, and services. Indian banks have recognized the need to expand both organically and inorganically in order to remain competitive with other market competitors. In this situation, the banking sector has predominantly prioritized retail banking. The rise of new economies and their rapid growth have played a crucial role in the resurgence of retail banking. The growth of retail banking in quickly expanding nations like India can be attributed to changing lifestyles, rapid improvements in information technology and other service industries, and increasing income levels.

Indian banks are vying for a share of the retail banking industry, which has significant development prospects. Currently, retail loans make up only 8 to 9 percent of India's GDP, whereas they account for 35 percent in other Asian economies. Nevertheless, retail banking has challenges such as maintaining customer loyalty, implementing advanced technological services and making investments in such services, addressing security issues, complying with Know Your Customer (KYC) laws, and adhering to credit evaluation regulations, among others.

1.2 An overview of retail banking in India

"Banking that is accessible to all individuals, managed by individuals, and possessed by individuals"

Retail banking refers to the offering of banking services to people and small companies by financial institutions that process a large number of low-value transactions. Banks are familiar with the notion, but it is currently seen as a noteworthy and profitable business segment that presents prospects for growth and financial gain. Banks have transitioned from wholesale banking to retail banking due to several factors, including surplus liquidity, greater reliance of corporations on capital markets, the growing income of the middle class resulting in increased purchasing power and

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debt management capabilities, the escalating number of nonperforming assets (NPAs) in corporate portfolios, and the expansion and future growth prospects of the credit card industry. Retail banking in India's thriving economy presents abundant prospects. As India's economic development progresses, retail banking will play a significant role in driving this growth. Key policy concerns in the sector include financial inclusion, responsible lending, access to financing, long-term savings, financial capacity, consumer protection, regulation, and prevention of financial crime. The credit portfolio of banks in India is undergoing fast transformation. Retail lending is exerting a growing influence on bank credit. As a result, the interest rates for loans given to consumers have also gone down. When it comes to retail banking, banks should focus their risk management efforts on analyzing and assessing the risks and potential returns associated with consumer loans. This includes evaluating the revenues generated from consumer loans, the potential losses from consumer loan defaults, the techniques used for loan collection, the structure of loan products, and the policies governing lending practices.

The term "retail banking" refers to the provision of financial services to individual customers by a bank or financial institution.

Retail banking includes various financial services such as retail deposit schemes, retail credit, retail loans, credit cards, debit cards, insurance products, mutual funds, and depository services. It also provides demand facilities and customer-specific services. Retail banking includes a range of financial services and products that make up a part of both the banks' assets and liabilities. The assets side of the balance sheet for retail banking comprises a wide range of loan products, such as mortgage, vehicle, consumer, and educational loans. The following attributes define retail banking:

• Proficient in credit assessment;
• Uninterrupted and unwavering monitoring;
• High computational capacity;
• Skilled workforce;
• Provision of support and guidance for technical issues;
• Trustworthy documentation

1.3 The inception of retail banking in India

Retail banking, although not a novel concept for banks, is currently recognized as a substantial and lucrative market segment that has prospects for growth and profitability. Retail banking and retail lending are sometimes used interchangeably, although retail lending is actually a subset of retail banking. In the context of retail banking, the various requirements of individual customers are effectively and comprehensively catered to. The contemporary retail banking sector is characterized by three essential attributes:

• a diverse range of financial products (including deposits, credit cards, insurance, investments, and securities);
• Various distribution channels available, including contact center, branch, and web. Furthermore
• Various customer segments, include individual consumers, small businesses, and corporate clients.

1.4 Advantages of relying on retail banking

Since 1991, the government's financial sector changes have led to intense rivalry among banks for corporate loans. As a result, banks are now willing to lend to large, high-value firms at rates that are even lower than their Prime Lending Rate (PLR) or below PLR. Additionally, they are offering additional valuable services at relatively cheaper prices. As a result, most banks have seen a decrease in the difference between the interest rates they charge and the rates they pay, as well as a decrease in their overall profitability.

