JAIIB EXAMINATION

DIPLOMA IN BANKING & FINANCE

RETAIL BANKING & WEALTH MANAGEMENT

INDIAN INSTITUTE OF BANKING & FINANCE

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RETAIL BANKING & WEALTH MANAGEMENT

INDIAN INSTITUTE OF BANKING & FINANCE

(ISO 9001:2015 Certified)

Kohinoor City, Commercial-II, Tower-1, 2nd & 3rd Floor,

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Established on 30th April 1928

MISSION

- To develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy/counselling and continuing professional development programs.

VISION

- To be the premier Institute for developing and nurturing competent professionals in banking and finance field.

OBJECTIVES

- To facilitate study of theory and practice of banking and finance.
- To test and certify attainment of competence in the profession of banking and finance.
- To collect, analyse and provide information needed by the professionals in banking and finance.
- To promote continuous professional development.
- To promote and undertake research relating to Operations, Products, Instruments, Processes, etc., in banking and finance and to encourage innovation and creativity among finance professionals so that they could face competition and succeed.

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RETAIL BANKING & WEALTH MANAGEMENT

(For JAIIB/Diploma in Banking & Finance Examination)

Indian Institute of Banking & Finance

macmillan education

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RETAIL BANKING & WEALTH MANAGEMENT

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FOREWORD

Formal education will make you a living; self-education will make you a fortune.

–Jim Rohn

The banking sector, currently, is experiencing a transformation catalysed by digitalization and information explosion with the customer as the focal point. Besides, competition from NBFCs, FinTechs, changing business models, growing importance of risk and compliance have contributed to this radical shift. Such an ever-evolving ecosystem requires strategic agility and constant upgradation of skill levels on the part of the Banking & Finance professionals to chart a clear pathway for their professional development.

The mission of the Indian Institute of Banking & Finance is to develop professionally qualified and competent bankers and finance executives primarily through a process of education, training, examination, counselling and continuing professional development programs. In line with the Mission, the Institute has been offering a bouquet of courses and certifications for capacity building of the banking personnel.

The flagship courses/examinations offered by the Institute are the JAIIB, CAIIB and the Diploma in Banking & Finance (DB&F) which have gained wide recognition among banks and financial institutions. With banking witnessing tectonic shifts, there was an imperative need to revisit the existing syllabi for the flagship courses.

The pivotal point for revising the syllabi was to ensure that, in addition to acquiring basic knowledge, the candidates develop concept-based skills for keeping pace with the developments happening in the financial ecosystem and to ensure greater value addition to the flagship courses and to make them more practical and contemporary. This will culminate in creating a rich pool of knowledgeable and competent banking & finance professionals who are capable of contributing to the sustainable growth of their organizations.

Keeping in view the above objectives, the Institute had constituted a high-level Syllabi Revision Committee comprising of members from public sector banks, private sector banks, co-operative banks and academicians. On the basis of the feedback received from various banks and changes suggested by the Committee, the syllabi of JAIIB & CAIIB have since been finalized.

The revised JAIIB syllabi will now have four compulsory subjects as under:

1. Indian Economy & Indian Financial System
2. Principles & Practices of Banking
3. Accounting & Financial Management for Bankers
4. Retail Banking & Wealth Management

The new subject on Indian Economy & Indian Financial System will cover the basics of economics and financial system prevalent in India. This will familiarise the candidates with the evolving financial ecosystem of the country.

In so far as the book on Accounting & Financial Management is concerned, two new modules viz Financial Management and Taxation & Fundamentals of Costing have been introduced. With bankers having to cater to the requirements of varied industries, it is imperative that they have an underlying understanding of the relationships between cost accounting, financial accounting, management accounting and financial management. Some of the other topics that have been covered are Cost of Capital, Equipment Leasing, GST, Standard Costing, Marginal Costing, Budgetary Control system etc.

The books on Principles & Practices of Banking and Retail Banking & Wealth Management have been thoroughly revised and updated.

As is the practice followed by the Institute, a dedicated courseware for every paper/subject is published. The present courseware on Retail Banking and Wealth Management for Bankers has now been authored in line with the revised syllabus for the subject. The book follows the same modular approach adopted by the Institute in the earlier editions/publications.

