Journal of **N**onlinear **A**nalysis and **O**ptimization
Vol. 14, Issue. 2 : 2023
ISSN : **1906-9685**

A RESEARCH ON THE CHANGING RETAIL BANKING STRATEGIES IN INDIA

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ABSTRACT: The retail industry has recently experienced significant expansion. Retail banking is one area where the banking industry must evolve. Retail banks are continually adjusting to the rapid changes in technology and making significant contributions to the growth of various sectors of the economy. The financial market considers both little and large quantities of supply and demand. By incorporating retail banking into their marketing tactics, public sector banks have initiated a paradigm change in the banking industry as a whole, fundamentally altering the way banks do business. In principle, this might keep people's wealth expanding while also meeting India's economic needs for foreign integration and openness. Retail banks account for one-quarter of all bank loans, hence retail loans are a new business. Prior to retail loans, there was an increase in the housing market, which helped develop credit. However, the retail loan system's shift from a seller's to a buyer's market has fundamentally altered the banking industry. Although India is still a developing country, obtaining a personal loan was simple and could be accomplished in a variety of ways. This study focuses on the opportunities and challenges that retail bankers and consumers encounter, as well as the approaches and trends that have been implemented. It also speculates on what would happen to India's fast expanding economy.

KEYWORDS: *Financial Inclusion, Retail Banking , Macro and Micro Economic Environment , Information Technology, Opportunities and Challenges.*

1. INTRODUCTION

Retail banks have grown in importance in India's banking industry in recent years, assisting the industry's growth. The concept has been adopted by all public and private sector banks alike. Banking services are typically limited available to specific sorts of persons, enterprises, and groups who meet particular criteria. Banks have begun to offer new services to their consumers in reaction to developments in the financial sector. People who are not businesses, corporations, or other groups can obtain services from any branch of any bank over the internet or other available methods. The retail banking system is focused primarily on individual clients and can execute transactions and provide services such as credit and debit cards, savings accounts, mortgages, and personal loans. In this sense, retail banking refers to the variety of goods and services that retail banks provide to their customers. There are numerous indications that the retail banking system has had a significant impact on the growth of the Indian economy. Retail banking has become a significant part of the banking business as banks continue to open more branches and customers save and borrow more. Retail banking has become an astonishing new notion in recent years, not only in India but around the world..

Objectives

- To investigate the concept of personal banking in India
- So that we can examine the models and strategies employed by the institutions.
- So that we may assess how well Indian institutions' personal banking functions.

Research Methodology

This article, which was created using secondary information, focuses on the Indian retail banking industry. To complete, several publications on this topic were reviewed, including annual reports, a number of books, journals, and periodicals, as well as online research.

Review of Literature

Many topics were looked at to learn about worldwide strategies and methods, such as international literature and literature on Indian retail banking (see below for further information).

Authors from well-known universities, consulting firms, and the technology industry from around the world have authored study reports on various elements of retail banking.

There are magazines that provide in-depth coverage of both retail banking and the banking industry as a whole.

A variety of periodicals, business and financial papers, and annual reports from Indian public and private banks examine many areas of retail banking in India and around the world.

2. THE RETAIL BANKING SCENARIO IN INDIA

Because technology is rapidly changing, the financial industry faces intense competition to provide unified financial services globally. Customer-facing banking has played a critical role in transforming services into lucrative business models. Microfinance banks are primarily interested in retail banking since it may assist non-retail businesses in dealing with fluctuating income and maintaining consistent earnings. Retail banking interest, on the other hand, may fluctuate at the national level, which differs from how financial markets and non-retail banking are performing. Commercial banks in India began retail banking in the 1990s for a variety of practical reasons. These included gaining more customers, expanding the product line, setting more competitive prices, and making more money. Furthermore, this technology makes it easy to cross-sell and up-sell financial products, increasing customer revenue and lowering risk. The banking business has seen significant changes as a result of the technological revolution. Banks have transformed the way they do business in order to make their clients wealthy by reengineering old goods and developing new financial products, services, channels, and partnerships. Since 2002, it has become obvious that the financial industry as a whole has become increasingly efficient.

