

SWOT Analysis of Retail Practices in Indian Banking Sector: Challenges and Future Growth

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Abstract

Retail Banking is a system where a bank executes transactions directly with the customers. There are various services in retail banking such as savings account, vehicle finance, mortgages, credit cards, debit cards etc. Retail banking is an effective tool in contributing to the development of the individual consumers and to the overall development of the society. Across the globe, retail lending has seen a wide innovation in recent years. The growth of retail lending, especially in emerging economies, like India is due to the rapid upgradation in information and technology, financial market reforms and several demand and supply side factors. In India, retail loan is estimated to have accounted for nearly one-fifth of all bank credit. Housing sector is experiencing a boom in its credit. All these show that retail banking is experiencing an upward trend in the Indian economy in recent years. Retail banking is quite broad in nature. As the Rbi source indicates that there is an increment in use of ATM's by population growth (financial year 2012) is 7% in rural india,38% in metro cities,33% in urban areas and 22% in semi rural areas. Mobile banking transactions have also increased. Therefore retail banking has immense opportunities in a growing economy like India contributing to India's retail banking segment. How far the retail banking business will be able to lead to growth of the banking industry in future will depend upon the capacity of the banks to meet the challenges and make use of the opportunities in an efficient manner. Today banks are competing for increasing their retail business. Reports state that there are about 33,000 rural bank branches and about 21,000 semi rural bank branches .Commercial banks cover only 7% of rural area and so large market is still untapped. These days, Retail banking strategies are also going through major transformation. Major players working in this regard are SBI, AXIS Bank, HDFC Bank and ICICI Bank.

KEYWORDS : Retail banking, financial innovation, ATM, mobile banking.

INTRODUCTION TO INDIAN BANKING SECTOR

Indian financial system comprises of financial market, financial institutions, financial instruments and financial services .Banks are the main participants of the financial system in India. Banking in India originated in the last decades of the 18th Century. Indian banking organizational structure comprise of Central bank: RBI, commercial banks, co-operative banks, specialized financial institutions and others.

Nationalization of banks paved way for Retail Banking. There was increase in the branch network, the deposit mobilization, credit disposals and employment. The current scenario in India is that over a past number of years banking industry has developed. The demands

on the banking sector to cater to the needs of the economy are growing continuously due to economic growth and development. Higher income levels among the households and a changing lifestyle have accelerated activities in the retail banking sector. The overall demands for banking products and services has led to the innovation of new products and a more customer friendly approach through the introduction of customized products by the banks.

REVIEW OF LITERATURE

A report by McKinsey & Company on 'Emerging Challenges to the Indian Financial System' (April 2007) has highlighted the huge potential available for personal financial services and the different spaces available for banks to encash this potential. A study by CRIS - INFAC (December 2005) on retail loans revealed lot of details about the market share and disbursement patterns of banks in big ticket (ticket size of more than Rs.50,000 with average ticket size of Rs.1,23,000) and small ticket personal loans (ticket size of less than Rs.50,000 with average ticket size of Rs.23,000) of banks. In big ticket personal loans, the share of organized players in monthly disbursements (March 2005) was at 36.1% for foreign banks, 39.9% for private banks and 14.8% for nationalised banks and 9.2% for cooperative banks.

Financial innovation is helpful in ensuring smooth functioning. More generally, financial innovation has been a central force driving the financial system toward greater economic efficiency (Merton and Bodie 2005). Avasthi & Sharma (2000-01) have analyzed in their study that advances in technology are set to change the face of banking business. Technology has transformed the delivery channels by banks in retail banking. It has also impacted the markets of banks. The study also explored the challenges that banking industry and its regulator face. B. Janki (2002) analyzed that how technology is affecting the employees' productivity. Jalan, B. (2003), IT revolution has brought about a fundamental transformation in banking industry. Perhaps no other sector has been affected by advances in technology as much as banking & finance. It has the most important factor for dealing with the intensifying competition & the rapid proliferation of financial innovations. Padhy, K.C. (2007) studied the impact of technology development in the banking system and he also highlights the future of banking sector.

OBJECTIVES OF THE STUDY

The main objectives of the study are:

- 1) To study the changes in banking sector and identify various factors behind the growth of Retail banking Business in India.
- 2) To carry out SWOT analysis of retail banking industry in India
- 3) To highlight various challenges of Retail Banking business in India.
- 4) To give suggestions and to devise strategies to expand Retail Banking in India.

METHODOLOGY:

Secondary sources were used. Secondary data has been collected and analysed from various sources such as: books, journals, research papers. Data published by various financial institutions and government agencies like-Reserve bank of india (RBI), national

bank for agriculture and rural development (NABARD), State level banker's committee(SLBC) etc was used.

