OUR HERITAGE
ISSN: 0474-903- Vol-67, Special Issue-9
“GRCF Dubai International Conference On Sustainability And Innovation In Higher Education, Engineering Technology, Science, Management And Humanities” Organised by
Global Research Conference Forum, Pune, India
November 23rd and 24th, 2019

Critical Study on Contemporary Challenges and Opportunities of Retail Banking in Context of Digitalization.

GizlaMakhija
Research Scholar
Himalayan University,
Faculty of Management,
Itanagar,,Arunachal Pradesh

Dr. Prakash Divakaran
Research Supervisor
Department of Management
Himalayan University,
Itanagar,,Arunachal Pradesh
E-mail: prakashtek@gmail.com

Abstract

The landscape of India’s financial sector is changing. Anytime, anywhere banking, using differentiated channels and technology, will enable a multi-fold increase of reach in rural and remote areas. Coupled with the emergence of a new class of banks—the small and payments banks—one of the biggest impacts of technology adoption will be rapidly accelerating financial inclusion by making last-mile access more cost effective and expanding the reach of banking to the unbanked. Powerful forces are reshaping the banking industry. Customer expectations, technological capabilities, regulatory requirements, demographics and economics are together creating an imperative to change. Banks need to get ahead of these challenges and retool to win in the next era. Banks must not only execute on today’s imperatives but also radically innovate and transform themselves for the future. India’s banking and financial sector is expanding rapidly. The Indian Banking industry is currently worth Rs. 81 trillion (US $ 1.31 trillion) and banks are now utilizing the latest technologies like internet and mobile devices to carryout transactions and communicate with the masses. The Indian banking sector consists of 26 public sector banks, 20 private sector banks and 43 foreign banks along with 61 regional rural banks (RRBs) and more than 90,000 credit cooperatives. According to the global perspective it has potentials to become the fifth largest bank industry in the world by 2020 and third largest by 2025. The present study aims to focusing on the contemporary challenges and opportunities of the Retail Banking sector in view of Digitalization.

Keywords:*Retail Banking, Regional Rural Banks, Digital Innovation, Digital channel.*

Retail Banking

Retail Banking refers to provision of banking products and services offered to individual customers, typically for non-entrepreneurial purposes. On the liability side, banking has invariably always been ‘retail’ i.e. the banks have raised resources from a large number of retail depositors. In that sense when we talk about retail banking, our focus is on the asset side i.e. lending to the retail segment. Thus, on the whole, retail banking involves offering of products both sides of the balance sheet eg. Fixed, current /

savings accounts on the liability side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the asset side. Additionally, retail banking also involves offering of credit cards, depository services and other para-banking products and services viz. insurance products, capital market products etc. to individuals. Thus, retail banking services broadly corresponds to the banking services providing in the intermediate phase of evolution of banking. It is contextual to mention here that real economies in most of the developing countries have matured enough to demand products and services offered not only during the intermediate phase but also during the advanced phase and hence retail banking, embracing all products and services relating to consumption and speculative function of the economy, has become relevant in these jurisdictions. Retail banking is the most visible face of banking for the general public. These services are typically offered at the physical brick-and-mortar branches and at the ubiquitous ATMs. The delivery channel for retail banking is now no longer restricted to branches and ATMs but also spans telephone and the fastest growing channel i.e. internet. In fact, some retail banks in the west operate solely via the internet and do not have facilities to serve customers at physical outlets. Generally, however, the banks that focus purely on retail clientele are relatively few and retail banking activities are generally conducted by separate divisions within banks. Typically, retail banking services begin with a target clientele which is the common masses and it slowly graduates through a stage which can be called as 'class retail banking.' The 'mass retail banking' is the stage in which the bank provides standardized banking products and services to its customers. In this phase the banks attempt to build a sufficiently broad customer base which can serve as a stable source of funding. The 'class retail banking' on the other hand, is the stage in which the bank offers customized products and services targeted at a niche customer segment, the high net worth individuals. Retail banking focused solely at a niche customer segment may also be termed as private banking. Many of the banks include the banking services extended to small borrowers and SME clients also as part of mass retail banking. The retail banking over a period of time can make a transition to class banking and banking for entrepreneurial purposes for the individuals, for agriculture or for small businesses (SMEs). This is particularly so as many aspects of retail banking in terms of delivery of services (large number of small value transactions) and risk management practices (scoring model, model-based capital assessment) are also applicable to small businesses run by individual entrepreneurs.