While the Institute is committed to revise and update the courseware from time to time, the book should, however, not be considered as the only source of information / reading material while preparing for the examinations due to rapid changes witnessed in all the areas affecting banking & finance. The students have to keep themselves abreast with the current developments by referring to economic newspapers/ journals, articles, books and Government / Regulators' publications / websites etc. Questions will be based on the recent developments related to the syllabus.

Considering that the courseware cannot be published frequently, the Institute will continue the practice of keeping candidates informed about the latest developments by placing important updates/Master Circulars/ Master Directions on its website and through publications like IIBF Vision, Bank Quest, etc.

The courseware has been updated with the help of Subject Matter Experts (SMEs) drawn from respective fields and vetted by practitioners to ensure accuracy and correctness. The Institute acknowledges with gratitude the valuable contributions rendered by the SMEs in updating/vetting the courseware.

We welcome suggestions for improvement of the courseware.

Mumbai
2023

Biswa Ketan Das
Chief Executive Officer

RECOMMENDED READING

The Institute has prepared comprehensive courseware in the form of study kits to facilitate preparation for the examination without intervention of the teacher. An attempt has been made to cover fully the syllabus prescribed for each module/subject and the presentation of topics may not always be in the same sequence as given in the syllabus.

Candidates are also expected to take note of all the latest developments relating to the subject covered in the syllabus by referring to Financial Papers, Economic Journals, Latest Books and Publications in the subjects concerned.

RETAIL BANKING & WEALTH MANAGEMENT
SYLLABUS

MODULE A: RETAIL BANKING

Retail Banking: Introduction

Characteristics of Retail Banking; Advantages of Retail Banking; Constraints in Retail Banking; Evolution of Retail Banking; Prerequisite for Success of Retail Banking; Challenges for Retail Banking; Future of Retail Banking

Retail Banking: Role within the Bank Operations

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Applicability of Retail Banking Concepts and Distinction between Retail and Corporate/ Wholesale Banking

Applicability of Retail Banking Concepts; Distinction between Retail and Corporate/Wholesale Banking

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Demand Deposits : An Introduction; Current Deposit: An Introduction; Main features of Current Deposit Account; Advantage of Current Deposit Account; Documents required for opening various types of Current Accounts; Opening of Current Account; Operational Instructions in Current Account; Transfer of Accounts; Inoperative Accounts; Closure of Current Account; Savings Bank Account: An Introduction; Advantages and Importance of Savings Bank Deposits to Customers; Who Can Open a Savings Bank Account?; Deregulation of interest in Savings Deposit Account; Maintenance of Balance in Savings Bank Account and Interest Payment; Restrictions on Transactions in SB Account; Services offered in Savings Bank Accounts; Time Deposit – An Introduction; Periodicity of Time Deposit; Operational instructions; Interest on Fixed Deposit; Term Deposit accounts of minors; Premature Payment of FD; Operational Issues of FD; Advances Against Bank's own Time Deposit Receipts; Renewal of FD; Recent Rule of RBI on overdue FD; Form 15 G/ 15 H; Deposit of TDS to Income Tax Department by Banks; 2 in 1 Account; Recurring Deposit (RD)

Important Retail Asset Products

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Credit and Debit Cards

Credit Cards; Charge Cards; Pre-paid Cards; Debit Cards; Co-branded Cards; Contactless Cards

Remittance Products

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Digitisation of Retail Banking Products

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Investment Management

Element of Investment; Basics of Investment Management; Steps in Investment Management; Investment Banking; Services being offered by Full-service Investment Banks; Investment Bank Organizational Structure; Investment Management Vs Investment Banking; Portfolio Management; Objectives of Portfolio Management; Key Elements of Portfolio Management; Portfolio Management Vs Investment Banking; Role of Portfolio Manager; Portfolio Management Service Vs Mutual Funds (MFs); Types of Portfolio Management Services; Steps of the Portfolio Management Process; Advantages of Portfolio Management Services; Disadvantages of PMS; Recent developments in the Portfolio Management Services area in India