INTRODUCTION : RETAIL BANKING

Retail banking is when a bank deals transactions directly with consumers, rather than corporations or other banks. Variety of Services offered include savings and transactional accounts, mortgages, personal loans, debit cards and credit cards. Retail Banking as a business model is adopted now a days by all the banks in India on account of multiple factors .With the changing paradigm of technology as the driver for retail banking explosion, banks are using different strategies like - redesigning their conventional business methods, re-engineering existing products and inventing products and services, channels of distribution . The objective of retail banking is to provide customers a full range of financial products and banking services.

Hence, they possess some of the following characteristics:

1. Strong credit assessment capability
2. Sound and well developed documentation system
3. Regular follow- up procedure
4. Skilled human resource
5. Technological support

RETAIL BANKING IN INDIA

The origin of retail banking can be traced back to the entry of foreign banks. The conventional banking business by Public Sector Banks (PSBs) was done without any specific demarcation for retail and non retail activities. Foreign banks operating in India set the trend and in the late 1970 and early 1980s and came out with their consumer banking models. Standard Chartered Bank and Grindlays Bank were the pioneers. Citibank created waves in the early 1980s with their credit card products. State Bank of India and some public sector banks like Indian Overseas Bank, Bank of India, Bank of Baroda and Andhra Bank developed and marketed asset products and card products to cater to retail segment. The entry of private sector banks in early 1990s created a new approach to retail banking by banks. With the advantage of technology right from start, these banks had a clear positioning for retail banking and aggressively strategised for creating new markets for the retail segment.

India's banking system has seen some major financial innovations in the past decade as well as steps to promote financial inclusion, schemes that aim to take banking services to yet-to-be-banked areas. The various innovations in banking and financial sector are ECS, RTGS, NEFT, ATM, Retail Banking, Debit & Credit Cards, implementation of standing instructions of customers, payments of utility bills, fund transfers, internet banking, mobile banking, selling insurance products, traveller's cheques and many more value added services. The major impetus for financial innovation has been globalization of financial systems, deregulation, and great advances in technologies. The following table shows the increase in volume of credit through financial innovations.

Year	2009-10		2010-11		2009-10	2010-11		2009-10	2010-11	
	Volume		Percentage	Variation		Value			Percentage	Variation
1	2	3	4	5	6	7	8	9		
ECS Credit	98.1	117.3	11.0	19.5	1,17,613	1,81,686	20.6	54.5		
ECS Debit	149.3	156.7	-6.7	5.0	69,524	73,646	3.8	5.9		
NEFT	66.3	132.3	106.3	99.5	4,09,507	9,39,149	62.5	129.3		
RTGS	33.2	49.3	148.5	48.2	3,94,53,359	4,84,87,234	22.2	22.9		

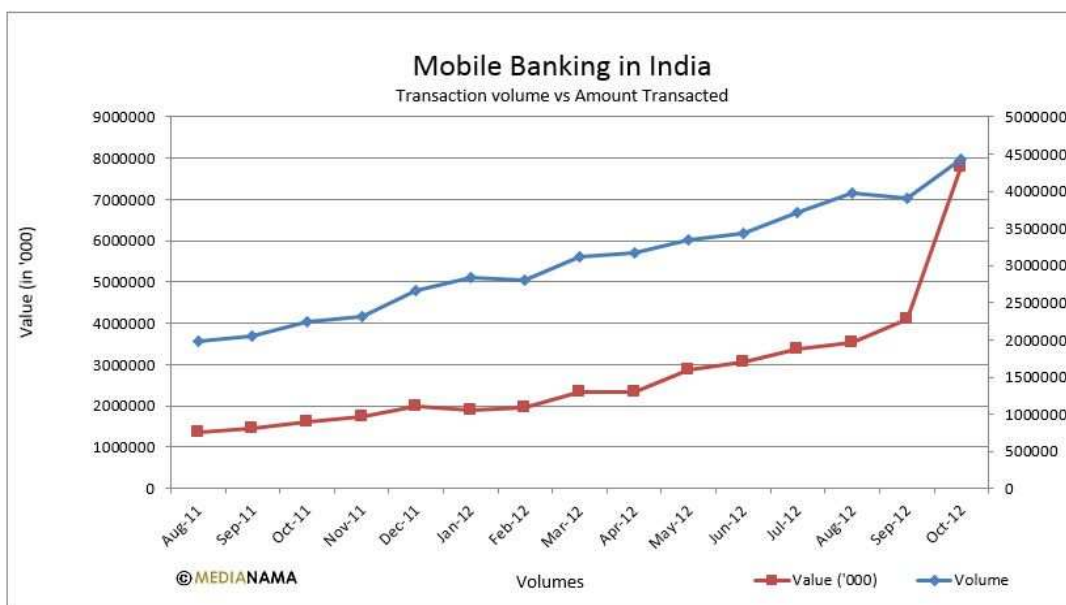
Volume and Value of Electronic Transactions* by Scheduled Commercial Banks
(As at end-March2011)

