

## RETAIL BANKING AND SERVICES

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### ABSTRACT

*Retail banking is a bank executed transactions directly with consumers, rather than corporations or other banks. Services offered include saving and transactional accounts, mortgages, personal loan, debit cards and credit cards. The term is generally used to distinguish these banking services from investment banking, commercial banking or wholesale banking. It may be used to refer to a division of a bank dealing with retail customers and can also be termed as personal banking services. The bank has worked to acquire advanced banking technology and a highly qualified and motivated work force. The purpose is to include business with significant market shared in sectors of the economy that have good prospects for growth. Management intends to continue diversifying the bank's revenue base and enhancing its position among its peer group in the banking sector.*

*Key words: Banking Services, Banking Technology, Market share, Investment Banking*

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**Retail banking** refers to the consumer-oriented services offered by commercial banks. These services include checking and savings accounts, mortgages and various types of loans and investment services relating to retirement and educational planning. Retail banking encompasses the services offered to consumers by commercial banks. The term "retail" refers to the almost storefront-shopping nature of commercial banking services. Most commercial banks have extensive retail banking services and products to reach a wide consumer base.

Typical products offered by a retail bank include:

- Transactional accounts
- Current accounts
- Savings account
- Debit cards
- ATM Cards
- Credit cards
- Traveler's Cheque
- Mortgages
- Home equity loans
- Personal loans
- Certificate of deposit/Term deposits

Retail banking is a framework that allows commercial banks to offer banking products and services in one place at virtually any of their branch locations. The retail banking aspect turns commercial banks into a kind of retailer where clients are able to purchase multiple banking products. Retail banking is quite broad in nature. It refers to dealing with individual customers by commercial banks, both on liabilities & assets sides of their balance sheet. Fixed savings /current accounts come on the liabilities side & mortgages and loans come on the assets side. Various other services include credit cards or depository services. Retail banking & retail lending are often confused with each other but retail lending is only a subset of the retail banking. Individual customer's need & requirement are accessed & approached in an integrated manner in retail banking.

## **OBJECTIVE**

The objective of the retail banking is to increase the penetration. The delivery channels have got various names such as home banking, internet banking, mobile banking, ATM Cards and so on. Retail banking provides the banks an opportunity to do cross selling and provide the ancillary services. The Retail banking offers a promise of low transaction costs, more sale productivity and more convenience in the business. The older banks have already a vast network, but new entrants in the markets have a disadvantage against the established banks. So, retail banking gives them an opportunity to create a customer base and optimum leverage of the resources.

## **RETAIL BANKING HAS ENTERED A NEW ERA**

Customers are now driving the industry, meaning that you face a variety of unpredictable business pressures. Technology is changing consumer behavior, with flexibility and time to market key to keeping pace with the competition. From multi-channel customer service,

retention and acquisition in the face of powerful new market entrants, to familiar issues of regulation, risk optimization, cost and legacy system evolution, the need to be fully prepared has never been greater. As a retail bank we are looking for exceptional functional coverage, allowing optimal customer service, across all channels simultaneously. We need a single, rich source of customer data, along with sophisticated business intelligence tools to provide insight into customer behavior. We are looking for scalable, high-performing solutions to meet growth plans without changing your banking system, which can be deployed quickly and reliably, delivering a rapid return on investment.

## **CHARACTERISTIC**

The main characteristic of retail banking, very much similar to retail trade, is that banks directly execute transactions with consumers rather than other banks or corporations. The retail banking is characterized by multiple products, multiple delivery channels and multiple customer segments. The multiple products may include financial products such as deposits, insurance products, investments etc. The multiple delivery channels may include customer service centers, internet etc. Multiple customer segments may include the individual customers, small businessmen and corporate.

### **ADVANTAGE**

Retail banking has inherent advantages outweighing certain disadvantages. Advantages are analyzed from the resource angle and asset angle.

#### **Resource angle**

- ❖ Retail deposits are stable and constitute core deposits.
- ❖ They are interest insensitive and less bargaining for additional interest.
- ❖ They constitute low cost funds for the banks.
- ❖ Effective customer relationship management with the retail customers built a strong customer base.
- ❖ Retail banking increases the subsidiary business of the banks.

