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"SOME REVIEWS ON RETAIL BANKING IN INDIA"

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INTRODUCTION

The banks are the lifelines of the economy and play a catalytic role in activating and sustaining economic growth, especially, in developing countries and India is no exception. Our banking system, at the present juncture is, however, facing significant challenges from several quarters. These challenges, if not addressed quickly and adequately, may result in loss of opportunities as and when the economic growth starts picking up momentum.

Since the beginning of the 21st century and the spread of the internet whole industries have been transformed or became obsolete. Despite all these improvements in our everyday life, the financial retail banking industry has remained relatively constant, even though it caused people to adapt to new circumstances, in the form of the Global Financial Crisis (GFC), resulting in a Global Recession and higher regulations for the industry. At that time, people trusted the financial industry less than the energy or chemical sector, in fact, no industry earned less trust. Since then, the industry missed the opportunity to regain the customers' trust by changing their habits and improving their services. Instead, customers are increasingly unlikely to buy products or refer their bank but are increasingly prepared to leave their bank within the next six months .

This state of stagnancy inside the financial retail banking industry seems to have changed. New entrants have caused uproar in the industry. Fintechs, an acronym for financial technology, are entering the retail market, forcing banks to adapt and innovate. Online and mobile banking services are now considered to be the future of financial retail banking. "Banking is necessary, banks are not", the famous quote by Kovacevich (Foster, Gupta & Palmer, 1999), which is often attributed to Bill Gates, seems to achieve an entirely new meaning.

INNOVATION IN THE RETAIL BANKING INDUSTRY

In order to evaluate how Fintechs disrupt the retail banking industry it first needs to be defined how innovation takes place in general and how it affected consumer behavior, leading to changes in the retail banking industry and new trends in banking. Joseph Schumpeter identified innovation in his famous book "History of Economic Analysis" written in 1912 as the critical point for economic change and later derived the concept of "creative destruction". An old structure is hereby destroyed while a new one takes its place, representing the "...essential fact about capitalism" (Schumpeter, 1934).

Innovation in the form of enhanced technologies, permanent connection to the internet and all its features have become implicitness in our everyday life. The digitalization has changed the dimensions of innovation by increasing generatively and pace. New products can now be created by parties that have been not been involved before and the diffusion of innovation is increasing.

More importantly for the retail banking industry, digitalization created a new understanding of being a customer, as people change their behavior due to a psychological impact and the process of diffusion. Consumers now expect and demand products and services that not only fulfill their needs but have high usability and are made by customer-centered companies. Retail banking customers demand enhanced online and mobile services, as they have experienced firsthand how much their lifestyle has improved through other industries like television and shopping. This changed their perception about retail banking. Worldwide, banking customers of the Millennial Generation, people born in the 1980s and 1990s, have lower customer satisfaction levels than customers of older ages, which shows that they have higher expectations of the banks services as well.

TRENDS IN BANKING

Retail banking can be defined as a mass market inside the banking industry that consists of standardized, high volume products. Digitalization and the rise of mobile and stationary internet have had an impact on how retail customers interact with their bank and how they expect financial services to be. The use of cheques is strongly declining as other forms of payment offer more advantages for the customer and branches already lost importance in the past.

Instead, online banking is the new, conventional form of banking. 54% of the population of Germany uses online banking, which is little compared to Northern European Countries which range from 82% in Sweden up to 89% in Norway and 91% in Iceland (Eurostat, 2015). Common activities include checking ones balance or transactions and receiving alerts from the bank (Board of Governors of the Federal Reserve System, 2015).

The Federeral Reserve (FED) defines mobile banking as “using a mobile phone to access your bank or credit union account.” (Board of Governors of the Federal Reserve System, 2015). The main reason for using mobile banking is convenience, as you can do banking wherever you are, and are not bound to a branch or your computer. In Germany, 47% of the population is using mobile banking; another 17% are planning on using it in the next 12 months (ING-DiBa, 2015b). Customers that use mobile banking have a higher Net Promoter Score (NPS) than customers that do not use mobile devices, showing that they are more loyal (Baxter & Vater, 2014).