Tax Planning

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Other Financial Services Provided by Banks

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Lender's Appraisal Procedure

Appraisal Procedures; Application Form; Documents to be Submitted for Availing a Home Loan; Application Received through Agent; Appraisal of Loan Request; Other Relevant Issues at Pre-sanction Stage; Documentation; Mortgage; Registration of Documents; Detection of Forged and Fabricated Title Deeds; Other Securities; Registration of Charges with CERSAI on Security Internet; Monitoring; Closure of Account; Home Loan Frauds

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MODULE – A

RETAIL BANKING

UNIT 1

RETAIL BANKING: INTRODUCTION

STRUCTURE

1.0 OBJECTIVES

The objectives of this unit are to understand the:

- History and definition of Retail Banking
- Characteristics of Retail Banking
- Advantages and constraints of Retail Banking
- Retail banking scenario in India – Why Retail Banking? Factors for Success, Challenges, Future Strategy
- Global trend in Retail Banking

1.1 INTRODUCTION

The Indian economy over the past decades has been witnessing an upswing due to the liberalization policy adopted by the planners. The economic changes have given rise to increased income and saving levels leading to increased demand on the financial markets and more particularly on banks, which continue to be a safe and secure source for individual savings and investments. In recent times, banks have been moving away from their traditional banking role and are open to change in response to the multifarious demands of customers/ society. From a mere service provider to park surpluses, banks have blossomed into one stop financial hub for all kinds of financial needs of the customers. Banks have come out with various alternatives which can cater to almost all needs of various type of customers due to innovation and positioning of new products and processes.

Considering the increased competition, there is a felt need for the banks to be innovative and develop different products with a variety of features to cater the needs of varied profile of customers. It becomes imperative on the part of the banks to develop products customized to suit the needs of variety of customers and move away from a Product Centric Approach to Customer Centric Approach**.** Banks have slowly started realising that the customer is the king and to retain the customer, especially in a tough competitive market, they have to satisfy all the financial needs by offering products to suit the customers' requirements.

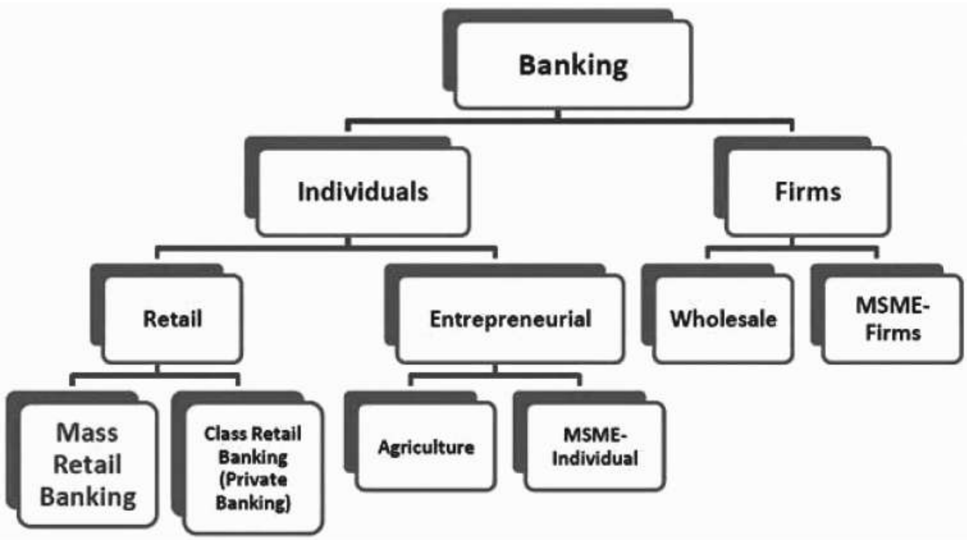
Intermediation is the primary function of banks and mobilisation of deposits is the first step to intermediation. They accept deposit from public and lend it to the enterprise class engaged in productive activities. The robustness of any economy depends to a great extent on the savings that are generated in it. These savings constitute the source for creation of further wealth by deploying them in tune with economic directions adopted by a country. Investments stimulate economic activities to greater heights leading to economic prosperity.

