RETAIL BANKING INTRODUCTION

RETAIL BANKING

- Retail banking refers to the provision **of banking services to individual customers or small businesses**.
- It focuses on **meeting the financial needs of individuals**, such as savings accounts, personal loans, mortgages, and credit cards.
- Retail banking primarily operate through p**hysical branches, online platforms, and mobile banking applications**.

FEATUTRES OF RETAIL BANKING

- Banking facilities **targeted at individual customers**.
- Focused on **mass market segment** covering a **large population of individuals.**
- 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.

- Services are also Extended to **small and medium size businesses**.

ADVANTAGES OF RETAIL BANKING

- **Client base will be large** and therefore **risk is spread across the customer base.**
- **Customer Loyalty will be strong,** and customers tend not to change from one bank to another very often.
- Attractive interest spreads since spreads are wide, **Credit risk tends to be well diversified,** as loan amounts are relatively small.
- There is **less volatility in demand and credit cycle** than in large corporates.

CONSTRAINTS IN RETAIL BANKING

- 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**.
- Retail banking operate **within a highly regulated environment**, with numerous laws and regulations governing their operations.
- Retail banking need to invest in **modern technology infrastructure to provide efficient and secure banking services**.

PREREQUISITE FOR SUCCESS OF RETAIL BANKING

Efficient Delivery Mechanism

- This refers to the ability of banks to **provide seamless and convenient access to their products and services.**
- It includes a **well-established network of physical branches**, ATMs, online banking platforms, and mobile applications.

- An efficient delivery mechanism ensures that customers can easily interact with the bank, perform transactions, and access services in a timely manner.

Direct Banking

- It refers to the provision of **banking services directly to customers through digital channels**, such as online banking platforms and mobile applications, without the need for physical branches.
- Direct banking has become the **fastest growing and dominant channel in the retail banking sector**. Its success is attributed to its **convenience, accessibility, and cost-effectiveness**.

Product Appropriateness

- It refers to the **suitability and relevance of the banking products and services** offered to customers.
- Retail banking must ensure that **their product offerings align with the needs and preferences of their target customers**.

- Providing appropriate products enhances **customer satisfaction, increases adoption rates**, and **drives profitability for the bank**.

Pricing

- Banks need to establish **competitive pricing strategies** that balance customer value and profitability.
- Pricing decisions should consider factors such as market conditions, cost structures, competitor pricing, and customer perception of value.
- Retail banking must find the **right balance** between offering attractive pricing to **attract and retain customers** while maintaining **profitability and sustainability**.

Scoring models for assessing creditworthiness

- Retail banking use scoring models to **evaluate the creditworthiness of applicants** based on their **financial history, credit scores, income levels, and other relevant factors**.
- Having robust and reliable scoring models **enables banks to make informed decisions** regarding **credit approvals, interest rates, and loan terms.**

- Accurate credit assessments are crucial for **managing credit risk** and ensuring the overall health of the bank's loan portfolio.

Consumer protection environment

- It involves regulatory **frameworks and policies that protect the rights and interests of customers**. Consumer protection regulations ensure fair practices, transparency, and accountability from Retail banking.
- It provides customers with **recourse in case of disputes, safeguards against fraudulent practices**, and builds trust in the banking system.

REASONS FOR THE GROWTH OF THE RETAIL BANKING

Rise of the Young Indian Professionals

Young professionals have **higher disposable incomes, aspirational lifestyles**, and a need for various banking services, such as **savings accounts, loans, and investment options.**

Growth as an Economic Superpower

As the country evolves into an economic superpower, more individuals are seeking banking services to **manage their finances, save, invest, and participate in the growing econom**y.

Financial Market Reforms

Reforms in India's financial markets, including **liberalization and deregulation measures**, have promoted **competition and innovation in the banking sector.**

Volume-Driven Business

The **high volume of retail banking transactions**, such as savings deposits, retail loans, and credit card transactions, **contributes to the growth and profitability of banks.**

Automation of Banking Processes

The automation of banking processes, **enabled by technological advancements**, has streamlined operations and improved efficiency in retail banking.

Easy and Affordable Access

- Retail banking has become **more accessible and affordable** due to the expansion of **branch networks, ATM networks**, and the development of **online and mobile banking platforms**.

- Customers can easily access **banking services, perform transactions, and manage their accounts** from anywhere, providing convenience and affordability.

Changing Consumer Demographics

Demographic shifts, such as **increasing urbanization, a growing middle class, and changing consumer preferences**, have contributed to the growth of retail banking.