Overall, consumers got accustomed to innovative services in other industries, due to globalization and digitalization, and demand the same level of service in the financial retail banking industry from banks. Customers are not likely to change back into their old habits and compromise on their wishes as younger generations are growing up in an even more connected world than the generation of “Digital Natives”. As they are not satisfied with banks and their solutions, Fintechs seized the opportunity and entered the market.

RETAIL BANKING

Retail Banking refers to provision of banking products and services offered to individual customers, typically for non-entrepreneurial purposes. Let me make another point about banking. 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.

The retail banking industry can be divided into different services and segments, like lending, wealth management or payment. Although Fintechs are being seen as generally disruptive by the media, not every company aims to revolutionize the whole industry. While some invent and offer new services, the majority is focusing on facilitating one single aspect of the retail banking industry (The Economist Intelligence Unit, 2015).

BUSINESS TO CONSUMER (B2C) MARKET

The Business-to-customer (B2C) segment can be defined as the business between a company and a consumer, the end-user of the company's products or services . B2C is the markets that are most recognized by the media, as changes in services can be observed immediately and are relevant for the consumer.

Customers on the other hand get much more information about their investment and are free to decide if they want to back for instance a social, ecological or technical project and what they want to receive as a reward. Depending on the project this could be a product, interest or company shares.

In the developed markets, banking over the years has evolved through following three distinct phases. These three phases broadly coincide with the level of development in the real economy in the respective jurisdictions.

a) Initial Phase: During this phase the banks were primarily engaged in offering the basic intermediation service i.e. provision of savings facilities and credit for productive purposes and also facilitate payment services including remittances
b) Intermediate Phase: Apart from providing the services offered in the initial phase, the banks additionally moved into lending for consumption purposes. The banks also started offering certain para-banking services like insurance etc. The demand for such services arises primarily on account of a transition of the economy from an investment (production) led growth phase to a consumption led growth phase. At this stage of development of the economy and the society, retail banking becomes relevant.
c) Advanced Phase: Apart from providing the services offered in the intermediate phase, the banks have additionally started providing high-end savings & investment products, wealth management products, and structured products to both individuals and corporates. In other words, in this phase, the banking system additionally starts supporting the speculative activities over and above for the production and consumption activities. Private banking, an advanced version of retail banking for 'classes', becomes relevant at this stage.

REVIEW OF LITERATURE

Kailash M (2012)- The paper compares public and private sector banks in Vijayawada city using SERVQUAL model. The findings revealed that private sector banks have good services to customers and they retained customers by providing better facilities. The study finds out importance of new products and services for banks for retaining customers.

Kumbhar, Vijay (2011)- It examined the relationship between the demographics and customers' satisfaction in internet banking,. It also found out relationship between service quality and customers' satisfaction as well as satisfaction in internet banking service provided by the public sector bank and private sector banks. The study found out that overall satisfaction of employees, businessmen and professionals are higher in internet banking service. Also it was found that there is significant difference in the customers' perception in internet banking services provided by the public and privates sector banks.

Monica Bedi(2010)-The study investigates relationship between service quality, customer satisfaction and behavioral intentions. The findings also indicated the importance of service quality. The study also found out that banks differed in the service quality parameters.

Reinhold Leichtfuss, (2010) in the study entitled as, "Retail Banking – Winning Strategies and Business Models Revisited", analyzed the performance of retail banking in different western countries of the world. It highlight the strategies followed by different bank groups in the western countries. It also aims to help banks reassess their strategies, business models and plans for emerging from the crisis faster and in a stronger position than their peers. It also includes insight into the performance of retail banks for 2001 to 2008 and in the first three quarters of 2009, based on data of more than 140 banks around the globe.

