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A Study on Emerging Retail Banking Activities in context of Revenue Generation for Indian Banking Industry

Dr. J. P. Bhosale*

M.Com, M.Phil. ,M.A. (Eco), PhD, D. Litt., Head- Research Centre in Commerce and Accountancy, AC & S College Narayangaon, S. P. Pune University, Maharashtra, India

Abstract – Retail Banks are considered as a backbone to the financial system and it plays a crucial role in the economic development of a nation. They also act as various intermediaries who are channelizing funds from surplus units to actually deficit various units to the fully utilization of thefunds. An efficient banking system of nations plays a significant role in positive externalitieswhich also increases the efficiency of the economic transaction which is in general. There is amajor shift in the banking system of the policy atmosphere immediately after the introduction of the financial sector reform since 1992; these reforms created an impact on the working of the commercialbanks. As it is termed as one of the major objectives of financial sector which reforms and also tries to improve theefficiency of banking system in the India economy. Financial System of any country also consists of financial markets, financial intermediation and even financial instruments or financial products in generating revenue in retail banking. The present research paper focuses on emerging retail banking activities in context of revenue generation. It also focuses on the retail banking scenario of the world.

Key Words: Financial System, Retail Banking, Revenue Generation, E-Banking.

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INTRODUCTION

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.

Retail Banking in which banking institutions execute transactions directly with customers Typical products: savings and transaction accounts; mortgages; personal loans; debit and credit cards, etc Working principle: Law of Large Numbers; probabilistic modeling Critical success factors: Distribution – Branch, channels Branding Unit costs – cost per account, cost per transaction

Pricing Risk management .The term is generally used to distinguish these banking services from investment banking, commercial banking or wholesale banking. It may also be used to refer to a division of a bank dealing with retail customers and also be termed as personal

banking services According to the Report's Customer Experience Index, which surveyed over 18,000 bank customers across 35 markets, 10% of retail banking customers are likely to leave their banks in the next six months while an additional 41% say they are unsure if they will stay or go. To re-build the customer-bank relationship, the Report finds banks can become more customer-centric more personal interactions. Retail banking what's been good for Indian banks hasn't been good enough for the country scorching pace of growth since liberalization: CAGR of around 30% to touch a figure of INR 9700 Billion. Bankable households are growing at a CAGR of 28% (2007-11) what's powering this growth? Economic prosperity and growth rate Young population (70%<35 years) Technology channels: ATM, POS, Web, Mobile Retail loans constitute 7% of our economy versus 35% in other Asian countries Retail assets are at only 25% of total banking assets 41% of India's adult population is un-banked Number of loan accounts: 14% of adult population 73% of farm households have no access to institutional credit Share of money lenders in rural debt has moved from 17% in 1991 to 30% in 2002

RETAIL BANKING IN THE WORLD

North America continues to lead the Customer Experience Index with Canada (81%), and the United States (80%) in the lead. Italy, Saudi Arabia and China reported the largest relative gains in share of customers with positive experience this year. Fees, Mobile Capabilities, Quality of Service or Knowledge of Customers? This is the single most important factor driving customers to switch banks. The World Retail Banking Report provides insights into customer attitudes towards retail banking using a comprehensive Voice of the Customer survey which polled over 18,000 retail banking customers in 35 countries.

The survey analyzes customer experiences across 80 banking touch points that span the products banks offer, the importance of different channels for obtaining services and the transactions that occur over the lifecycle of a banking relationship some banks turned to consolidation as a way of

cutting expenses in order to survive difficult economic conditions. Often consolidation works as intended, but it also has its limitations. Federal law prohibits any single bank in the United States from holding more than 10 percent of the U.S. customer market.

When banks merge, they also make gains in their customer base. Several banks in the United States are approaching the 10-percent mark, so for those banks, further consolidation may not be a way to solve their problems. Global Retail Banking 2020 study, up to 50 percent of branches in today's U.S. bank networks may be declared obsolete -- although not necessarily defunct -- by 2020. Given that branches constitute 75 percent of a bank's total retail distribution costs, according to research from Capgemin i, implementing smart, technologically savvy retail strategies will be critical to driving shareholder value. creation or transfer of a financial asset. It also consists of market for the government securities,corporate securities, foreign exchange, derivates, short term finance or money market and even capital market etc. Market for different types of financial instrumentsmay also be either organized like stock exchange with centralized trading or it is informally asthe over-the counter market.

