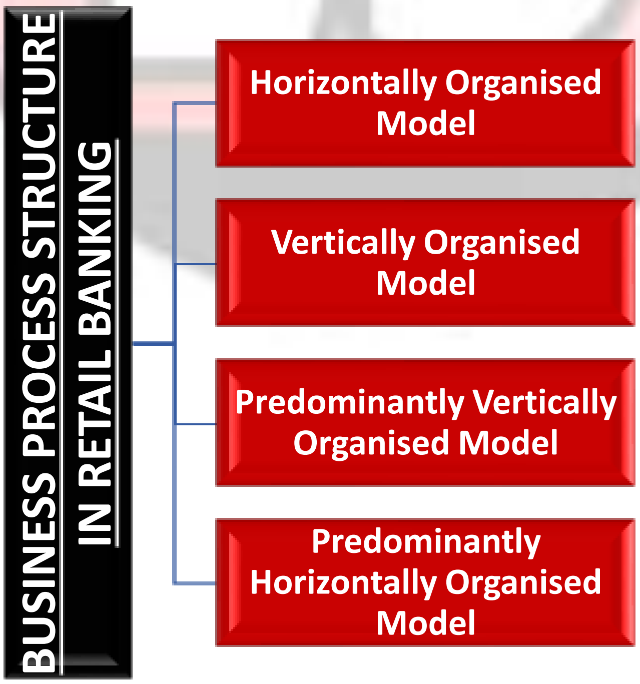
APPLICABILITY OF RETAIL BANKING CONCEPTS

BUSINESS PROCESS STRUCTURE IN RETAIL BANKING

- It refers to the **organizational arrangement and coordination of different processes within a bank**.
- **Boston Consulting Group** conducted a study on retail banking processes (Transforming Retail Banking Processes) and introduced four broadly defined process models implemented across banks.



This model depends on the **level of customer information available in a single platform on the database** side for **offering multiple products/services** across assets, liabilities, and other services.

Horizontally organized model

- In this model, each product or service is treated as a **separate module with its own specific process model**.
- This approach allows for **customization and specialization in managing different types of product**s, optimizing processes, and delivering tailored solutions to customers.

Vertically organized model

It provides functionality across products with **customer database orientation and a centralized customer database** is used across products.

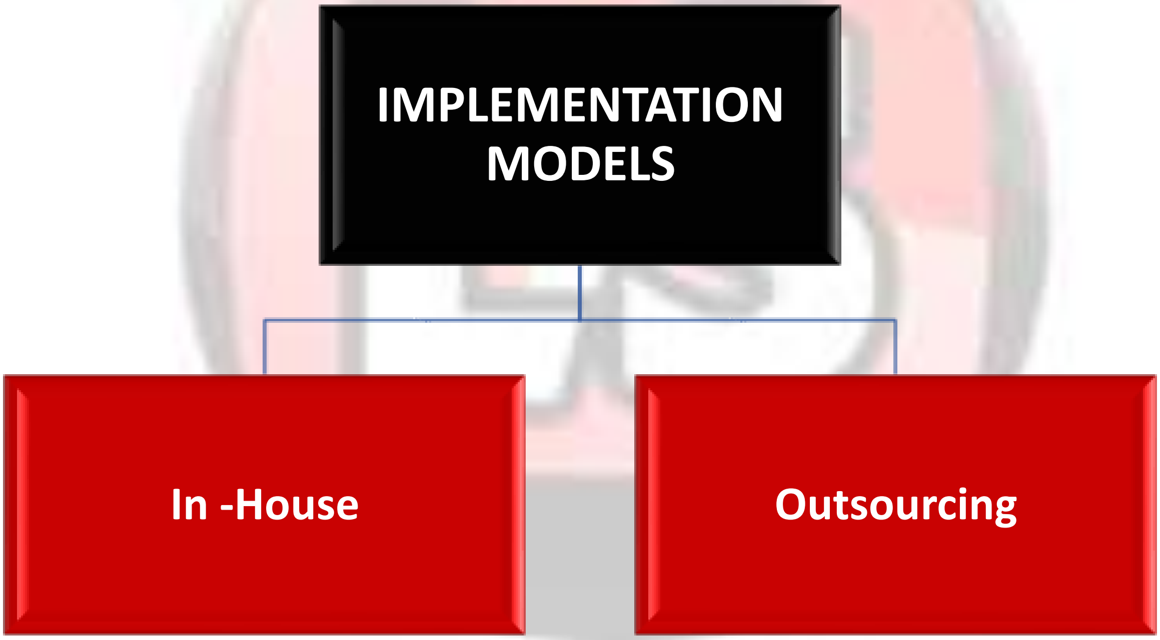
Predominantly horizontally organized model