Despite the changes in the functions performed by banks, the major function of the bank remain as collecting deposits and lending including retail lending. Banks have accordingly developed various variants of deposit as well as lending products with special emphasis on retail lending products to suit various requirements of variety of customers from all segments of the society.

Retail Banking refers to provision of banking products and services offered to individual customers, typically for non-entrepreneurial purposes. On the liability side, banking has generally been 'retail', i.e., the banks have raised resources primarily from a large number of retail depositors. In asset side also, the focus has been on lending to large number of customers with low ticket size. Thus, on the whole, retail banking involves offering of products of both sides of the balance sheet, e.g., fixed deposit, 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, para-banking products and services viz., insurance products, capital market products, etc., to individuals.

Typically, retail banking begins with a target clientele, which is the common masses, and it slowly graduates through a stage, which can be called as 'class retail banking.' The 'mass retail banking' is the stage in which the bank provides standardized banking products and services to its customers. In this phase, the banks attempt to build a sufficiently broad customer base which can serve as a stable source of funding. The 'class retail banking', on the other hand, is the stage in which the bank offers customized products and services targeted at a niche customer segment, the high net worth individuals. Retail banking focused solely at a niche customer segment may also be termed as private banking.

A graphical representation of the positioning of mass retail banking vis-à-vis other segments of banking is as under:



(*Source:* RBI Website)

Definitions:

Before we move further, let us have a look "What is Retail Banking"? Let us see the different definitions of retail banking.

"**Retail Banking**, also known as consumer banking or personal banking, is banking that provides financial services to individual consumers rather than businesses. Retail banking is a way for individual consumers to manage their money, have access to credit, and deposit their money in a secure manner".

"Retail Banking is a banking service that is geared primarily towards individual consumers. Retail banking is usually made available by commercial banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking entities provide a wide range of personal banking services, including offering savings and other operative accounts, bill paying services, as well as debit and credit cards. Through retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses. Today, much of retail banking is streamlined electronically via Automated Teller Machines (ATMs), or through virtual retail banking known as online banking."

"Retail Banking deals with lending money to consumers. This includes a wide variety of loans, including credit cards, mortgage loans and auto loans, and can also be used to refer to loans taken out at either the prime rate or the subprime rate."

"Retail banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other entities".

Retail Banking refers to "the part of a bank's operations providing services at its branches for small (in bank terms) account holders."

"Banking services offered to individual customers such as savings accounts, retail loans, remittance services, etc."

"Pure retail banking is generally conceived to be the provision of mass market banking services to private individuals. It has been expanded over the years to include in many cases services provided to small- and medium-sized businesses. Some banks may also include their "private banking" business (i.e., services to high net worth individuals) in their definition of retail banking."

What Does Retail Banking Provide?

Retail banking provides financial services to individual consumers rather than large institutions.

- Services offered include savings and current accounts, mortgages, personal loans, debit or credit cards, and certificates of deposit (CDs).
- Retail banks can be local community banks or the divisions of large commercial banks.
- In the digital age, many fintech companies can provide all of the same services as retail banks through internet platforms and smartphone apps.
- While retail banking services are provided to individuals in the general public, corporate banking services are only provided to small or large companies and corporate bodies.

1.2 CHARACTERISTICS OF RETAIL BANKING

Retail Banking provides banking services to multiple customer groups with multiple products through multiple channels of distribution. The definitions of retail banking as discussed above bring out the following characteristics:

1. Banking facilities are targeted at individual customers or small organisations.
2. Meets the need of a large number of customers with well diversified portfolios.
3. It is focussed towards the mass market segment covering a large population of individuals and non-individual entities.
4. It offers different liability, asset and a plethora of service products to the various customer categories.
5. 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, Mobile Banking, Phone Banking, etc.
6. The services are extended to small- and medium-size businesses as well.

In short, Retail Banking encompasses multiple products in liability, asset, cards, digital banking, payments, etc.; it caters to multiple customer groups in both individual as well as non-individual categories & multiple channels of distribution in both physical as well as virtual space.