#### **Assets side**

- ❖ Retail banking results in better yield and improved bottom line for a bank.
- ❖ Retail segment is a good avenue for funds deployment.
- ❖ Consumer loans are presumed to be of lower risk and NPA perception.
- ❖ Helps economic revival of the nation through increased production activity.
- ❖ Improves lifestyle and fulfils aspirations of the people through affordable credit.
- ❖ Innovative product development credit.
- ❖ Retail banking involves minimum marketing efforts in a demand –driven economy.
- ❖ Diversified portfolio due to huge customer base enables bank to reduce their dependence on few or single borrower

- ❖ Banks can earn good profits by providing non fund based or fee based services without deploying their funds.

## **DISADVANTAGES**

- ❖ Designing own and new financial products is very costly and time consuming for the bank.
- ❖ Customers now-a-days prefer net banking to branch banking. The banks that are slow in introducing technology-based products, are finding it difficult to retain the customers who wish to opt for net banking.
- ❖ Customers are attracted towards other financial products like mutual funds etc.
- ❖ Though banks are investing heavily in technology, they are not able to exploit the same to the full extent.
- ❖ A major disadvantage is monitoring and follows up of huge volume of loan accounts inducing banks to spend heavily in human resource department.
- ❖ Long term loans like housing loan due to its long repayment term in the absence of proper follow-up, can become NPAs.
- ❖ The volume of amount borrowed by a single customer is very low as compared to wholesale banking. This does not allow banks to exploit the advantage of earning huge profits from single customer as in case of wholesale banking.

## **BENEFITS OF RETAIL BANKING**

Retail Banking has become a better option for banks to increase their earnings as the lending to corporate is of high risk & are generally slow moving. This sector consists of a large number of customers of varied class. This type of banking provides customized & wide range of products to individual & small units. Also the risk is spread & the recovery is very good. The products can be designed, deployed & marketed according to the individual requirements.

## **ANALYSIS OF RETAIL BANKING**

### **STRENGTH**

#### **1) Diversified asset portfolio**

Retail banking consists of a wide range of financial product & services. These include deposit product, home loan, loan against equity shares, mortgage loan, auto loan, car loan, payment of bills, credit card, debit card etc. Such a diversified asset portfolios provide banks with higher profit & relatively lower NPA (non Performing Assets).

## **2) Upcoming as a new growth driver**

Over past few years, fierce competition has lowered the spread & profitability from a commercial loan. With the deregulation and increase in consumer loan rate, the risk adjusted return in retail sector has exceeded beyond the return on commercial loan.

## **3) CRM tools**

The customer Service & Quality implementation through use of CRM tools will help banks in acceptance of their banking product and satisfaction of customer that will eventually yield profit for them.

## **4) Innovative product development**

In financial services there is an unlimited scope for development & innovation. Banks should approach the customers to find out their financial need & problem and accordingly structure their strategies towards the development of the product & services, marketing them & finally selling them to satisfy its customer.

## **5) Increase in income**

The role of retail banking has become important. By providing various products & services like personal loan, education loan, home loan etc to its customer, the retail banking helps in maintaining the changing life style of its customers through affordable credit.

## **6) Economies of scale**

Banks have access to more information through extended services. They should systematically record this customer information as it can help them in efficient utilization of this information, which in turn can be used in finding out new segment of market & to sell their new services.

## **WEAKNESS**

### **1) Reduces the profitability**

Retail banking requires high capital investment as a huge amount is spent on managing the wide range of product & service which further requires large staff & high quality technology. All this reduces the overall banks profitability.

## **2) Avoids corporate sector**

Retail banking avoids corporate sector which forms the backbone of Indian economy. Banks should properly manage their corporate clients through lower arte credit, higher amount of loan etc. Corporate clients are easily manageable as they have well defined financial policy & projects.

## **3) Changes in technology**

Banks are not able to match with the latest technology it may affect their growth. Also the technology requires huge amount of capital investment & if suppose, the technology fails then it will affect the bank's reputation & the bank may lose some of its customer.

## **4) Marketing**

Retail banking requires strong internal as well as external marketing strategies to be adopted by bank. Under retail banking the management needs those employees who can introduce product properly to their customers. The employees must be aware of the products they are offering because if this is not the case then it can lead to the failure of even a very good product. Also bank should spend a lot on its marketing of product to general public. All this increases the expenses of banks in terms of time & cost required to introduce the product.

## **OPPORTUNITIES**

### **1) Increase in per capita income:**

There has been increase in the per capita income over the past few years & is expected to grow in the future also. Moreover, the younger population is more comfortable in taking personal debt than previous generations. Their purchasing power has also increased due to economic growth & more jobs.

### **2) Innovation in products & services**

This segment has more scope for innovation as banks tries to provide more & more products & services to their customers as desired by them. Banks can continuously modify its products & services to match the market demand & sustain in this competitive era.