Sandip Ghosh & Kailash B.L. Srivastava (2010), in their study "Impact of Service Quality on Customer Satisfaction, Loyalty, and Commitment in the Indian Banking Sector", examined the strength of association among the independent variable, namely service quality perception and dependent variable namely customer satisfaction, customer loyalty and customer commitment. The results showed that customer value four dimensions of perceived service quality: assurance, empathy, tangibles, security and reliability. The result also showed significant differences between public and private sector banks with regard to customer satisfaction, commitment and two dimensions of loyalty namely, loyalty to company and willingness to pay. Public sector banks should focus on assurance empathy, tangibles and the private sector banks should focus on providing reliable services.

Sachin Mittal & Rajnish Jain(2010)-This paper is basically a literature review of banking industry and effect of IT based services on customer satisfaction. The study highlights customer satisfaction levels among young customers in banking industry. A survey indicates the gaps between customer's expectations and perception with respect to IT based banking services. Findings indicated need to improve the IT based services for enhancing customer satisfaction.

Sultan Singh & Komal (2009), in their study entitled as, "Impact of ATM on Customer Satisfaction", make a comparative study of three major banks viz. State Bank of India, ICICI Bank and HDFC Bank. The study discusses the introduction of ATM in the banking industry. It also includes the review of the various services provided by the three banks. It also analyses the data collected for the banks which shows the service quality of the banks.

Birender Kumar (2009) in his report entitled as, "Performance of Retail Banking in India", highlights the financial performance of retail banks in the financial quarter (2010). It shows that Indian retail banking sector which mainly depends upon transaction directly with consumers saving and lending, registered a decline in its share of 5.02% during the first quarter of FY'10 as compared to the corresponding period last year as per analysis of thirty public and private Indian banks.

Safiek Mokhlis (2009) in his article, entitled as, "Determinants of Choice Criteria in Malaysia's Retail Banking: An analysis of Gender Based Choice Decision", examines the gender differences and the relative importance of choice criteria in respect of selecting a retail bank. The study adopted quantitative methodology, using responses given by 368 Malaysia's undergraduates. The findings of the study show that there are some differences in the choice factors employed by male and female customers in selecting a bank for patronage. The factor of which both male and female had variation are attractiveness, marketing promotion, ATM service, proximity, people influences and financial benefits. It is recommended that bank marketers should treat male and female customers as distinctive segments when designing their marketing strategies.

R.K. Uppal (2009) in the study entitled as, "Customer Service in Indian Commercial Banks: An empirical study" describes that in the emerging competitive environment and IT era, with little or no distinction in the product offering, it is the speed of rendering services that sets apart one bank from another. Prompt service is equated with quality service. Time is a major factor which affects the quality service and that is why they are becoming more popular.

Thomas M. Hoening (2009) in his study entitled as, "The Future of Retail Banking and Payments - Developments in Global Market, the Role of Central Banks", points out that the retail payments in the United States and worldwide have an enormous transformation over the past decade driven by technology and change in consumer preference. Federal Reserve study indicated that electronic payments now exceed two-third of all non cash payments in the United States. The major factor of the transformation banking system is efficiency convenience, speed and ease of use and will continue to do so.

Istvan Szuts (2008), in the report entitled as", Customer Loyalty Problems in Retail Banking" explains that to achieve higher business growth, banks must increase customer loyalty by delivering a distinctive experience that combines the right mix of convenience, value and service and forge an emotional bond with consumers.

S.Venkata Seshaiah & Vunyale Narender (2007) in their study entitled as, "Factors Affecting Customer's Choice of Retail Banking", have identified various factors affecting customer's choice and study consumer behavior with respect to the people's choice of retail banks. In this study efforts have been made to go deep into the psychology of the customer's loyalty.