The banking business has risen swiftly in Brazil, Russia, India, and China due of stronger economic conditions, liberalization, changing client demographics, and a big untapped population. Retail loan demand is rapidly increasing in these countries, particularly for personal loans, credit cards, homes, vehicles, schools, and other sorts of loans. The retail banking industry in India saw its entire asset worth increase by 120% this year, reaching $87 billion. The banking industry as a whole has grown as a result of the expansion of retail banking. By 2018, the Indian retail banking industry is expected to be worth $325 billion. In recent years, banks have been less involved in business banking because they are anxious about loans that aren't being paid back. Because of this, the retail banking sector has become the key area where the Indian banking company is booming. Retail lending expanded at a compound annual growth rate (CAGR) of 16.2% in India from FY2013 to FY2018. This made it one of the fastest-growing segments of the retail banking company.

People can acquire financial services from retail banking, which is also called consumer banking or personal banking. Customers can place money, manage their money, and acquire credit through retail banking without any issues. Retail banks offer many other services besides checking and savings accounts. These include mortgages, credit cards, personal loans, certificates of deposit (CDs), and more.

3. BUSINESS MODELS IN RETAIL BANKING

There is a different model used by public, private, and foreign banks. The Departmental Approach, the Integrated Approach (which is an important part of the overall business plan), and the Strategic Business Unit Approach are the main ways of doing things in retail banking. The Departmental Approach has become the main way that public sector banks do business when it comes to private banking. In the end, every bank, no matter how big or small their balance sheets were or where they were located, used the above method. It means that the method is broader and less focused, and that retail banking is one of its business models. One of the top five public sector banks in Mumbai has adopted the Strategic Business Unit concept. This is a big deal because it makes the bank's business model more like that of both foreign and private sector banks.

Private sector banks from the older group tend to be more cautious in how they do business. With the exception of the Strategic Business Unit, the retail banking business model was created as part of the overall business plan, not as a separate project for a department. That being said, the business plan is very clear in modern private sector banks. It was smart to give the Strategic Business Units a clear focus and set of goals when they were created. Foreign institutions also only have a Strategic Business Unit with clear business goals because that's how they do business. When it comes to making money, the Strategic Business Unit model works better than the Management By Objectives way. Additionally, it has a feature that turns off the module if the translation of the store plans doesn't match the desired outcomes.

Positioning goals are often the basis for strategy development. These goals are different for each bank because of how important their business models are seen to be. All three of the biggest retail banks, including peer group banks, face westward. One of these public sector banks has become the leader in the retail business. Several other public sector banks have tried to get to the top three percent of their peer group. On the other hand, the chosen course of action is part of a larger plan that was set up based on the bank's corporate goals, business makeup, and predictions. The marketing platform for Old Generated Private Sector Banks is very well defined. The scope and size of their work are in line with it, and it is based on a comprehensive business plan. Still, one Tamil Nadu-based bank wants to be one of the top three peer group banks, which is in line with the general goal. There's no question that their technological efforts support their placement goal.

The New Generated Private Sector Banks, which are based in Mumbai, have clear goals for their long-term position. It makes sense for them to want to be at the top of each bank class. The bank had already reached its goal with its aggressive marketing, activities that focused on both customers and business, technology, and strategy. When foreign institutions make choices, they only look at business goals and not positioning goals. They try to meet business, customer, and profit goals.

In order to meet their retail banking goals, banks have used a variety of methods. Most of the time, people use in-house sourcing, limited outsourcing, end-to-end outsourcing, and predominant outsourcing. The implementation model is affected by several things, such as the product line, process specifications, the use of new technologies, the delivery of skills (such as human resources), and government rules.