1.3 ADVANTAGES OF RETAIL BANKING

1. Client base will be large and therefore risk is spread across the customer base.
2. Customer loyalty will be strong with a good scope for cross selling and customers tend not to change from one bank to another very often.
3. Attractive and wide interest spreads since customers are too fragmented to bargain effectively; Credit risk tends to be well diversified, as loan amounts are relatively small. There is less volatility in demand and credit cycle than from large corporates. Large numbers of clients can facilitate marketing, mass selling and the ability to categorize/select clients using scoring systems/data mining.

1.4 CONSTRAINTS IN RETAIL BANKING

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

1. Problems in managing large numbers of clients, especially if the available IT systems are not sufficiently robust.
2. Rapid evolution of products can lead to IT complications.
3. 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 mobile or the internet for these transactions and reserve the branches for higher value added transactions).

4. Higher delinquencies especially in unsecured retail loans and credit card receivables.
5. Any loss in faith in a particular bank can lead to sudden outflow of retail deposits resulting in collapse of the bank. This is called a bank run.
6. The competition is very fierce which may sometimes lead to unhealthy competition.

1.5 EVOLUTION OF RETAIL BANKING

Having understood what retail banking is all about; let us see the evolution and history of retail banking.

Retail Banking as a Business Model

Retail Banking, as a business model of banks, had evolved over the years from the traditional banking space. Historically, banking in the Indian scenario before 1960s was identified with lending to business and corporate clients for working capital and project financing. The traditional forms of banking in the above period was restricted to class clients and satisfy their total banking requirements in the form of financing for raw materials, work in progress, finished goods and bills receivables. For delivering these services, various products, instruments and facilities were introduced to serve the corporate customers. The operative accounts, like current accounts for extending the above services, formed an integral part of the services. The basic premises, under which these services were structured, were that the needs and requirements were straight and simple. But over a period of time, as the needs and wants of the customers expanded and more and more products and services were needed, banks had redesigned their product and service paradigm. There was an absolute need by banks to develop specialized and sophisticated products to meet the manifold and diverse growth of organizations. The stage had come where the legacy architecture of banks was unable to service the diverse needs, and hence emergence of banks with functional focus came into existence. From being plain vanilla commercial functions, banks took new avatars like Investment Banks and Merchant Banks, to carry out the investment side of banking and also corporate capital raising, fund raising and debt structuring activities. Investment function was hived off as a separate activity and also standalone investment banks had emerged to take care of the multi-dimensional functions of Investment Banking, Mergers and Acquisitions, etc. Merchant Banks were the answer for Capital and Debt raising and other related activities. But the buck did not stop there as banking was always on the explosion mode and there was absolute necessity for banks to reposition themselves with newer business models to satisfy the ever-changing needs of the existing customers and also to cater to the expectations of the new class of emerging customers. As the evolution of banking was a continuous process, with the broadening of the customer base, and the character of the customers' base changed from homogenous to heterogeneous over a period of time, banks were under the compulsion to redesign their products and services models to cater to these customers and fulfill their varied needs. Thus, came corporate banking and retail banking. In some banks, retail banking was christened as consumer banking, as the focus was towards individual consumers.

Capgemini brings out World Retail Banking Reports from time to time. "The World Retail Banking Report 2015" was released by Capgemini and European Financial Management & Marketing Association (EFMA). The major findings were:

- Banks are falling short of customer expectations. Customer expectations are on the rise at a faster pace than banks can handle. Positive customer behavior is also on the decline. The shift is mainly on account of younger generation, who are less likely to take debt, more likely to leave, and less likely to refer friends or buy additional retail products.
- Competition from non-bank players is accelerating. Banks are still unsure about the impact of non-bank players and this may lead to threat to core business in future.
- Banks focus too much on the front end at the cost of back end service. Banks need to continue to invest in the front office because that is the first interaction for the customer experience. But, at the same time, they can no longer defer the significant efforts required on the middle and back-end because the clients don't want to be exposed at the back-end and do not accept that it takes three weeks to be provided with paperwork, etc.