Corporate loans typically generate a modest return of 0.5% to 1.5%, whereas retail advances provide a more appealing interest margin of 3% to 4%. This is due to the fact that retail borrowers are less affected by changes in interest rates compared to corporate borrowers. Another factor that contributes to the wide interest rate gaps on retail loans is the fragmented nature of retail clients, which hinders their ability to negotiate effectively. Corporate loans are susceptible to regular trade changes, however retail loans are reasonably resistant to economic downturns and consistently perform well even during periods of economic slowdown.Compared to corporate banking, retail banking offers banks enhanced stability and a more favorable public image.

Consumerism in the country is growing due to the increasing income levels of a growing middle class who have a strong desire to buy and enhance their standard of living. This is leading to the expansion of retail markets. The market is seeing an annual growth rate of 2.50 percent, leading to an increase in the demand for loans among households. The present penetration rate of the country stands slightly above 2%, indicating a vast potential for growth. Due to the country's ample liquidity, it is highly probable that the growth rate of this industry will significantly increase in the upcoming years. This offers a substantial opportunity for banks to broaden their loan portfolios.Asset securitization is an innovative product that can help banks maintain optimal capital adequacy and asset liability management, offering them new opportunities.

Retail Banking enables banks to offer additional retail products to its depositors and investors, including credit cards, insurance, mutual fund products, demat services, and more.

1.5 Factors influencing the growth and success of the retail banking industry in India

At first, the expansion of the economy and the consequent rise in people's ability to buy things have driven a surge in consumer spending. From 1992 until the present, India's economy has maintained an average annual growth rate of 6.8 percent, a level of performance that is unmatched by most countries.

The changing characteristics of consumers provide significant opportunities for both increased quality and quantity of consumption. India has a young population, with around 70% of its people being under the age of 35. The Goldman-Sachs BRIC study, which forecasted a promising future for Brazil, Russia, India, and China, highlighted India's population advantage as a notable positive aspect.

Furthermore, technical elements had a key role. The banking business has experienced an influx of new consumers due to the introduction of debit cards, internet and telephone banking, and the ability to bank conveniently and flexibly. The increase in the number of credit/debit cards, automated teller machines, direct debits, and phone banking services has played a role in the growth of retail banking in India.

Furthermore, the banks' revenue from Treasury operations, which had significantly contributed to their profits in recent years, has been experiencing a downward trend for the past two years. Under such circumstances, engaging in retail commerce is a highly effective strategy for maximizing profits.

The decrease in interest rates has additionally bolstered the growth of retail credit by augmenting the demand for it.

1.6 Products and services offered by retail banks

(A) Retail deposit products

Various retail banking products include Savings Accounts, Current Accounts, Recurring Accounts, Fixed Deposit Accounts, NRI Accounts, Corporate Salary Accounts, Free Demat Accounts, Kid's Accounts, Senior Citizen Schemes, Cheque Facilities, Overdraft Facilities, Free Demand Draft Facilities, Locker Facilities, and Cash Credit Facilities.

(B) Retail Loan Products

Financial institutions provide loans with different durations, such as short-term, medium-term, and long-term, and for varied objectives. Our financial institution offers a variety of loan options, including personal loans, housing loans, education loans, vehicle loans, professional loans, durable goods loans, and loans against shares and securities.

1.7 Retail services

These services encompass Lockers, Depository Services, Credit Cards, Debit Cards, Internet Banking, Mobile Banking, Phone Banking, Anytime, Anywhere, Anyhow banking, Automated Teller Machines, Gift Cards, and more.

II. CONCLUSION

The mindset of Indian individuals is also undergoing a transformation, with consumers prioritizing enhancing their standard of living, even if it entails taking loans for homes, consumer items, vehicles, vacations, and so on. The act of lending and borrowing is now widely accepted and no longer viewed as socially unacceptable. Peer pressure and the demonstration effect contribute to an increased demand for mortgage loans, consumer items, and autos. These advancements significantly enhance the performance of Retail Banking.

Retail banking clients generally exhibit strong loyalty and tend to have infrequent instances of switching banks. Many retail clients utilize marketing, mass selling, and a score system with data mining to classify and select clients. Banks can decrease costs, attain economies of scale, and enhance their profitability as a result of a substantial growth in retail business volume. Banks can foster business ties with clients by implementing product improvements and employing competitive pricing methods, thereby enhancing customer retention and attracting new clientele.

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