Characteristics of Retail (Mass) Banking

The products and services under retail banking are supposed to be standardized. In other words, they are "off-the-shelf" products without any customization for individuals. For comparison sake, let us equate them to products offered at a branded retail store. At retail stores, you pay for what you see and what is mentioned on the price tag. There is uniformity, transparency and non-discrimination about the products and services offered. Hence, the products offered by retail banks also should have similar characteristics. Further, retail banking products are offered across multiple channels and at multiple places (branch, internet, ATM, telephone). The banks have to aim at delivering these services in the most efficient manner. As the retail (mass) banking involves reaching out to a group of individuals, the banks also need to have appropriate systems, structure, manpower and processes in place to deal with the group, group characteristics, and group behaviour and group dynamics for the target clientele.

Review of Literature:-

Uppal R.K. (2010) studies the extent of mobile banking in Indian banking industry during 2000-2007. The study concludes that among all e-channels, ATM is the most effective while mobile banking does not hold a strong position in public and old private sector but in new private sector banks and foreign banks m-banking is good enough with nearly 50 pc average branches providing m-banking services. M-banking customers are also the highest in ebanks which have positive impact on net profits and business per employee of these banks. Among all, foreign banks are on the top position followed by new private sector banks in providing m-banking services and their efficiency is also much higher as compared to other groups. The study also suggests some strategies to improve m-banking services.
Suresh (2008) highlighted that recently developed e-banking technology had created unpredicted opportunities for the banks to organize their financial products, profits, service delivery and marketing. The objectives of the study were to evaluate the difference between traditional and e-banking, and to identify the core capabilities for the best use of ebanking. The author analyzed that e-banking will be an innovation if it preserved both business model and technology knowledge, and disruptive if it destroys both the model and knowledge. He also differentiated e-banking from traditional banking in five ways, namely, value proportion, market scope, cost structure, profit potential and value network. However, in order to exploit technical and business capabilities of e-banking, banks should generate more customers inside and outside India so that more revenues could be generated that lead to better future of Indian economy.

Abdullah D.N.M.A. and Rozario F. (2009) study the influence of service and product quality towards customer satisfaction. 149 respondents from one of the well known hotel in Kuala Lumpur, Malaysia are selected as a sample. Psychometric testing is conducted to determine the reliability and validity of the questionnaire. The study finds positive significant relationship between place/ambience and service quality with customer satisfaction. Although, relationship between food quality and customer satisfaction is significant, it is in the negative direction. Future researchers can concentrate on determining attributes that influence customer satisfaction when cost/price is not a factor and reasons for place/ambience is currently becoming the leading factor in determining customer satisfaction.

Singh (2004) examined the impact of online banking and internet banking. The objective of the study was to find who uses internet, why and where. It also examined the respondents' reasons for not using banking online. The data was collected from two universities of Kwazunatal. The researcher analyzed that males use more internet banking than females. Main services used through websites were inter-account transfer, paying accounts, checking balance/ statement, communication with the banks, etc. Security was the main issue for not using banking online. The author suggested that to make online banking more adaptive, websites should be more attractive, more 54 informative and colorful. Training should be given to customers. Charges of online facilities should also be less. Banks should advertise and publicize their new products and services offered on the websites so as to make internet banking more popular among customers. Erickson et al.

Jain, Megha & Popli, G.S. in their article "Role of Information Technology in the Development of Banking Sector in India", have tried to analyse the banking innovations and the extent of computerization in the public sector banks of India. They have also identified certain challenges being faced in the implementation of IT solutions in various spheres of banking. Their study shows that 97.8 percent were fully computerized at the end of March 2010 whereas all branches of SBI were fully computerized. It also reveals the increase in the spread of NEFT to 86,449 branches and RTGS to 84,638 branches as at the end of May 2012. As at end-March 2012, 49 banks with a customer base of 13 million provided mobile banking service in India. Also noted that during the year 2011-12, 25.6 million mobile banking transactions valued at 18.2 billion were observed. It proves Indian Banking industry has come a long way providing greater convenience, transparency, new segments and improved bank-customer relationship. However, having discussed the blessings of Internet banking we also need to note the threats and challenges faced by E-banking. Such as, the potential for frauds, money laundering and system failure needs to be ruled out which requires huge investments by government. Lal, Roshan &Saluja, Rajni, E-Banking: The Indian Scenario. The authors have tried to address.