It is **mostly product-oriented** with common **customer information for some products**.

Predominantly vertically organized model

In a predominantly vertically organized model**, common information is available for most of the products.**

IMPLEMENTATION MODELS



End-to-End Outsourcing

- This strategy involves outsourcing an **entire business process or function** to an **external service provider.**
- In retail banking, this could include outsourcing activities such as **customer service, IT infrastructure management, or back-office operations.**

Predominant Outsourcing

- It refers to a strategy where a **significant portion of a particular business process or function is outsourced**, while some elements remain in-house.
- In retail banking, a common example of predominant outsourcing is the outsourcing of specific **IT services like application development, maintenance, or network management to external vendors**. The retained in-house elements often include **strategic decision-making or core functions requiring greater control.**

Partial Outsourcing

This strategy involves outsourcing **specific components or subsets of a business process or function**. In retail banking, partial outsourcing could be seen in areas like payroll **processing, human resources, or marketing campaigns**.

In-house Sourcing

In-house sourcing, as the name suggests, refers to the strategy of keeping the **entire business process or function within the organization without outsourcing** any aspect to external providers.

In retail banking, banks may choose to keep critical functions like core **banking operations, compliance, risk management, or customer relationship management** entirely in-house to maintain control, security, and compliance.

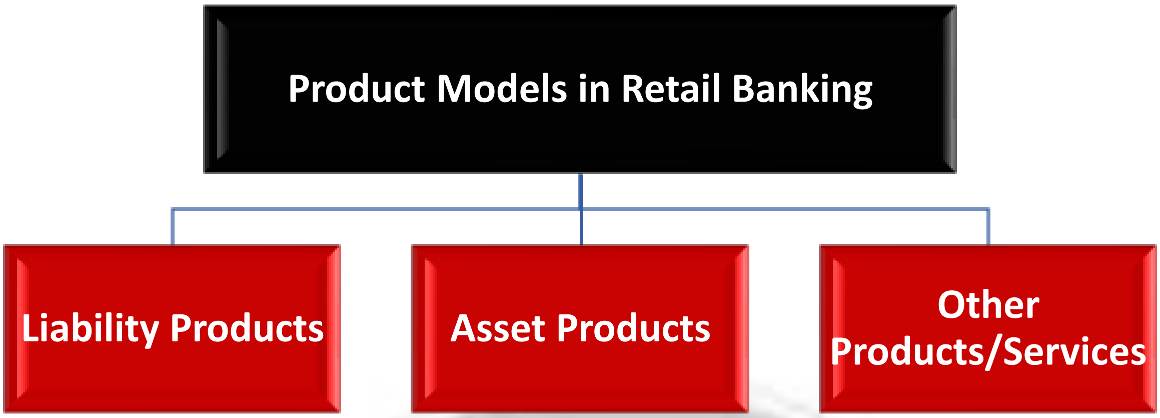
IMPLEMENTATION MODELS IN DIFFERENT BANKS

The implementation model depends on the **product range, process requirements, technology preparedness, and delivery capabilities** including human resources and regulatory prescriptions.

- Most **PSBs use only in-house resources for retail banking**. Only for some activities like **ATM/ Credit Cards/Debit Cards, the issue part** is **outsourced due to a lack of in-house facilities**.

