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EMERGING ISSUES IN HANDLING RETAIL BANKING IN INDIA



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Short Profile

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ABSTRACT:

Banking occupies one of the most important positions in the modern economic world. It is necessary for trade and industry. It has been in existence in different forms. However, in recent few years, it has emerged as an important segment of Bank's portfolio. There are host of factor that compelled Indian banks to shift focus from class baking to mass and retail banking in the recent past. Banks need to adopt strategies like product innovation, high quality service, speed of delivery, etc. Banking is the

financial function which plays an important role not only for the particular individual but also for the overall economy. With changing face of overall economy the face of banking service is also changing now it has become more & more attractive. Various newer functions have been added in the banking services to attract more & more customers. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro level demand and supply side factors. The research paper is an attempt to become aware of some of emerging issues in handling retail banking in India.

KEYWORDS

Service, Technology, Product, Price, Human Resource.

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INTRODUCTION :

Retail banking segment of bank's business has a very bright future prospects especially in a growing economy like India mainly because of increasing prosperity and the consequent increase in purchasing power of the people, changing demographics with young population having high propensity to consume coupled with more liberal attitudes towards personal debt. Consumers no longer automatically turn to their primary banks for additional services and most current accounts are loss-making. Besides, the core banking relationship itself is being challenged by product specialists and non-financial services players exploiting the power of retail brands.

Retail banking has immense opportunities in a growing economy like India. The rise of Indian middle class is an important contributory factor in this regard. The percentage of middle to high-income Indian households is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to India's retail banking segment.

The combination of above factors promises substantial growth in retail sector, which at present is in the nascent stage. Due to bundling of services and delivery channels, the areas of potential conflicts of interest tend to increase in universal banks and financial conglomerates. There are some of the key issues which are emerged in recent period and effects on the overall retail banking. It is mandatory to study and imply handling ways.

KNOWING CUSTOMER

'Know your Customer (KYC)' is a concept which is easier said than practiced. Banks face several hurdles in achieving this. In order to that the product lines are targeted at the right customers-present and prospective-it is imperative that an integrated view of customers is available to the banks. The benefits flowing out of cross-selling and up-selling will remain a far cry in the absence of this vital input.

Banks must require to setting up of a robust data warehouse where from meaningful data on customers, their preferences, there spending patterns, etc. can be mined. Cleansing of existing data is the first step in this direction.

CUSTOMER SERVICE

Customer service is perhaps the most important dimension of retail banking. While most public sector banks offer the same range of service with similar technology/expertise, the level of customer service matters the most in bringing in more business. Perhaps more than the efficiency of service, the approach and attitude towards customers will make the difference.

Front line staffs have to be educated in this regard. A scheme of entrusting a group of important customers to the care of each employee/officer with a person to person knowledge and intimacy can be implemented all sundry advices/notices such as Dr. /Cr. advices. TDR maturity advices, etc. whether signed by employees or officers should be identifiable by the name of those signing, and inviting customers to contact them for further assistance in the matter. Separate branches/divisions should be opened for traders and similar government businesses.

Nationalized banks compare very poorly with the foreign banks when it comes to the efficiency in services. In order to improve the speed of service the bank should. Improve the rapport between the controlling offices and the branches to ensure that decisions are communicated fast. Make sure that the officials as well as the staff are fully aware of the rules so that processing is faster.

TECHNOLOGY ISSUES

Retail banking calls for huge investments in technology. Whether it is setting up of a Customer Relationship Management System or Establishing Loan Process Automation or providing anytime, anywhere convenience to the vast number of customers or establishing channel /product/ customer profitability, technology plays a pivotal role and it is a long haul. The Issues involved include adoption of the right technology at the right time and at the same time ensuring volumes and margins to sustain the investments.

However, the initiatives in this regard should include creating flexible computing architecture amenable to changes and having scalability, a futuristic approach, networking across channels, development of a strong Customer Information Systems (CIS) and adopting Customer Relationship Management (CRM) models for getting a 360 degree view of the customer.

OUTSOURCING

With the increasing market orientation of the financial system and to cope with the competition as also to benefit from the technological innovations such as, e-banking, the banks are making increasing use of "outsourcing" as a means of both reducing costs and achieving better efficiency. While outsourcing does have various cost advantages, it has the potential to transfer risk, management and compliance to third parties who may not be regulated. A recent BIS Report on "Outsourcing in Financial Services" developed some high-level principles. A basic requirement in this context is that a regulated entity seeking to outsource activities should have in place a comprehensive policy on outsourcing including a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the service provider.

ORGANIZATIONAL ALIGNMENT

It is of utmost importance that the culture and practices of an institution support its stated goals. Having decided to take a plunge into retail banking, banks need to have a well defined business strategy based on the competitive of the bank and its potential. Creation of a proper organization structure and business operating models which would facilitate easy work flow are the needs of the hour. The need for building the organizational capacity needed to achieve the desired results cannot be overstated.