Analysis of Retail Banking

Strengths

• 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, carloan, payment of bills, credit card, debit card etc. Such a diversified asset portfolios provide bankswith higher profit & relatively lower NPA (non-performing Assets).

• Upcoming as a new growth driver: Over past few years, fierce competition has lowered the spread& profitability from a commercial loan. Also, with the deregulation and increase in consumer loanrate, the risk adjusted return in retail sector has exceeded beyond the return on commercial loan.
• CRM tools: The customer Service & Quality implementation through use of CRM tools will helpbanks in acceptance of their banking product and satisfaction of customer that will eventually yieldprofit for them.

• 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 andaccordingly structure their strategies towards the development of the product & services, marketingthem & finally selling them to satisfy its customer.

• Increase in Income: With the increase in per capita income & growth in urbanization the life styleof people has changed. The needs & aspirations of people have increased. Therefore, the role ofretail 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 changinglife style of its customers through affordable credit.

• Economies of Scale: Through Retail Banking, Banks can get the benefits of information &transaction. Banks have access to more information through extended services. They shouldsystematically record this customer information as it can help them in efficient utilization of thisinformation, which in turn can be used in finding out new segment of market & to sell their newservices.

Weaknesses

• Reduces the profitability: Retail banking requires high capital investment as a huge amount is spenton managing the wide range of product & service which further requires large staff &high qualitytechnology. All this reduces the overall banks profitability.

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

• Changes in Technology: If banks are not able to match with the latest technology it may affecttheir growth. Also the technology requires huge amount of capital investment & if suppose, thetechnology fails then it will affect the bank's reputation & the bank may lose some of itscustomer.

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

Opportunities

• Increase in per capita income: There has been increase in the per capita income over the past fewyears & is expected to grow in the future also. Moreover, the younger population is more comfortablein taking personal debt than previous generations. Their purchasing power has also increased due toeconomic growth & more jobs. Also GDP of India is expected to grow at a very good rate because ofthe formation of government by a majority rather than the previous government coalition.
• Innovation in products and services: This segment has more scope for innovation as banks tries toprovide more & more products & services to their customers as desired by them. Banks can continuouslymodify its products & services to match the market demand & sustain in this competitive era.

• 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 retaildestination' among the 30 emergent markets.

Threats

• Large pay-outs of loans: The increasing competition has made the banks to disburse large no. ofcustomer loans, auto loans, home loans, loans on credit cards, educational loans etc. on easy termswithout much inquiry. Due to this the no. of case of default in loan repayment has increased. This inturn has increased the bank's bad debts & nonperforming assets (NPA). This was one of the majorreasons for recession which has affected the world.

• Customer privacy issues: One of the major problems from customer’s point of view is that thecustomer service representatives of the banks ring up their customers at any time at their places ofwork, informing them about new products & services. This may cause inconvenience to busy customers.Banks are also responsible for not sharing the personal information of the customers with any outsideagencies like market research groups & other advertisers.
• Information Technology: With the growth of IT, a number of frauds have aroused & are carriedout with the help of technology. These frauds come under the domain of cybercrimes. Theunscrupulous elements have always attacked banks. In many cases these elements have stolen creditcard no., password & other confidential information relating to customer. For ex- Satyam scam.

Need of the Study

Now a day, banking industry in India are rapidly increasing their reach and enhancing their services levels through the extensive use of internet banking. The Digital banking services have now become quite common in Indian banking customers. The customers have become dynamic and their perceptions too are dynamic. Due to financial inclusion, technological advancement in the market, there is a need to re-categorize the various factors of service quality and to study the impact of new categories on the customer satisfaction. Hence there is a need to study to redefine retail banking services in Post-mergerbanking scenario in India.

Objectives of the Study

To Study the customer satisfaction in retail banking business in India.

To analyze the competition prevailing in retail banking services in India

To evaluate various challenges & opportunities to retail banking in India

To suggest the appropriate measures to increase the use of digital banking by Customers in retail banking segment.

Research Methodology:

The study is descriptive in nature and is based on qualitative information. The study was based on secondary data. Almost all the retail banking activitiesare indentified for the customers who used them in day to day banking activities. Secondary source of information such as newspapers, magazine, banks brochures and other records were used to obtain necessary background/supplementary information.