The World Retail Banking Report 2016 by Capgemini and EFMA found that 63% of customers across the globe are now using fintech products or services. Penetration is currently highest in the emerging markets and among younger customers but is expected to increase in all geographies and ages. While 96% of banking executives agreed that the industry is evolving towards a digital banking ecosystem, only 13% say they have the systems in place to support it. Fintech providers are gaining popularity among consumers – thanks to the perception that they are easy to use, offer fast service and provide a good experience. Only 36% of banks agree that Fintech offer fast service and only 40% agreeing that Fintech provide a good experience. Competition is evolving into acceptance, with 65% of bank executives saying they view Fintech firms as partners.

Retail Banking Scenario in India

The evolution of retail banking in India can be traced back to the entry of foreign banks. The conventional banking business by Public Sector Banks (PSBs) was done on a more generalized approach and there was no specific demarcation as retail and non-retail activities. Customer and Industry segmentation was adopted within the overall business plan of banks. Offering products and services based on specific consumer segments was not attempted in a focused way. Foreign banks operating in India set the trend and in the late 1970 and early 1980s and came out with their consumer banking models with hybrid liability and asset products specifically targeted at the personal segment. Standard Chartered Bank and Grindlays Bank were the pioneers in introducing these types of products. Citibank created waves in the early 1980s with their credit card products and spurred the retail banking space. State Bank of India and some public sector banks like Indian Overseas Bank, Bank of India, Bank of Baroda and Andhra Bank developed and marketed asset products and card products to cater to retail segment. In fact, Bank of Baroda and Andhra Bank were two of the early players in the credit card business in the PSB space. The entry of new generation private sector banks in early 1990s has created a new approach to retail banking by banks. With the advantage of technology right from start, these banks had a clear positioning for retail banking and aggressively strategized for creating new markets for the retail segment. In addition, the new generation private banks had posed a threat to the retail business of foreign banks that had by then well-defined business models for retail banking. To add to the fuel, PSBs also with technology initiatives and redefined business model for retail had aggressively entered the market space, creating a retail war and capture their share of the pie in the liberalized economic environment and the resultant opportunities in retail banking. The retail war is in full swing now with a win – win situation for all the players and the focus is on capturing and improving the market share and customer base.

India's preparedness for IT revolution has impacted the banking sector significantly. It created a need for Private sector banks as also public sector banks to adopt core banking solution. It led to organized and comprehensive computerization of operations of banks across all levels.

The growth of IT and its remarkable application to banking has greatly facilitated the growth and development of retail banking in India to a large extent. IT has allowed the integration of ATMs, mobile banking and internet banking. Due to technological advancement, India witnessed the adoption of modern payment systems, securities settlement, electronic fund transfer, cheque truncation system, ATMs and many other modern system of banking transactions.

Strong economic fundamentals, growing urban population, higher disposable incomes, rise in young population, emergence of new customer segments and rise in the mass affluent space, explosion of service economy in addition to manufacturing space have catapulted the scope for retail banking business in India. The segment has become an important component in the business design of the banks in India and almost all players in the foreign, public and private (old and new) space are in this and it has become almost a fashion statement for all the players. The retail plans basically stem from the enormous opportunities across geographies and customer segments and the huge untapped potential for retail banking in India. There is a virtual gold mine to be unearthed and even the top layer is not yet scratched fully. There is a whole lot of customer pyramid to be tapped and the present activities till recently were confined only to the top and higher middle end of the customer pyramid. Of late banks, especially foreign banks and new generation private players are seriously looking at the bottom of the customer pyramid and reengineering their retail strategies to develop independent and exclusive strategies for this segment. In addition, the recent trend is that Non-Banking Finance Companies (NBFCs) and MNCs have also aggressively entered and active in this 'Bottom of the Pyramid' segment and posing a big threat to the conventional banking players.