- In the case of **old private sector banks** also, the activities are carried out through **in-house resources only**.
- In the case of **new-generation private sector banks**, the model is a **balanced mix of outsourcing and in-house**, though a little skewed towards outsourcing. In some banks, the **asset side is outsourced** whereas the **liability side is not outsourced**, though centrally processed.
  - In foreign banks, the implementation model is **mostly outsourced based on the business model.**

PRODUCT MODELS IN RETAIL BANKING



LIABILITY PRODUCTS

It refers to accounts and services provided by the bank that **involve accepting customer deposits and managing customer funds**. These products primarily focus on the **bank's liabilities or obligations towards its customers.**

Savings Accounts

These accounts allow customers to **deposit and save their money** while **earning a certain level of interest on the balance**.

Current Accounts

These are transactional accounts that offer features such as check writing, **overdraft facilities, and electronic fund**

transfers, providing convenient access to funds for day-to-day transactions.

Term Deposit Accounts

These accounts involve customers **depositing a specific amount of money for a fixed period of time**, typically earning higher interest rates than savings accounts.

Importance of Liability Products

- **Core deposits are stable** and come from retail deposits.
- They are less willing to **bargain for higher interest rates** and are interest insensitive.
- For the financial institutions, they serve as **inexpensive funds retail customers.**
- A solid client base is created through efficient **customer relationship management with retail customers**.

RETAIL ASSET PRODUCTS

These products focus on p**roviding loans and credit facilities to customers.** These products involve **lending money to individuals for various purposes** and generating interest income for the bank.

Personal Loans

Loans provided to individuals for personal use, such as **financing education, home improvements, or purchasing consumer goods**.

Home Loans/Mortgages Loans offered to individuals for **purchasing or refinancing residential properties.**

Auto Loans Loans provided to **finance the purchase of vehicles, including cars, motorcycles, or recreational vehicles**.

Importance of Assets Products

- Retail segment is **good revenue for funds deployment**.
- Consumer loans are presumed to be of **lower risk and NPA perception.**
- Improves **lifestyles and fulfils aspirations of the people** through affordable credit.
- Retail banking involves **minimum marketing efforts in a demand-driven economy.**

OTHER PRODUCTS/SERVICES

The category of other products/services encompasses a wide range of offerings that may not fall under **the liability or asset product categories.**

Credit Cards

These are payment cards that allow customers **to make purchases on credit** and **repay the amount at a later date**, often with interest.

Insurance Products

Banks may offer **various insurance products**, such as life insurance, health insurance, or **general insurance, to provide protection and coverage to customers.**

Investment Products

This includes products like m**utual funds, stocks, bonds, and other investment options** that enable customers to invest and grow their wealth.

PRODUCT DEVELOPMENT IN RETAIL BANKING

- It refers to the process of **creating, improving, and launching financial products and services** for individual consumers.
- It involves identifying customer needs, conducting market research, designing innovative solutions, and implementing strategies to bring those products to market.

Process Of Product Development

Conducting a Market Survey

- Retail banks conduct market surveys to **gather insights about the target market and their needs.**
- This involves **collecting data** through **surveys, interviews, focus group**s, or analyzing existing market research.
- The goal is to understand **customer preferences, identify gaps in the market, and uncover opportunities** for product development.

Identifying the Needs

- Banks identify the **specific needs and pain points** of their target customers.
- Clear identification of customer needs ensures that the **product addresses real issues and provides meaningful solution**s.

Developing the Product

- Once the needs are identified, the bank's **product development team works on designing and creating the product**.

- This involves defining the **product features, functionalities, and specifications** that align with the identified customer needs.

Pilot Testing to a Sample Universe

- Before launching the product to the **wider market, banks often conduct pilot testing.**
- This involves **selecting a representative sample** of the target market and offering the product to them on a trial basis.
- The pilot test allows banks to **gather feedback, evaluate the product's performance, and identify** any areas that need improvement or adjustment.