When it comes to private banking, most PSBs only use their own internal resources. Due to a lack of facilities, the issue part is only used for certain tasks, such as processing ATM, credit card, and debit card transactions. Regulatory requirements play a big role in deciding whether or not these institutions outsource. In the same way, the Old Generated Private Sector Banks only use their own resources to run their businesses. The business model of New Generated Private Sector Banks is a mix of in-house and outsourced tasks, with a small bias toward outsourcing. Most business model application for foreign banks is done by outside companies. Some global banks choose to hire outside companies to handle both their front end and back end processes. On the other hand, some banks only outsource their back-end operations and keep their own employees to handle front-end tasks like finding high-net-worth individual clients.

According to a study called "Transforming Retail Banking Processes," Boston Consulting Group has found four broad process models that banks use. When creating these models, the technological and customer interaction capabilities of the banks that were being studied were properly taken into account. These four

main groups make up the categories:
- Model of a horizontal organization
- Model of a vertical organization
- A model that is mostly set up vertically
- A model that is mostly set up horizontally

Which vertical or horizontal model to use depends on how much client data is available on a single database platform. This lets different goods and services, such as assets, liabilities, and other services, be offered. A horizontally organized model is a framework made up of separate modules that work together to create complete solutions for different goods by using special process models for each one. All goods have features that are focused on the customer thanks to a central customer database and a vertically structured model. The model is focused on the product and is mostly structured horizontally; for certain products, it shares shared customer data. In the model that is mostly organized vertically, most of the items share information.

In most PSBs, the horizontally organized approach is what is used. There's no question that some financial institutions have a mostly horizontal organizational structure. This shows how much access different products have to shared customer data. One of the PSBs in the West uses a plan called "primarily vertically organized," which means that most of their products share customer information. This method makes it more likely that cross-selling and up-selling will happen. One of the more well-known private sector banks in Karnataka uses a horizontally structured model. Another bank in Tamil Nadu uses a mix of predominantly vertically and horizontally structured models, so a lot of customer information is shared between products. This information and the bank's positioning goal seem to be linked, which means the bank is moving in the right way. Most international banks use a vertically organized method, which means that customer data that is shared across different products is used to judge efforts in retail banking.

4. PLANS FOR THE INDIAN RETAIL BANKING SECTOR

Assertive strategies must be created and used by banks in order to reach their goals and grow their retail banking operations. As the market gets more competitive, banks must come up with ways to make more money and keep things stable. At the moment, financial institutions are getting a wide range of tools to improve their places in the market. To do these things, banks need to make sure they have enough cash on hand, maintain the right capital ratios, offer high-quality assets, ask for core deposits, regularly check for non-performing assets (NPA), use cutting-edge technology, and plan market research for a wide range of products and services. Because there is a lot of competition between the bigger banks in the market, smaller banks use a range of different tactics to stay ahead. By using a variety of tactics, banks can improve their performance and stay competitive. By providing a wide range of specialized goods and services that meet the needs of customers in various market sectors, banks might be able to gain a competitive edge. This means that all types of customers can now easily receive banking services.

High Net Worth (HNW), mass market, NRI (Non-Resident Indian), and mega-rich clients. Financial institutions should always be looking for new goods and services to offer in order to attract new customers and keep the ones they already have. Banks must make sure that the services they provide are honest as part of their job. Customers can choose from a wide range of financial products that are almost similar at all institutions. Because of this, a customer might decide to do their banking with a different financial company. The main way that banks set themselves apart from each other is by giving their customers quick and excellent service. Excellent service gives banks a competitive edge that helps them keep customers. Banks should come up with plans to figure out how to make the most of the retail banking business. India is behind other developing countries, but its huge potential has been shown in the retail banking area of banks. Significant changes have happened in the way Indian consumers think and buy things, as well as the likelihood of retail loan growth and the ability for bank lending to grow. So, if banks want to grow their retail banking business, they should plan to focus on these areas.