REVIEW OF LITERATURE:

As per Domar and Timbergen (1946),The study has measured the profitability of banks for the actual economic development purpose and have settled the theoretical framework which has been expanded form which was first actually introduced by Jorgenson and Nishimizudin for the international economic growth comparison and development.

According to Joshi (1986), The study has also examined the various reasons for declining various trends inprofitability. The study is also based on the published data. He has suggested even profits planning both at micro as well as macro levels for the banking industry to actually overcome thedeclining trends in profitability.

As per Mannur (1996), The study also stated that 'there was no further actual need for any policy made of the branchexpansion; and even the expansion of branches should be primarily an internallymanagement decision on their assessment of the commercial prospects to be made".

According to Rajendra Kumar Jam(1999), The Government must actually get down to planning aphased programme to actually remove the burden of non-performing assets from thebanking sector. This would actually not only increase the liquidity of the banks but will also result to be more effective, albeit, slightly, costlier, even credit delivery system tothe priority sector have been allotted."

According to V.Raghunathan (2003) The study stated that, "Convergence in the banking sector also assumes that there is an increase in significance which is caused because of the banks today which is no longer compete merelywith other banks. They in fact also compete with altogether in different sectors".

SIGNIFICANCE OF STUDY

Retail banking in India is not a new phenomenon. It has always been prevalent in India in various forms. For the last few years it has become synonymous with mainstream banking for many banks. The typical products offered in the Indian retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. The loans are marketed under attractive brand names to differentiate the products offered by different banks. As the Report on Trend and Progress of India, 2003-04 has shown that the loan values of these retail lending typically range between Rs.20, 000 to Rs.100 lack. The loans are generally for duration of five to seven years with housing loans granted for a longer duration of 15 years. Credit card is another rapidly growing sub-segment of this product group. In recent past retail lending has turned out to be a key profit driver for banks with retail portfolio constituting 21.5 per cent of total outstanding advances as on March 2004. The overall impairment of the retail loan portfolio worked out much less then the Gross NPA ratio for the entire loan portfolio. Within the retail segment, the housing loans had the least gross asset impairment. In fact, retailing make ample business sense in the banking sector. While new generation private sector banks have been able to create a niche in this regard, the public sector banks have not lagged behind. Leveraging their vast branch network and outreach, public sector banks have aggressively forayed to garner a larger slice of the retail pie. By international standards, however, there is still much scope for retail banking in India. After all, retail loans constitute less than seven per cent of GDP in India vis-à-vis about 35 per cent for other Asian economies — South Korea (55 per cent), Taiwan (52 per cent), Malaysia (33 per cent) and Thailand (18 per cent). As retail banking in India is still growing from modest base, there is a likelihood that the growth number Seem to get somewhat exaggerated. One, thus, has to exercise caution is interpreting the growth of retail banking in India .

OBJECTIVES OF RESEARCH STUDY

1. To find out some glaring reasons of lower efficiency in the banks for the revenue generation.

2. To analyze the financial performance of retail banking.

3. To suggest future prospect for the retail banking who generates revenue.

4. To suggest ways and means to improve the efficiency of the retail banking sector.

Hypotheses of Research Study

H0: There is no significant difference between the banks in terms of earning profitability.

H1: There is significant difference between the banks in terms of earning profitability

RESEARCH METHODOLOGY

The study has been conducted with reference to the data related to the retail banking sector in India. These banks have actually been studied with the actual belief that they hold the largest market share of banking business in India, in theirrespective sectors to generate revenue.

Tools for data collection

The study is purely based on secondary data. The data required for thestudy will be collectedfrom the annual reports of respective banks, journals andreports on trends, newspapers,magazines, and progress of Banking of India,government publications, books and website.

Data Analysis and Interpretation:

In order to study the profitability of retail banks, net profit margin of ten years i.e. from 2008-09 to 2017-18 of four banks was calculated. Two banks from public sector i.e. Allahabad Bank and Bank of India are randomly selected and similarly two banks from private sector i.e. The HDFC Bank and Yes Bank were also selected randomly.