Result and Analysis

Opportunities and Challenges in Retail Banking

Consumer Protection and Pricing: There are charges for non-maintenance of minimum balance, charges for cheque return and there are charges even where no service has been provided – customers not conducting any transactions. It is understandable that the customer is charged once for not maintaining the minimum balance that he was supposed to. But, why on second, third and fourth occasions? So much so that eventually his balance becomes negative. Why not instead inform customer and close his account after the first instance or convert it to a basic savings account? In fact, there is another disquieting feature in the pricing of products and services by banks and that is poor subsidizing the rich. There have been incidences that banks mentioning the yields to the customers of their deposits or the effective borrowing cost for the customers on the lending products. Why can't the banks advertise their Annual Equivalent Rates/ Annual Percentage Rates on their deposit and credit products respectively? For retail banking model to be successful, pricing should be non-discriminatory, risk-based, competitive and value added. Several complaints about mis-selling of products to gullible consumers have been received by RBI, some of which are quite outrageous. Believe me, if retail banking is to succeed, it would have to address this deficiency at the earliest. Or else the regulators/ supervisors would no longer be as tolerant in imposing penalties and issuing strictures as earlier.

Inadequacy of MIS: A crucial import for the success of any business is the accurate, consistent and granular information about its various components. The information system in the Indian banks continues to be rudimentary which leads to impressionistic decision making rather than information based decision making. The banks even lack the basic information on how many customers they have and how many products they have. The data on segmental revenues and segments profits are not available with any granularity. Under the circumstances, the banks would find it very difficult to make their pricing risk-based. It is crucial, therefore, that if the retail banking has to be rolled out successfully, the banks would need to build an appropriate MIS.

Understanding and Tackling KYC/AML issues: The banks in the developed countries have faced significant amount of penalties from the regulators for their failure to conduct adequate due diligence on their customers. Even in India, RBI had to impose penalties on some of the banks for their failure to have proper due diligence on their customers. It is important to understand and appreciate KYC requirements in all manifestations be it for the products on the asset side of the balance sheet or on the liability side. Banks would also need to be mindful about the KYC due diligence for the third party products that they sell from their premises/through their delivery channel.

Managing Risk: The retail banking business involves dealing with a large number of customers over varied delivery channels thereby creating significant vulnerabilities across banks' systems. These vulnerabilities could be in the form of inadequacy of internal guidelines or non-adherence by staff, inadequacy in the technology systems supplied by vendors, fraudulent practices employed by customers, hackers etc. While the banks have developed sufficient safeguards to deal with operational risk event associated with traditional delivery channels, it is the emergence of non-traditional delivery channels which are likely to be the pressure points for banks going forward. This is already evident in large number of technology-related frauds that we have witnessed across Indian banks in the past few years. Though from a value view point these frauds are not significant, still from an individual's stand point they are quite important. The banks would also need to recognize and manage risks arising from mis-selling etc. besides the other business risks like market risk, liquidity risk, interest rate risk etc.

Unless, the banks address these issues quickly, even the low-value frauds would have the potential to cause reputational risk and unwarranted litigation for the banks. It is, therefore, absolutely important that the banks improve their risk management systems to address these vulnerabilities.

Countering the effects of disruptive new technology: Retail banking has been most impacted by technology, thanks to the proliferation of alternate channels of delivery (ATMs, internet and telephone banking). The pace with which consumers in the developing countries have also adopted digital technologies has been quite amazing. As a corollary, the use of traditional delivery channels for accessing banking services has seen a perceptible decline. As the demographic changes take place the "technology acceptors" will soon outnumber the "technology deniers" and banks have to use this short transitory period to adequately equip themselves to manage the disruptions arising out of this alternate delivery channel. Further, since the internet is available on a "24 by 7" basis, the banks would have to substantially invest in appropriate technology and ensure that their service offerings are available round the clock with minimal downtime. While the use of technology-aided delivery channels has grown multifold, so has the scope for fraudulent transactions through impersonations and identity thefts. Banks would need to ensure that their customers continue to have good experience with their service offerings and remain loyal to them.

Even with RBI's concerted efforts on increasing the banking penetration and bringing more and more adult population under the formal financial system over the last 6-7 years, more than half of the target population remains uncovered. In absence of access to formal sources of finance, the alternate cost of funds for the people is exorbitantly high. As the pricing of loans no longer remains restricteddue to any regulatory/ government fiat, the banks are free to reasonably charge their customers. Allthis means that the retail banks have a huge potential to grow in India over time.