]Businesses can improve their performance, cut costs, and give users better, more convenient banking by outsourcing their infrastructure and business processes. By using this approach, banks can focus on what they do best, like building their brands, helping customers, and marketing. For example, banks hire outside companies to build ATMs so they can save money on labor costs and work more efficiently. Along with providing great services, banks should make sure that strong safety and security procedures are used across all electronic delivery channels. This includes ATMs, online and mobile banking, and branch locations. If financial institutions want to get more people interested in their online banking goods and services, they can do so by being extra careful and alert about security protocols. Financial institutions must do a lot of research on marketing and use effective advertising strategies in order to get the word out about their banking goods and services. When financial institutions refuse to do market research or commercial advertising, it's like they've already given up half the fight. Banks get an edge over their competitors by doing a lot of market research to find out how people really feel about things and by running ads. There is no doubt that cross-selling is an important strategy for banking institutions that want to open more stores. This sales strategy involves giving current customers more products, like insurance policies or mutual funds. These products can come from the bank or a third party. Cross-selling is becoming more and more important to banks when they plan their business.

To make sure implementation works, financial institutions should build relationships with clients and set up specialized teams within the company. When Customer Relationship Management (CRM) tools are properly integrated and put into place, customer satisfaction goes up by a large amount. It is necessary to have excellent customer interaction management. This will make customers trust the bank even more and keep them that way. It will also offer great ways to make money and keep a lot of people coming back. The reason given is that a big part of the money that most institutions make comes from their current customers rather than future customers. Because of this, it is very important to work together with clients in the best way possible. Through strategic partnerships with other groups, banks can greatly increase the number of retail banking activities they handle.

Customers may be able to get financial help from banks through certain educational institutions and businesses that work with the construction, jewelry, car, some other industries. Businesses gain from this tie-up method because it not only helps banks make more money, but it also helps sales grow. Even though interest rates are going down and there is a lot of rivalry, financial institutions know that their long-term survival, growth, and prosperity depend on the retail sector. Because of this, banks should never stop trying to improve retail banking by understanding what their customers want, need, and prefer. Financial companies must come up with new ways to predict their clients' needs based on their changing social situations and preferences in order to give the right product to the right customer. To reach all types of customers, they must also use market segmentation tactics. Along with making new, competitive products, the most important thing for success in this business will be providing excellent customer service.

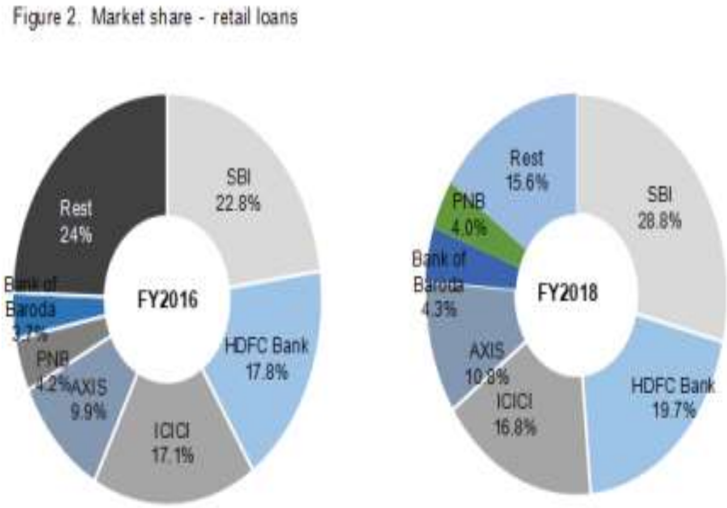
Retail lending drives loan growth in India banking sector

Banks have been less involved in corporate banking in recent years because they are concerned about unpaid loans. As a result, the retail banking sector has emerged as the primary driver of growth in the Indian banking industry. From FY2013 to FY2018, retail lending in India rose at a compound annual growth rate (CAGR) of 16.2%. As a result, it has become one of the fastest-growing segments of the retail banking industry.