A.B Arnoud (2008) in this article, entitled as, "Review of Competition in the Dutch Retail Banking Sector" presents the details of retail banking sector in service quality quoting the model of service in Netherland that has one of the world's most concentrated banking sectors. This document explores key practices and regulatory issues for the Dutch Retail Banking Sector which is following the concept of cross-selling to make consumer banking profitable.

Kamble (2008) in his study entitled as, "Perceived level of Bank Service Quality in Banking Sector" investigated the dimensions of the service quality banking services in private and public sector banks using BSQ an instrument specifically designed for banks. He found that the public and private sector banks have different perceptions of receiving service quality, private banks are perceived to be better on the dimensions of effectiveness, access and tangibles whereas, the public sector banks are perceived better on the dimensions of price reliability.

Manoj Kamar Joshi (2008) in his article entitled as "Customer Service in Retail Banking in India" deals with the service aspects of banks in retail banking. It attempts to highlight that customer service of high standard and quality implemented through the use of modern technology helps banks to succeed in the competitive world of retail banking. Banks should also provide comprehensive information to the borrowers with regard to the fees / charges levied while processing the loans. Banks, by standardizing the procedures, shall make the customer's visit to banks hassle free and direct them to the right officials to save the customers from making time-consuming enquiries.

Smith Ramachandran (2008) in this paper entitled as, "Customer Management in Retail Banking: An overview" studies the concept of retail banking and it is becoming customer-driven. The study focused on the role of Information Technology in the growth and future of Retail Banking. The issues and operational challenges like customer satisfaction and retention, customer acquisition, competitive pressure to deliver the new product & services rapidly to market are highlighted. The study is discussed the importance of and the growing need for Customer Retention Management.

V. Gopal (2008) in his article entitled as, "Banking on CRM - An Approach to Implementing CRM in Banking" provides insight into customer relationship management and its relevance and significance in banks. It expresses the pre-requisites for successful CRM in banks and suggests having a thorough understanding of the organizational structure and environment. It further suggests that frontline executives in banks should possess adequate knowledge about the banks as well as the competitor's products and the competitive environment.

P K Gupta (2008)-Objective of this study was to find out the behavior of customers with respect to internet banking vis-à-vis conventional banking. The study found out that internet banking was found to be easier and speedier than conventional banking and trust, accuracy and confidentiality were the most important factors here.

Capegemini & Efma (2007) in the article entitled as, "Transforming Operating Models in Retail Banking" focuses why bank managers went for transforming operating models, increasing revenue growth, improving customer services and cutting costs. The major findings of this article conducted by survey relate to what Retail Banking operating models look like today and what drives their information and what these models will look like in five years in the area of retail banking operations conducted. The retail banks managers would focus on five key success factors to globalize their operating models.

Chris Baumann (2007) in his article entitled as, "Predicting Consumer Behavior in Retail Banking" dwells on the customers' share of wallet (SOW), or the percentage of their business that they assign to one bank. This study based on 1951 retail banking customers develops separate models predicting SOW for deposits, debt and loans, and percentages of accounts and credit cards used from customer's main bank. The result suggest that about 25% to 65% of the variance in SOW can be produced by demographic factors such as age, income and a customer's residential location while overall satisfaction and affective attitude have generally been found to be strong predictors of behavioral intentions.

Dhandapani Alagiri (2007) in his article entitled as, "Retail Banking: Challenges" has focused on the Retail banking with increased consumer spending and increased challenges in the form of competition and technological up gradation that comes along. Product innovation and competitive packaging services are the most important issues for the new generation customers. It has increased the uses of the mobile and e-banking facilities, security and confidentiality have become very difficult to maintain and that has become a major challenge for the banks. The study emphasized that credit delivery mechanism improved considerably with the advent of technological advances and more methodical credit evaluation and credit scoring models. The study also dwells on the implications of Basel II for retail banking.