Less education or training is given to the people in rural areas who are illiterate & don't know how todo avail the basic benefits from banking, forget about operating ATMs.also need to quickly put in place lasting technology-based solutions to thwart the efforts of fraudstersand minimize the customer complaints. As the use of new delivery channels gets more popular, thebanks would need to ensure that their customers continue to have good experience with their serviceofferings and remain loyal to them.

Findings and Suggestions

1. 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.

2. Bank need to undertake market research, adopt systems with adequate capacity and scalability, undertake proportional advertising campaigns. Bank should conduct time to time survey to know the problems faced by the customer while using E-Banking services.
3. Now, the time has come for the customer to demand 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.
4. Banks should lower the minimum deposit requirement for opening new accounts as announced by RBI. To reach better financial insertion, all banks require to make existing a basic banking no frills account either with nil or very small minimum balances as well as charges that would make such accounts reachable to cosmic sections of population.

5. Banks should allow the earlier facilities to sink into the culture of the customers before any new facilities are launched. Also, the earlier facilities should be embedded with services so that customers not only appreciate new technology, but are also in a position to operate.
6. 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. The benefits following out of cross–selling and up–selling will remain a far cry in the absence of robust data warehouse where from meaningful data about customers, their preferences, their spending patterns, etc, can be mined. Data warehouse is vital for success in retail banking.
8. 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.
9. It is time to break the myth that public sector banks are not customer friendly. Banks shouldfollow customer friendly approach to enhance the marketing of their retail banking products.Banks should deliver the products and services rapidly in a dynamic market.
10. 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.
11. Simplified processes and alignment around delivery of customer service impinging on reduced customer touch-points are of essence to enhance the sale of retail banking products.
12. Banks should build collaborative relationshipsto convert bank branches into financialsupermarkets.
13. There is a need for constant innovation in retailbanking. In bracing for tomorrow, a paradigmshift in bank financing through innovativeproducts and mechanisms involving constant upgradation and revalidation of the banks‟ internalsystems and processes is called for. Banks nowneed to use retail as a growth trigger.

Conclusion

The bank today has electronic system to handle their daily voluminous tasks of information, retrieval, storage & processing. It provides various facilities to its customers like electronic funds transfer for retail purchases, automatic teller machines (ATMs), and automatic payroll deposits and bill payments. It also provides home banking, whereby a person with a personal computer can make transactions, either via a direct connection or by accessing a Web site. Electronic banking has vastly reduced the physical transfer of paper money and coinage from one place to another or even from one person to another person. The degree of satisfaction varies from person to person.

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. Globalization, consolidation and want of expertise are drastically redefining the banking taxonomy. 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, services to hold the Indian market share, as a popular saying goes as variety is the spice of life.

References:

Bhalla. V.K. (2006) "Management of Financial Services" Discovery Publications, New Delhi.

Hajela T.N. (2009) "Banking Reforms" Anne Books Pvt. Ltd., New Delhi.

Hemant. S. Ahuluwalia (2008) "Banking and Financial Services" Adhyayan Publishers, New Delhi.

Manoranjan Sharma (2008) "Dynamics of Indian Banking – Views and Vistas" Atlantic Publishers, New Delhi.

Nanda. R. (2010) "Banking in India" Surendra Publications, New Delhi.

Abou-Robieh, Moutaz "A study of e-banking security perceptions and customer satisfaction issues.(2005)

Ding, Xin "Three studies of service operations and customer experience design in online services (2007).

Isern,Jennifer" A cross-country analysis of the effects of e-banking and financial infrastructure on financial sector competition: A Schumpeterian shift?(2008)

Jeon, Kiyong"Essayson banking industry: ATM(Automatic Teller Machine)(2014)

Lee, Jihyun" Factors affecting intention to use online financial services (2003).

Reynolds, John" A retrospective data examination of customer loyalty in the e-banking technology services industry: Strategies for new successes (2007)

Montazemi, Ali Reza and Hamed QahriSaremi (2013) Factors Affecting Internet Banking Pre-Usage Expectation Formation in Hawaii International Conference on Systems Sciences (HICSS 2013), IEEE: Maui, Hawaii.

Grabner-Krauter, S. and E.A. Kaluscha (2003) Empirical research in on-line trust: a review and critical assessment, International Journal of Human-Computer Studies, 58(6) pp. 783-812

lsajjan, B & Dennis, C., Internet Banking Acceptance Model: Cross-Market Examination, Journal of Business Research. 2009.