Mortgages accounted for 51% of all retail loans as of March 31, 2018. This is less than the 54% of mortgages three years ago. Credit card loans grew at the fastest rate, with a compound annual growth rate of 22.5% from FY2013 to FY2018.

There will most certainly be a plethora of retail banking options in the future. With a relatively young population, low market penetration, and expanding purchasing power, Indian banks are likely to expand their retail lending activities significantly. In India, family debt is still quite low in relation to GDP. This expansion will be aided by both the expansion of the banking industry and the increased use of digital technology.

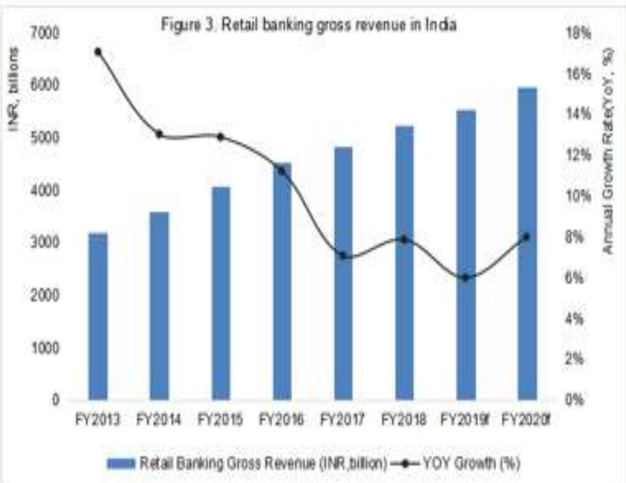
The four largest banks in India accounted for 76% of total retail loans



Over the previous two years, India's largest banks have gained a larger share of the retail credit market. State Bank of India held 28.8% of total retail loans in the Indian banking sector at the end of March 2018. This was a significant increase from the end of March 2016, when it had only a 22.8% share. The majority of this expansion is due to the bank's merger with Bharatiya Mahila Bank and other affiliated institutions.

State Bank of India controlled 32.1% of the Indian property lending market as of the end of March 2018. This is an increase from 25.5% at the end of March 2016. When it comes to car loans, HDFC Bank is the biggest and best. HDFC Bank is currently India's largest credit card company.

Retail Financial Services Revenue

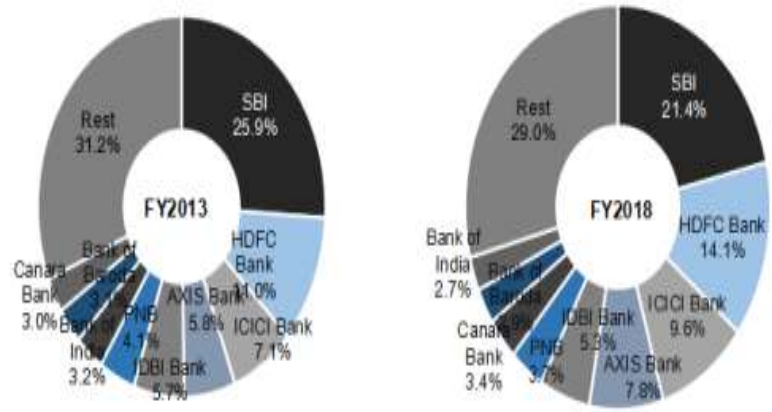


Most Indian banks have observed a slowing in the growth of their retail banking income over the last two years, despite substantial growth in retail loans. Between FY2016 and FY2018, Indian banks made 7.5% more money from retail banking, while their total retail banking loans expanded at a rate of 17.1% each year. Several institutions, like Syndicate Bank and the Central Bank of India, have even said that their retail banking returns are declining.

YES BANK, on the other hand, has experienced significant growth in retail income in recent years as a result of its aggressive expansion into retail banking to broaden its reach. The retail banking division of the bank will continue to expand. By 2019-20, its retail loan portfolio will have increased by 75% to around $7.55 billion (INR 560 billion).