Technology is not only making banking convenient for customers, it has also allowed banks to expand their businesses faster and bring down costs. ATM is the oldest of the alternative banking channel and enjoys the highest level of acceptance among customers . The number of ATMs in India has doubled in the past three years. Currently, there are more than 100,000 ATMs, around 70% of them in urban locations .Global research firm Celent expects the number of ATMs to double by 2016, with more than 50% being set up in small towns.

Sr. No	Bank group	On-site ATMs	Off-site ATMs	Total number of ATMs	Off-site ATMs as% of total ATM
I	Public sector banks	29,795	19,692	49,487	39.8
1.1	Nationalised banks*	15,691	9,145	24,836	36.8
1.2	SBI group	14,104	10,547	24,651	42.8
II	Private sector banks	10,648	13,003	23,651	55.0
2.1	Old private sector banks	2,641	1,485	4,126	36.0
2.2	New private sector banks	8,007	11,518	19,525	59.0
III	Foreign banks	286	1,081	1,367	79.1
All scb (I+II+III)		40,729	33,776	74,505	45.3

Source: Report on Trend & Progress of Banking 2010-11

Internet banking is one of the important tool in modern banking services. Mobile banking is now a days substitute for the structure of bank branches..Mobile banking as a branchless banking channel has helped rural customers the most. It is an important channel in retail banking business. It has witnessed a tremendous growth over a past number of years due to decrease in the operating cost.



FACTORS BEHIND GROWTH OF RETAIL BUSINESS IN INDIA:

- Increase in elite class and middle income groups-** Economic prosperity and the increase in purchasing power has given a fillip to a consumer boom. It is important to note that during the 10 years after 1992, India's economy grew at an average rate of 6.8 percent and continues to grow at the almost the same rate .About 320 million people will be added in the middle-income group in a period of 15 years approximately
- Percentage of Young population:** Changing consumer demographics indicate vast potential for growth in consumption .70% of Indian population is below 35 years of age which means that there is tremendous opportunity of 130 million people being added to working population..
- Increase in level of literacy:** Due to increase in the literacy ratio, people have developed a taste for latest technology and variety of products and services. It has led to greater demand for retail activities specially retail banking activities.
- Technological impact:** technological factors played a major role. Convenience banking in the form of debit cards, internet and phone-banking, anywhere and anytime banking has attracted many new customers into the banking field.
- Change in consumption pattern:** Economic prosperity has resulted in the consequent increase in purchasing power of the consumers. During the ten years after 1997, India's economy grew at an average rate of 6.8 percent and continues to grow at the almost the same rate – not many countries in the world match this performance. It means that Indian consumers are now shifting from the tendency of buying more and better quality to new services and products.
- Reduction in interest rates:** Decline in interest rates has also contributed to the growth of retail credit by generating the demand for such credit for various purposes.

SWOT 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.

2. Customer Relationship Management (CRM)

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

3. Continuous 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.

WEAKNESS

1. High capital investment

Retail banking requires high capital investment. Large amount is spent on managing the diverse range of product & services which further requires large staff & high quality technology. All this reduces the overall banks profitability.

2. Changes in technology

If banks are not able to cope up with the latest technology it may affect their growth. Also the technology requires huge amount of capital investment & if the technology fails then it will affect the bank's reputation & the bank may lose its customer.

3. High Cost of 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 to the consumers. Also banks have to 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. The purchasing power has also increased due to economic growth and development. Also GDP of India is rising at a very good rate. Currently it is around 8- 9% & is expected to rise in the near future.

2. Innovation in financial 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. India - Growing Economy

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

THREATS

1. Large Default in loans repayment(NPA)

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 no. of case of default in loan repayment has increased. This in turn has increased the bank's bad debts & nonperforming assets (NPA).

2. Customer inconvenience and privacy issues

One of the major problems from customer's point of view is that the customer service representatives of the banks ring up their customers at any time at their places of work, informing them about new products & services. This may cause inconvenience to busy customers. Banks are also responsible for sharing the personal information of the customers with outside agencies like market research groups & other advertisers.

3. Information Technology

With the continuous upgradation in technology , number of frauds and scams have increased under the domain of cyber crimes. The unscrupulous elements have always attacked banks. In many cases these elements have stolen credit card no., password & other confidential information relating to customer.