RBI Data on Retail Banking in India

The Indian retail banking is in growth trajectory. There have been several recent developments in Indian retail banking. The growth in various elements of retail banking space over the past few years are published by RBI in their Bulletin, "Report on Trend and Progress of Banking in

India & Financial Stability Report", which reflects the business performance achieved in the retail assets and other services by banks as under:

I. Growth Rate of Retail Assets of the Banking System

(Amount in ₹ Billion)

S No.	Type of Retail Asset	2019	2020	2021
1.	Housing Loans	12044	13965	15619
	Percentage growth over the previous year	19.5	15.9	11.8
2.	Consumer durable loans	92	111	216
	Percentage growth over the previous year	-51.7	21.3	93.4
3.	Credit Card Receivables	1113	1321	1386
	Percentage growth over the previous year	34.5	18.6	4.9
4.	Vehicle/ Auto Loans	2697	2894	3295
	Percentage growth over the previous year	12.9	7.3	13.9
5	Other Retail / Personal Loans	6335	7510	8560
	Percentage growth over the previous year	22.77	18.54	13.99
6.	Educational Loans	762	791	788
	Percentage growth over the previous year	1.8	3.7	-0.3
	Total Retail Loans	23043	26592	29864
	Percentage growth over the previous year	18.6	15.4	12.3

(*Source:* Trend and progress of banking in India 2020-21-RBI)

II. Percentage of Retail Assets to Total Assets of the Banking System

S. No.	Details of Advances	2019	2020	2021
1.	Total Advances of Banking System	95269	100984	106408
2.	Percentage growth over the previous year	13.4	6.00	5.4
3.	Percentage share of Retail to Total Advances	24.18	26.33	28.06

III. Number of ATMs of Schedule Commercial Banks

ATMs	Number as on 31.03.2019	Number as on 31.03.2020	Number as on 31.03.2021
Number of Onsite ATMs	106259	113271	115605
Number of Offsite ATMs	95813	97489	97970
Total Number of ATMs	202072	210760	213575
Number of Bank Branches	120535	122994	122976
ATMs as percentage of Bank Branches	167%	171%	173%
Number of Branches covered under CBS	120535	122994	122976
Coverage of Branches	100%	100%	100%

(*Source:* RBI Bulletin)

IV. Other/ New Payment Infrastructure

(Lakhs)

Payment Infrastructure	Number as on 31.03.2019	Number as on 31.03.2020	Number as on 31.03.2021
White Label ATMs	-	0.23	0.25
Micro ATMs	-	2.71	4.04
Bharat QR*	-	20.27	35.70
UPI QR**	-	-	925.22

(*Source:* RBI Bulletin)

V. Payment System Indicators

S. No.	System	2018-19 Vol. (Mn.)	2018-19 Value (Bn.)	2019-20 Vol. (Mn.)	2019-20 Value (Bn.)	2020-21 Vol. (Mn.)	2020-21 Value (Bn.)
1.	RTGS	136	1356881	150	1311564	159	1055998
2.	NEFT	2318	227936	2744	229455	3092	251309
3.	ECS(DR)	0.9	12	0.1	0.39	-	-
4.	ECS(CR)	5.4	132	1.8	51	-	-
5.	IMPS	1752	15902	2579	23375	3278	29415
6.	NACH (CR)	883	7296	1129	10432	1646	12327
7.	NACH(DR)	483	5224	734	7182	963	8689
8.	UPI	5391	8769	12518	21317	22330	41036
9.	Credit Card	1762	6034	2177	7309	1764	6304
10.	Debit Card	4414	5934	5061	7039	4020	6626
11.	Prepaid Instruments	4607	2133	5381	2155	4974	1976
12	Mobile Banking	6200	29583	13926	57815	25210	90543

The above data throws open the following interesting revelations about the performance of the retail banking as well as innovative ways to provide service to the retails customers in the recent past.

Performance of Different Segments of Retail Banking from 2019 to 2021

1. Banks' retail loan portfolio registered double-digit growth. The housing loan component which constitutes more than 52% of the total retail portfolio of banks increased by 29.68% from 2019 to 2021. All though there is slight decline in growth as compared to the corresponding previous year. Retail loan portfolio of banks continued to grow at around an average 29.60% during 2019-2021 even though there was deceleration in the total credit growth of banks. Auto loan registered an average growth rate of 22.19% during 2019-21. Credit card receivable grew by more than 24%. The significant growth has emerged from several quarters—mortgage loans (Housing), personal loans, credit card, etc.