Indian private sector banks registered faster growth

Figure 4. Market share - retail banking revenue

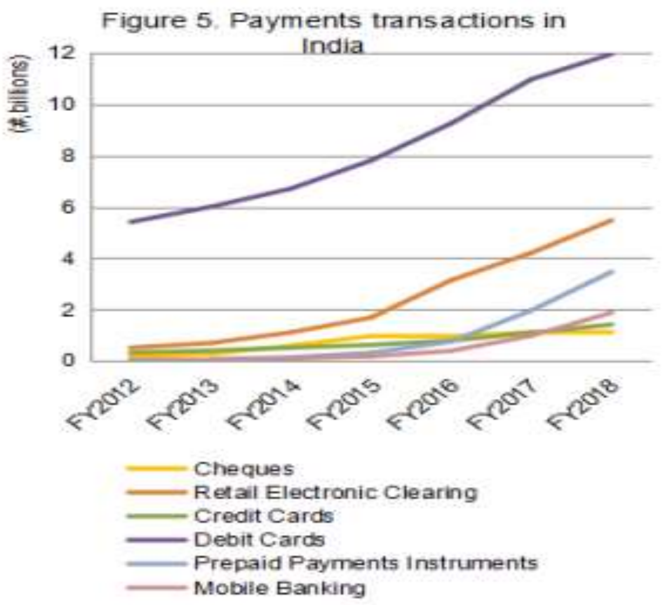


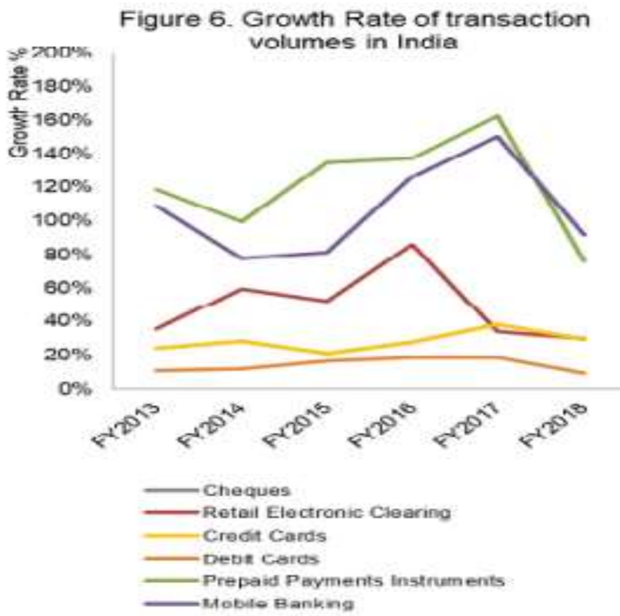
From FY2013 to FY2018, the combined retail banking income of India's 22 public sector banks increased at a 7% annual rate, rising from $38.7 billion (INR 2.11 trillion) to $45.8 billion (INR 2.98 trillion). AXIS Bank, HDFC Bank, ICICI Bank, and HDFC Bank—four of India's largest private banks—saw their retail banking income surge at the same period. The respective rates were 17%, 16%, and 17%.

Retail banking revenue in Indian private sector banks increased far quicker than predicted. This was due in part to their lower starting revenue base. In India, private sector banks profit from the challenges that state-owned banks suffer, whereas public sector banks must cope with a large number of bad loans. Overall, private sector banks prioritize client pleasure and have invested more in digital technologies.

Payment

India experienced one of the quickest rates of growth in the mobile banking payments area. Banking has developed the fastest in terms of payment options throughout history.