### **3) Growing Economy**

Retail banking has enormous opportunities in a growing economy like India. A.T. Kearney, a global management consulting firm, identified India as the '2nd most attractive retail destination' among the 30 emergent markets.

## THREATS

### Large payout of loans

The increasing competition has made the banks to disburse large number of customer loans, auto loans, home loans, loans on credit cards, educational loans etc. on easy terms without much inquiry. Due to this the number of case of default in loan repayment has increased. This in turn has increased the bank's bad debts & nonperforming assets (NPA). This was one of the major reasons for recession which has affected the world.

## STRATEGIES FOR SUCCESS IN RETAIL BANKING

Banks should adopt the following strategies to achieve success in the retail banking sector.

- ❖ Adoption of advanced & latest technology.
- ❖ Availability of skilled man power in all branches & offices.
- ❖ Extensive market research should be carried out in order to formulate innovative & competitive products & services.
- ❖ Managing relationship with customers by having an approach of customer relationship management.
- ❖ There should be balanced and sustained growth in deposits & advances.
- ❖ More & more delivery channels should be explored.
- ❖ Service quality should be improved with human touch giving the customers personal experience.
- ❖ Proper strategic cost management should be adopted.
- ❖ Constant focus should be there on Universal banking and financial supermarkets.

## CHALLENGES TO RETAIL BANKING IN INDIA

- ❖ The key challenges of the bank is to strike a balance between credit growth & quality of asset simultaneously and sustaining the profitability in the increasing interest rate scenario.
- ❖ With the advancement in technology, there has been increase in the responsibilities & challenges for an IT department in managing, maintaining & optimizing the performance of retail banking networks..
- ❖ The new Base rate is yet to be implemented which will ensure transparency in the lending but will reduce bank's profits as they will then be able to lend at or above base rate & not below it. This may affect banks as they may lose their some customers to whom the loan were given at below PLR.

- ❖ RBI is adopting various measures to reduce liquidity. They have increased CRR & also increased Repo & reverse repo rate. All this will impact the lending rate of banks as the interest rate will rise to reduce liquidity in market. But this will be a threat to banking sector. At this time when interest rates are higher & interest rate volatility exists, the Current Account Saving Account (CASA) deposits help banks maintaining their margins. These accounts helps in maintaining the spread between the cost of funds & interest earned in a period of high interest rates.
- ❖ In recent past, the outsourcing of various activities such as software & hardware maintenance, entire ATM operation (including cash, refilling) etc. has become very important.
- ❖ The banks should have innovative strategic management approach to meet its customer's needs & requirements in terms of products or services. It is generally said that, 'it takes months to find a good customer but only seconds to lose him'. Therefore, banks should have the strategy of Knowing Your Customer (KYC).
- ❖ To retain the ongoing trust of the public & reputation, banks are supposed to meet their commitments & take utmost care while serving their customers.
- ❖ In order to increase the market share & profitability in the retail banking & corporate banking, the customer loyalty is very important.
- ❖ Less education or training is given to the people in rural areas who are illiterate & don't know how to do avail the basic benefits from banking, forget about operating ATMs.
- ❖ Challenges are faced by the banks with utmost care and deliberation, the retail banking is expected to play a very crucial role in coming years.

## CONCLUSION

Since the reforms in financial sector in India, Retail banking is facing a lot of competition. Today banks are on their toes for sustaining in existing business & capturing new business. Banks are competing for increasing their retail business. Constant innovation should be there in retail banking in areas product development & differentiation, marketing, micro-planning, prudent pricing, technological up gradation, customization, home / electronic / mobile banking, asset liability management & effective risk management and techniques. But in the Indian banks, there is very less little or no interest in innovative products. Innovation should not only in terms of technology or through internet or computers but it should be such that it benefits even the rural areas. Banks should face the challenges optimistically & make use of opportunities to make profit. The success in retail banking business depends on the kind of technology used & the effectiveness of operations. This provides the banks an edge over their competitors. Furthermore, customer interest should be most important for becoming a responsible bank. The focus of this sector should not only remain to just increasing the per capita indebtedness but it should be in terms of creation of wealth at macro economical level.



## RECCOMENDATIONS

Banks should extend their operations to rural & semi urban areas & should have a responsible banking approach. This can be done by educating & training people to avail the benefits of banking services which will not only help the banks in increasing their reputation but will also help them in long term perspective to increase the profits by tapping the untapped areas.