This would mean a strong commitment at all levels, intensive training of the rank and file, putting in place a proper incentive scheme, etc. As a part of organizational alignment, there is also the need for setting up of an effective Corporate Marketing Division. Most of the public sector banks have only publicity departments and not marketing setup. A fully fledged marketing department or division would help in evolving a brand strategy, address the issue of alienation from the upwardly mobile, high

net worth customer group and improve the recall value of the institution and its products by arresting the trend of getting receded from public memory. The much needed tie-ups with manufacturers/ distributors/ builders will also facilitate smoothly. It is time to break the myth PSBs are not customer friendly. The attention is to be diverted to vast databases of customers lying with the PSBs till unexploited for marketing.

PRODUCT INNOVATION

Banks need to innovative products suiting the needs and requirements of different types of customers. Revisiting the features of the existing products to continue to keep them on demand should not also be lost sight of.

The future of retail banking lies more in mobile banking. Mobile telephone market is penetrating, and mobile phones are ideal to utilize Internet banking services without customer accesses to PC. By a tacit acceptance India has around three million mobile phone users and this number is expected to reach to eight million in near future.

PRICING OF PRODUCT

The next challenge is to have appropriate policies in place. The industry today is witnessing a price war, with each bank wanting to have a larger slice of the cake that is the market, without much of a scientific study into the cost of funds involved, margins, etc. The strategy of each player in the market seems to be: 'under cutting others and wooing the clients of others'. Most of the banks that use rating models for determining the health of the retail portfolio do not use them for pricing the products. The much needed transparency in pricing is also missing, with many hidden charges. There is a tendency, at least on the part of few to camouflage the price. The situation cannot remain his way for long. This will be one issue that will be gaining importance in the near future.

PRICE BUNDLING

Price bundling can be used in order to lengthen the relationship with a customer. It will reduce the need of resources to be put on acquiring new customers and saves time of the bank. Among the strategic benefits, price bundling may cause less aggressive competition; it differentiates its products compared to rivals in the same market where the products are sold individually or in other kinds of bundles. Retail banking offers many services and it gives an opportunity to the bank to combine different services in different kinds of bundles. In many cases demand for one service affects the demand for another service, for example current or savings account and payment services are highly related, and here price bundling is a better alternative than individual selling. Banks have to analyze the customer segment and bundle products before applying the pricing strategies.

PROCESS CHANGES

Business Process Re-engineering is yet another key requirement for banks to handle the growing retail portfolio. Simplified processes and aligning them around delivery of customer service

impinging on reducing customer touch- points are of essence. A realization has to drawn that automating the inefficiencies will not help anyone and continuing the old processes with new technology would only make the organization an old expensive one. Work flow and document management will be integral part of process changes. The documentation issues have to remain simple both in terms of documents to be submitted by the customer at the time of loan application and those to be executed upon sanction.

ISSUE CONCERNING HUMAN RECOURSES

While technology and product innovation are vital, the soft issues concerning the human capital of the banks are more vital. By having universal tellers, bringing in managerial controlling work place, provision of intensive training on products and processes, emphasizing, coaching etiquette, good manners and best behavioural models, formulating objective appraisals, bringing in transparency, putting in place good and acceptable reward and punishment system, facilitating the placement of young /youthful staff in front-line defining a new role for front-line staff by projecting them as sellers of products rather than clerks at work and changing the image of the banks from a transaction provider to a solution provider.

RURAL ORIENTATION

As of now, action that is taking place on the retail front is by and large confined two metros and cities. There is still a vast market available in rural India, which remains to be trapped. Multinational Corporations, as manufacturers and distributors, have already taken the lead in showing the way by coming out with exquisite products, packaging and promotions, keeping the rural customer in mind. Washing powders and shampoos in Re.1 sachet made available through an efficient network and testimony to the determination of the MNCs to penetrate the rural market. In this scenario, banks cannot lack behind.

In particular PSBs, which have a strong rural presence, need to address the needs of rural customers in a big way. These and only these will propel retail growth that is envisaged as a key strategy for portfolio expansion by most of the banks.

CONCLUSION

Retail banking has significant past and glorious future over the years. Retail banking has proved as an effective tool not only to improve the bottom lines of the banks concerned but also to significantly contribute to the development of the individual consumers availing the services or products in particular and to the overall development of the society in general with the needs of the consumers ever multiplying. There is definitely a vast scope for the furtherance of the Retail Banking business.

There is a need of constant innovation in retail banking. In future, bank must financing through innovative products and mechanisms involving constant up gradation and revalidation of the bank's internal systems and processes and need to use retail as a growth trigger. This requires product development and differentiation, innovation and business process reengineering, micro-planning, marketing, prudent pricing, customization, technological up gradation, home/electronic/mobile

banking, and cost reduction and cross-selling.

Retail banking is the fastest growing sector of the banking industry with the key success by attending directly the needs of the end customers is having glorious future in coming years. This requires product development and differentiation, innovation, and business process re-engineering, micro- planning, marketing prudent pricing, customization, technological up gradation, home/electronic/mobile banking, and cost reduction and cross selling. While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. How far the retail banking is able to lead growth of the banking industry in future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably. However, the kind of technology used and the efficiency of operations would provide the much needed competitive edge for success in retail banking business.

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