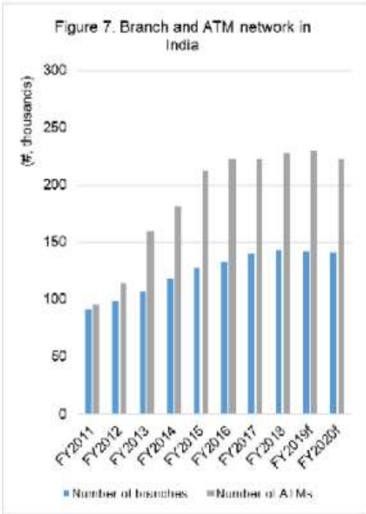


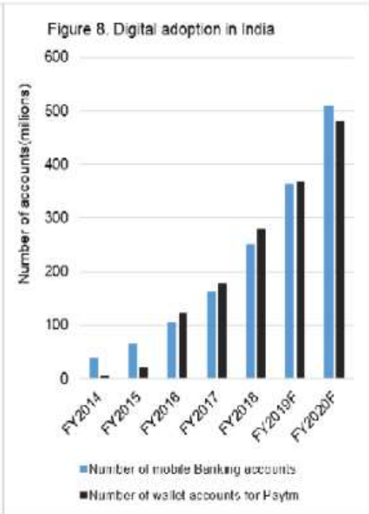
People in India use internet banks at a relatively low rate. The Indian government and banks, on the other hand, have made significant efforts to promote the digital economy in recent years, instructing citizens to use their cell phones for banking as part of the country's demonetization initiatives.

Mobile banking transactions nearly doubled from 977 million in 2016-17 to 1872 million in 2017-18. The large increase indicates that mobile banking is getting more popular, which means that consumers are not going to the bank as frequently. In addition, from 2017 to 2018, more mobile food transactions were performed than credit card transactions. This was the first time in history that something like this occurred.

In October 2017, the Reserve Bank of India (RBI) implemented stricter Know Your Customer (KYC) guidelines for prepaid payment systems and digital wallets. This restriction could have contributed to the slower growth rates recorded in mobile banking volumes and PPIs from 2017 to 2018. According to recent RBI data, mobile wallet businesses have been able to reclaim some of their users.

Increased uptake of mobile wallets and rapid growth in ATM numbers in the Indian banking sector





The Indian government began installing automated teller machines (ATMs) in post offices in 2016 in order to provide more people with access to money. As a result, the gap between the number of retailers and automated teller machines (ATMs) has grown even quicker in recent years. The government has established the United Payments Interface (UPI), a mobile-based platform for moving cash, and the Bharat Interface for Money (BHIM) as part of its push for digital transactions. The National Payments Corporation of India (NPCI) produced both of them. As a result, the number of Paytm wallet accounts has exploded. More than 220 million users had registered with Paytm Payments Bank as of April 2018. The number of digital users has stopped declining in recent months.

This is because India's central bank barred Paytm Payments Bank from creating new accounts, most likely due to e-KYC registration issues. Only a small percentage of the world's 220 million people have fully functional eKYC registered accounts. During this time, Renu Satti, CEO of Paytm Payments bank, announced his retirement in July of this year. The number of mobile users at well-known institutions is expanding faster than the number of online banking customers. The number of persons utilizing internet banking in India increased from 22 million in March 2015 to 50.9 million in June 2018. That's 2.3 times the number of people. Similarly, the number of persons utilizing mobile banking increased by 226 percent from 13.5 million in March 2015 to 30.5 million in March 2018.

5. CONCLUSION

Banks will offer additional services to their consumers, such as lifestyle and comprehensive financial planning, as the retail banking market expands over the next few years. As PSBs' human resource procedures evolve, bank systems will increasingly link with those of outside financial service providers. Outsourcing will also become an accepted method of handling sales and processes. Remote channels will mostly be utilized for transaction banking, while branches will primarily be used for advise and relationship banking. The majority of PSBs are modifying their retail techniques, which is causing quite a stir in the retail sector. PSBs are fast embracing retail industry best practices. Their vast size, strategic placement, and changing business plan will eventually force private sector enterprises to face them, causing a deluge in the retail market.

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