Getting Feedback

During the pilot testing phase, **banks actively seek feedback from the sample users.** This can be done through surveys, interviews, focus groups, or any other feedback collection method.

Fine-Tuning the Product Based on Feedback

- Based on the feedback received, banks make **necessary adjustments and improvements to the product.**

- The goal is to align the product more closely with **customer needs and preferences** to ensure a better fit in the market.

Final Rollout of the Product across Targeted Segments

- This involves **launching the product across the targeted customer** segments in a strategic manner.
- The marketing and sales teams work together to **create awareness, promote the product, and generate demand** among the intended audience.

PROCESS MODELS FOR PRODUCTS AND SERVICES

- The entire processing is done **through in-house resources,**
- Some products are **processed in house** and for some products, **outsourcing is done** for process.
- The third approach is the outsourcing of the entire process subject to prescribing process standards.

Process Models in Different Banks

- **In PSBs and old private banks** the entire process for products and services is done **through in-house resources** but in some banks, the process part of **some products is**

outsourced. But generally, no outsourcing is done for the process part.

- In **new-generation private sector banks**, outsourcing is attempted partially for some process areas.
- In **foreign banks**, the **entire process is outsourced** and normally happens through a dedicated back office covering the entire gamut of retail banking services.

PRICING OF PRODUCTS AND SERVICES

The pricing of products and services in retail **banking involves determining the cost** of providing the **offerings and setting competitive prices** that align with customer value, market dynamics, and business objectives.

Pricing of Products and Services In Different Banks

Public Sector Banks (PSBs)

- Pricing in PSBs is driven by **market competition and asset liability management practices**. Regulatory advice also influences the pricing structure.

- Aggressive pricing strategies are **being implemented in the Housing Loan segment** to attract new customers and encourage migration from other banks.
- PSBs often follow a **step-up pricing model**, **starting with a low and attractive price** for the initial years and **then switching to market-related pricing after 3 years.**

New Private Banks and Foreign Banks

Pricing fundamentals in new **private banks and foreign banks are always same.** However, these banks tend to have **more aggressive pricing strategies**.

Price Structuring for Products And Services

Stand-Alone Pricing

- In **Stand-Alone Pricing** product or service is individually priced based on factors such as **costs, market demand, and customer value.**
- Pricing decisions are influenced by factors **like volume, quantum, and relationship with the customer.**

Price Preferences/Rebates

- Banks may offer **price preferences or rebates** based on on customer relationship, loyalty, or repayment behaviour.
- **High-value deposits or long-term relationships** may receive special quotes or concessional rates of interest.
- Rebates or discounts may be provided upon **completing repayment schedules.**

Volume and Quantum-based Pricing

- Pricing structures may vary depending on the **volume or quantum of business.**
- Banks consider the **scale of transactions** and **adjust pricing accordingly.**
- Price concessions or rebates are often applied based on the relationship and transaction volumes.

Additional Pricing Models

- Some banks employ **additional pricing models indirectly as part of their overall pricing structure**.
- These may include offering **free remittance facilities, waivers of service charges,** processing charges, or other additional services.

- These structures serve as **pricing incentives and cross-selling initiatives,** enhancing the overall customer experience.

DISTINCTION BETWEEN RETAIL AND CORPORATE/WHOLESALE BANKING

Basis	Retail Banking	Corporate Banking
Segment	Retail Banking targets at the **individual segment**.	Corporate banking deals mainly with **corporate clients.**
Market	Retail Banking is a **mass market** banking model	Corporate banking look at a relatively **smaller segment**
Approach	Retail Banking is a **B2C approach**	Corporate banking is a **B2B approach**
Risk	**Risk is widespread** in retail banking as customer base is huge	Corporate Banking, **the risk is more** as the ticket size is big though

		customer base is relatively small.
Returns	Returns are **more in retail banking** as the spreads are more for different asset classes in retail	In corporate banking, the returns will be **low as corporates bargain for lower rates** due to higher loan amounts.