FUTURE OF RETAIL BANKING

Growth in Digital Banking

- It refers to the increasing **adoption and usage of digital technologies** by financial institutions to provide **banking services to their customers.**
- It encompasses a wide range of electronic platforms and channels, including **websites, mobile applications, and other online tools**.
- It enables customers to **access and manage their financial accounts and transactions remotely.**

Rapid Adaptation of Blockchain by Retail Bankers

- Blockchain is a **decentralized and distributed digital ledger technology** that **records and verifies transactions** across multiple computers or nodes.
- In a blockchain network, **transactions are grouped into blocks**, and **each block is linked to the previous block**, forming a chain of blocks—hence the name "blockchain."
- This chain of blocks **creates a transparent and permanent record of transactions** that cannot be altered retroactively without consensus from the network participants.

Artificial Intelligence (AI) and Data Science in Banking

- AI refers to the development of **computer systems capable of performing tasks** that typically require human intelligence.
- In the context of banking, AI technologies aim to **automate processes**, improve decision-making, enhance customer experiences, and detect patterns or anomalies in data.

Cyber Security to be a Top Priority

- It refers to the practice of **protecting computer systems, networks, software, and data** from digital threats and unauthorized access.

- It encompasses a range of measures and strategies designed to ensure the **confidentiality, integrity, and availability of information technology resources.**

Payment Innovations

- It refers to the introduction and adoption of **new technologies, platforms, and methods** that enhance the efficiency, convenience, and security of financial transactions and payment processes.
- These innovations aim to improve the **overall customer experience, streamline** operations, and keep up with evolving consumer preferences.

Rise of Big Tech in the Banking Industry

- Tech firms like Apple, Google & Samsung **have been providing payment services for several years now**, and few have started to merge to **accelerate their financial services movement**.

APPROACHES OF RETAIL BANKING

- An approach refers to a particular **method or strategy adopted by a bank** to organize and manage its retail banking operations.
- Each approach represents a different way of **structuring and coordinating activities** within the bank **to achieve specific goals**.

Strategic Business Unit (SBU) Approach

- It involves organizing retail banking operations into **separate units or divisions** known as **strategic business units (SBUs)**.
- Each SBU operates **independently and focuses on a specific customer segment or product line**.
- The SBUs are responsible for their **own business strategies, profitability, and performance measurement**.

Departmental Approach

- In this Approach the retail banking operations **are organized based on different functional departments within the bank**.
- Each department focuses on a specific aspect of banking operations, such as **customer service, lending, operations, marketing, and risk management.**

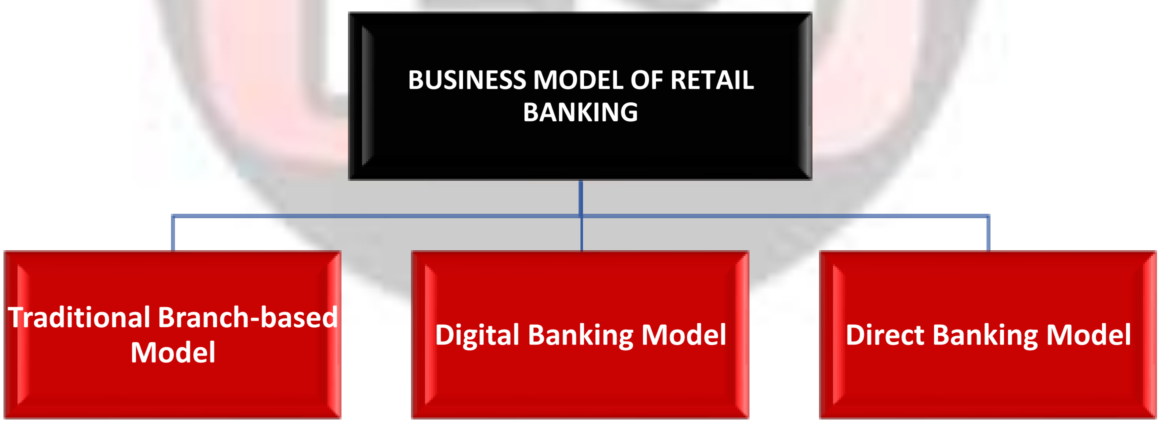
Integrated Approach

- It refers to a **coordinated and holistic approach** to retail banking that aligns with the **overall business plan and strategy of the bank**.

- In this approach, various **functions and processes** across the organization are **integrated and work together towards common goals.**

BUSINESS MODELS

- It refers to the **strategic framework and approach** adopted by a bank to **generate revenue, deliver value to customers, and manage its operations**.



Traditional Branch-based Model

This model is based on a network of **physical branches** where customers can **conduct their banking activities**, such as opening accounts, making transactions, and seeking advice.

Digital Banking Model

In this model, the bank primarily **operates through digital channels** such as **online banking platforms, mobile apps, and virtual customer support.**

Direct Banking Model

Direct banks operate **without physical branches and rely on remote channels to serve customers**. They offer banking services primarily through **online and telephone banking.**