CHALLENGES TO RETAIL BANKING IN INDIA

1. The **risk of money laundering** is very important in retail banking. This compels all the banks in the country to consider all the documents with utmost care which they accept in approval of loans to the clients.
2. Rise in **indebttness** is a major concern. There is high degree of uncertainty in consumer credit market.
3. **Outsourcing** has become very important in recent past. Various core activities such as hardware and software maintenance, entire ATM set up and operation (including cash, refilling) etc. are being outsourced by Indian banks. Outsourcing must be done to competent firms only.
4. Another major challenge would be devising appropriate **price mechanism**. Each bank is into a price war and facing competition. This issue is expected to gain importance in future.
5. **Retention of customers** is a major challenge. Banks are expected to take utmost care to retain the ongoing trust of the public by maintaining the secrecy of their personal database.

6. Customer service should be the end-all in retail banking. Someone has rightly said, “It takes months to find as good customer but only seconds to lose one.” Thus, strategy of Knowing Your Customer (**KYC**) is important.
7. The dependency on **technology** has brought additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks.

STRATEGIES FOR FUTURE GROWTH OF THE INDIAN RETAIL BANKING

1. **Financial engineering and Constant product innovation** -The time has come when the customer demands a product that is not currently available in the Bankers kitty and the Bank has to literally create customer-specific products. Banker is expected to assume the role of a Financial Engineer. The customer database available with the banks is the best source of their demographic and financial information and can be used by the banks for targeting certain customer segments for new or modified product. The banks should come out with new products in the area of securities, mutual funds and insurance.
2. **Quality service** -As most of the banks are offering retail products of similar nature, the customers can easily switchover to the one which offers better service at comparatively lower costs. The quality of service that banks offer and the experience that clients have matter the most. Hence, to retain the customers, banks have to come out with competitive products satisfying the desires of the customers at the click of a button.
3. **Introduction of new channels of Distribution-** Retail customers like to interface with their bank through multiple channels. Therefore, banks should try to give high quality service across all service channels like branches, Internet, ATMs, etc. Banks should leverage effectively on multiple delivery channels (internet, ATMs etc) to reduce the cost of operations. Banks should ensure innovative products to suit the needs and requirements of different types of customers. With the effective usage of the cell phone technology, coupled with web developments, service providers can innovate and offer rich, user-friendly mobile banking applications.
4. **Exploiting unbanked areas of economy** To enlist the “unbanked” segment of the society by the service providers is a method to expand the retail market. It is this underserved segment should become the focus for the banks. This will compensate for the thin margins. The Indian retail banking market still remains largely untapped giving a scope for growth to the banks and financial institutions. With changing psyche of Indian consumers, who are now comfortable with the idea of availing loans for their personal needs, banks have tremendous potential lying in this segment. Marketing departments of the banks be geared up and special training be imparted to them so that banks are successful in grabbing more and more of retail business in the market. Rural or Agricultural credit segment needs to be explored.
5. **Outsourcing** -Outsourcing of requirements would not only save cost and time but would help the banks in concentrating on the core business area. Banks can devote more time for marketing, customer service and brand building. For example, Management of ATMs can be outsourced. This will save the banks from dealing with the intricacies of

technology. Infrastructure outsourcing This will help in lowering the cost of service channels combined with quality and quickness in delivery.

6.Efficient and skilled management-For the efficient management of a large and diverse retail portfolio, the most important pre-requisite is the skilled and well-versed employees. Only experienced man power can withstand the rigour of administering a diverse and complex retail credit portfolio.

7.Detailed market research/Improved Marketing strategies-A full fledged marketing department/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 Banks may go for detailed market research, which will help them in knowing what their competitors are offering to their clients. This will enable them to have an edge over their competitors and increase their share in retail banking pie by offering better products and services.

8.Collaborative arrangements –Public sector banks can reap the benefit of reaching customers across the country by entering into strategic alliance with other such banks with intensive presence in other regions.

CONCLUSION

The analysis lead to the conclusion that banking structure of India is full of potential for growth. Indian banking industry have registered considerable development with significant impact on growth of GDP, a spectacular rise in National income, increase in per capita income and expansion of financial sector of India. For future prospects retail banking has emerged as the showcase of innovation and development, through its various products like personal loan, home loans, educational loans, deposits, credit cards and depository services. Hence there is need of constant innovation of Retail banking. With much scope in the avenues for operations, the true challenge for the banks in the current scenario is to stand out in the midst of hard-hitting regulations of the apex body. Thus the participants, be it a Indian financial player or a foreign entrant in the retail sector have to adopt a different approach in everything viz., products, or services to hold the Indian market share.

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