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INTRODUCTION OF RETAIL BANKING

JAIIB RBWM



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1. Definition of retail banking
2. CHARACTERISTICS OF RETAIL BANKING
3. Advantages of retail banking
4. **CONSTRAINTS IN RETAIL BANKING**
5. Prerequisites for the success of a retail banking
6. Challenges for retail banking
7. Reasons for growth of retail banking
8. Retail asset product (B)
9. Products and services offered by retail banking

RETAIL BANKING

- Retail Banking may be defined as “Banking business with individuals”
- Until 1990s, Banks were lending mainly to trade and industry only
- Individual customers as a separate market segment did not exist then
- The average Indian, who traditionally had strong aversion to credit followed "save and buy mode had now shifted to “Borrow and buy” mode
- Today's retail banking sector is characterized by three basic features

1. **Multiple Products** (deposits, credit cards, insurance, investments, and securities),
2. **Multiple Channels of Distribution** (call centre, branch, internet, and kiosk), and
3. **Multiple Customer Groups** (consumer, small business and corporate)

TYPICAL RETAIL PRODUCTS

<u>DEPOSIT PRODUCTS</u>	<u>RETAIL LOAN PRODUCTS</u>	<u>RETAIL SERVICES</u>
SB/CA/RD/FDR Zero balance A/c BSBDA Accounts	Home loan, Auto loan Consumer loans, personal loans, educational loans Trade advances, crop loans/credit cards	Safe deposit lockers Depository services Bancassurance products Mutual funds

WHOLESALE BANKING:

Wholesale Banking refers to doing banking business with industrial and business entities-mostly corporate and trading houses, including multinationals, domestic business houses and prime public sector companies.

CHARACTERISTICS OF RETAIL BANKING

The definitions of retail banking as discussed above bring out the following characteristics:

- I. Banking facilities targeted at individual customers.
- II. Focused towards mass market segment covering a large population of individuals.
- III. Offer different liability, asset and service products to the individual customers.
- IV. The delivery model of retail banking is both physical and virtual i.e services are extended through branches and also through technology driven electronic off-site delivery channels like ATMs, Internet, Banking and Mobile Banking.
- V. Extended to small and medium size businesses.

ADVANTAGES OF RETAIL BANKING

- I. Client base will be large and therefore risk is spread across the customer base.
- II. Customer Loyalty will be strong and customers tend not to change from one bank to another very often.
- III. Attractive interest spreads since spreads are wide, Credit risk tends to be well diversified, as loan amounts are relatively small.
- IV. There is less volatility in demand and credit cycle than from large corporates.
- V. Large numbers of clients can facilitate marketing, mass selling and the ability to categorise/select clients using scoring systems/data mining.

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CONSTRAINTS IN RETAIL BANKING

Though retail banking as a segment has a number of embedded advantages, the segment suffers from constraints also. A few of the constraints are listed below:

- Problems in managing large numbers of clients, especially if IT systems are not sufficiently robust.
- Rapid evolution of products can lead to IT complications.
- The costs of maintaining branch networks and handling large numbers of low-value transactions tend to be relatively high. (For this reason, banks are encouraging clients to use cheaper distribution channels, such as ATMs, the telephone or internet for these transactions and reserve the branches for higher added value transactions).
- Higher delinquencies especially in unsecured retail loans and credit card receivables.

Prerequisites for the success of a retail banking

Product Innovation

The bank's database stores customers' demographic and financial information. This data helps banks in creating innovative personalized products for various segments and categories of customers belonging to different regions. Constant product innovation to meet the requirements of customers is beneficial.



Quality of Service

Most [retail banks offer similar services](#). If a customer discovers identical services offered by another bank with better quality and lower costs, they will switch over easily. Hence client's experience and services offered by the bank matters the most.

Detailed Market Research

Banks can find untapped markets through thorough market research. They can pioneer products and services that others have not been implemented yet. This gives them leverage and provides a competitive edge.

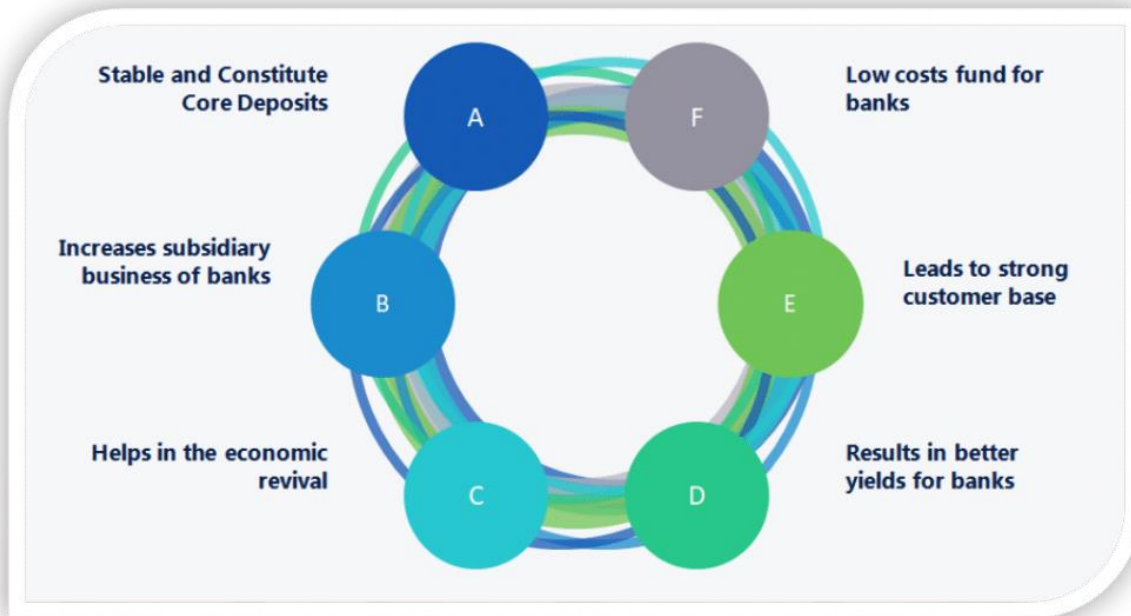
Multiple Delivery and Contact Channels

Customers prefer multiple means of communication to contact their banks. Therefore, banks should provide high-quality service channels like mobile banking, internet banking, web chat services, telephone banking, etc.

Understanding Customer Sentiment through Cross-channel Analysis

Banks can gauge what their customers think about their brand and offerings through sentiment analysis. It provides them with insights to prepare for the upcoming changes required to keep up with changing trends. The social media platforms like Twitter, Facebook, and Instagram, Reddit, etc. display real-time customer conversations. By analysing, those banks can draw an accurate picture of their experiences.

Reasons for growth of Retail banking



- The retail deposits are stable and constitute core deposits;
- They constitute low-cost funds for banks;
- An effective customer relationship management (CRM) with retail customers builds a strong base;
- It increases the subsidiary business of banks;
- It causes better yield and better bottom line for banks;
- Retail banking help in the economic revival of the nation through increase in production activity; and
- It involves minimum marketing efforts in a demand driven economy.