Holger J Kern (2007), in his study "Retail Banking-Global Perspective" focused on the competition level in Retail Banking and strategies to retain customer. This study emphasized the causes that why retail bank should focus on the customer's need for understanding the customer and product differentiation. A box client segments and retail banking is provided to show the importance of segmenting the client and specializing specific products for specific groups.

Kaushik Mukherjee (2007), in his study entitled as "CRM in Banking - Focus on ICICI Banks' Innovation" discusses on the various innovations on CRM front as implemented in ICICI Bank. The study gives an account of the benefits of CRM Initiatives that include: (Customer usage pattern of CRM Integrated warehouse Data, New Product Development and central Data Management. It focuses on benefits of the initiatives such as mobile ATMs, Bulk Deposit Facility in ATMs, ATMs for visually challenged, other services through ATMs and Mobile phone as a virtual valet.

Tracey Dagger, Jillian Sweeney (2007)- The study consists of qualitative research to investigate the effect of consumption stage on service quality perceptions and then development of hypothesis. The findings indicate the evidence that customers rely more heavily on attributes that are search based in the initial stages of service experience and in later stages consumption becomes important.

Neeta Prakash (2006) conducted a comprehensive study on "Growth of Retail Banking in India" in which she had focused on high growth pattern of the retail Banking. The main findings of the study indicate that growth & development of Retail Banking is an important milestone in Indian banking sector development, though the growth of Retail banking in India is very small as compared to world standards.

The study also finds that the performance of Private sector banks in respect of growth of retail banking is much better than their public sector counterpart.

Tapan K. Panda & Bivraj Bhushan Parida (2006) in their study entitled as "Customer Relationship Management in Retail Banking in India" talk about the implementation of CRM principles in Retail banking sector, analyze the need for drivers of CRM implementation and the challenges associated with illustration of HDFC Bank and PNB. The article discusses the retail banking challenges like customer retention and finding new customers and the need for implementing CRM in this sector. The study revolved around the perception that the CRM has opened a new path to the world of customer intelligence. In today's environment business decision & strategies are made looking at the proximity to customers.

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Sharma and Sharma (2006)-The study analysed customer delight in urban consumer banking. The study found out that customers were satisfied with loan facilities, bank environment, routine work procedures, location , interest rates etc and were dissatisfied with loan formalities and promotion through media.

Raul and Ahmed (2005)-The study investigated customer service in public sector banks in 3 districts in Assam and it was found that customers were dissatisfied with the management, technology and interactive factors along with high service charges. Communication gap was the root cause of poor service and service was different in rural and urban sectors.

Sudhir (2005) in his study entitled as, "Growth Pattern of Retail Banking" emphasizes that existing potential of Retail Banking was untapped in rural and semi-rural areas and that untapped clientele provided a good and vast opportunity for growth in this segment.

Timothy & Williams (2005)in their article, entitled as, "The Role of Retail Banking in the US Banking Industry: Risk, Return and Industry structure' focused the return in retail' in the US Banking industry, the reason for shift and the rising trends in retail loan share. The observed trends in retail loan shares, retail deposit shares, the balance sheets of US consumer and the number of bank branches all indicate an increased focus on retail activities. The micro (customer based business catering to large number of small customers products and services) and macroeconomic (interest rates) factors affect the stability of retail banking. The Retail Banking Industry will be driven by volatility in capital markets and wholesale banking activities, deregulation and technology.

Bhayani, S.J. (2003) in his study entitled as, "Empirical Study on Retail Banking Awareness" has focused on the Retail Banking Awareness by conducting a survey on 200 customers having their current accounts with private banks, nationalized and cooperative banks in Rajkot city of Gujarat. The main objectives of his study was to compare the services provided by different private sector banks in the Rajkot City and also to know the customers awareness about the services provided and how often they utilized these services. The study concludes that in India, due to various factors like illiteracy etc, the IT awareness of the customers was still very low. That's why the banks needed to put major efforts towards educating the customers for building up an IT savvy customer base.

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