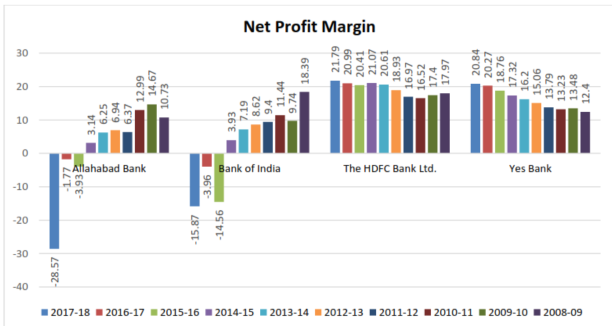

Fig. 1 Net Profit Margin

(Data Source: Moneycontrol.com)

The above graph clearly shows that all the four banks does not show a similar pattern of growth in their profitability. It is observed from the graph that private banks show more profitability than public retail banks. This is because, they have a strong recovery procedures of the loans and debts as compared to public banks.

To test the hypothesis "There is no significant difference between the banks in terms of earning profitability" one way ANOVA test is applied taking four banks viz. Allahabad Bank, Bank of India, The HDFC Bank Ltd. and Yes Bank as fixed factors and Net Profit Margin of these banks over the last ten Years as dependent factor.

Table 1 ANOVA

Net Profit Margin

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2196.149	3	732.050	9.861	.000
Within Groups	2672.547	36	74.237		
Total	4868.696	39			

Table 1 shows the relationship between four banks in terms of their profitability and it was found that F value obtained is 9.861 and p value obtained is 0.00, which is less than 0.05 ($p<0.05$), which states that all the four banks show significant difference in terms of profitability. Hence, the hypothesis i.e. "There is no significant difference between the banks in terms of earning profitability" is **rejected**.

SUGGESTIONS

1. There is little to differentiate between basic products and services offered by retail banks. Having conceded that, packaging and branding of products and services are going to be the key differentiator between banks. The banks would have to invest quite a lot in innovation, research and product design so as to keep their product and service offerings relevant and contemporaneous to emerging customer needs. They would have to rummage through huge amount of customer data that gets generated every day in course of transactions and use appropriate analytics to develop products in keeping with changing customer preferences. In this context, banks can also think in terms of giving a dedicated platform of their webpage to the customers to solicit their views/ requirements.

2. As competition gradually brings down the spreads and the profitability, the banks have to continuously work towards improving their productivity and efficiency so as to maintain their ROE. Towards this end, technology would be the key enabler. Though, technology has been available and been in use in the banking sector for more than a decade now, RBI believes that it has not yet been exploited to its optimum potential. Technology can assist in all spheres of banking activities – right from planning, strategy, MIS, processing, delivery, monitoring and follow up. There is a belief that the banks that can quickly conjure up a technology based cost-efficient delivery model for their products and services would be the ultimate winners in the long run.

3. The need for developing standardized products and services for furthering the retail banking initiatives. Across the globe, retail lending has been a spectacular innovation in the commercial banking sector in recent years. 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. In the context of retail lending, deployment of scoring models would minimize the subjective element and thereby fast track the decision making process. The mass retail banks of today would also have to plan a transit path for the class banking and gradually to entrepreneurial banking.

4. Quality of services offered by the banks is going to be another key differentiator. In ultimate analysis, providing better service to the customers would be the key to generating larger revenue for the banks.

5. The Bank is required to design an optimized distribution network that supports the needs of the local markets and scales to the density of market opportunity – meeting customer needs and minimizing the cost of delivery.

CONCLUSION

Retail Banking has a great scope in India. Retail banking also deals with the lending money to varied set of consumers which also includes a wide variety of loans, including credit cards, mortgage loans and even auto loans. Retail banking also refers to banking in which banking institution also executes various transactions directly with the consumers, rather than corporations or other entities. It is generally conceived to be the actual provision of mass market banking services to the private individuals. It has expanded over the years to actually include in many cases services which has provided to small and medium sized business. Retail banking is the fastest growing sector of the banking industry which is also the key success by attending directly the actual needs of the end customers. It holds a glorious future in the coming years. Retail banking sector as a whole is also facing a lot of competition ever since the financial sector reforms were it started in the country. Walk in business is the actual thing of past and banks are now on their toes to actually capture the business. Banks therefore, are now actually competing for increasing their retail business. There is the actual need for the constant innovation in retail banking.

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Corresponding Author

Dr. J. P. Bhosale*

M.Com, M.Phil. ,M.A(Eco),PhD, D. Litt., Head-Research Centre in Commerce and Accountancy, AC & S College Narayangaon, S. P. Pune University, Maharashtra, India