2. Weak domestic demand and subdued performance of the corporate sector moderated the demand for bank credit. As a result, at the end of March 2021, gross outstanding credit of scheduled commercial banks increased by 5.4% to ₹106408 billion, as against of 6% and 13.4% during the corresponding previous year 2020 and 2019 respectively.
3. The geographic reach of ATMs increased further all though the ATMs by scheduled commercial banks remained constant around 0.22 million during 2019-21. Number of White label ATMs registered almost 100% growth during the same period. Micro ATMs grew by 49% over corresponding previous year March 2020.
4. New system known QR code emerged as most popular payment system during 2020-2021. More than 96 million static QR codes were registered as on March 21. QR codes became very cost effective and most convenient way of payment of small value transactions.
5. Outstanding Debit card grew by 8.40% during 2020-21. Supply of debit card to each Savings Bank/ operative account holder is a basic banking requirement now a days.
6. Credit card registered growth of 31.77% as on March 21 as against March 19. However, there was nominal growth in the volume of credit card transaction during 2019 to 2021.
7. Retail electronic and QR code as well as card based payments registered quantum jump in the past two years. The promotion policy for digital transactions has added fuel to the rapid growth. UPI transactions have created new record of volume and value on monthly basis. Mobile banking has grown more than four time during 2019 to 2021 and became most preferred way of banking. Decline/ nominal growth in the volume and value of other payment systems is due to preferred mobile transactions by the customers.

The different scenarios in retail banking indicated various dimensions of retail banking and its impact on profitability. Retail banking is a critical source of revenue and profitability for most major banks around the world. According to a research study by Boston Consulting Group, retail segment brings in nearly 60% of the total banking revenue worldwide. It is expected that this situation will continue and retail banking will remain the dominant source of revenue for banks worldwide through the years to follow. But the fact is that retail banks are facing tougher competition and declining margins and to overcome this, banks have to develop winning models and requisite skills.

1.6 PREREQUISITE FOR SUCCESS OF RETAIL BANKING

There are various factors that can subscribe to the success of retail banking in India, a few of which are listed herein below:

Presence of an efficient delivery mechanism

It is the most important pre-requisite for retail banking to succeed. What essentially binds customers to their bank is the quality of services offered, the fairness and affordability of pricing and the promptness of service. While there is not much scope for the banks to differentiate their product and service offerings, in so far as the basic products are concerned, it is important for the bank to enhance the customer experience by ensuring that the services are made available whenever and wherever the customer demands them. Further, the banks can bring down their cost of service delivery, if and only if they are able to improve operational efficiency. In a nutshell, the banks should be able to deliver the products and services to the customers in safe, secure, prompt and cost effective manner by leveraging technology. In future, customers' needs and preferences will increasingly drive the integration of all types of banking channels mainly alternate channels. Channel innovation, which has changed the face of banking in recent years, must continue to spearhead the charge. There is much to be gained from innovation including improved customer engagement, agility efficiency and regulatory compliance. Not to mention, that even banks' long term future might depend on how well they innovate.

Direct Banking: The Fastest-Growing and Dominant Channel of the Future

Direct banking, which is usually thought of as just online banking from a specific institution, compasses a wide range of channel approaches to sell and service customers' needs, including ATMs, call and email centres, mobile banking devices, direct mail, and a variety of web-based models. Statistics show direct marketing to be the fastest-growing channel to retail bank customers. Over the last five years, the number of households banking online have grown at a compound annual growth rate (CAGR) of over 20 percent. It is believed direct-banking sales volumes are poised to grow even further over the next five to 10 years as the channel evolves primarily from a service tool to support branch networks to a customer-driven platform for collaboration and relationship management across a wide range of sales and service needs and making services available without physical presence and beyond geographical boundaries, round the clock.

Product appropriateness

Another essential pre-condition for the success of retail banking is appropriateness of product and services for the customers. As the banks strive to bring in new customers into their fold and also to retain the existing ones, they must invest heavily into data analytics and assess what are the appropriate products and services for the specific groups of their customers. The banks have to be sensitive about the customers' needs and requirements.

Pricing

The pricing demonstrates that the products and services, both on the liability as well as on the asset side, are heavily weighed against the retail customers as a group.

Scoring models for assessing the credit worthiness

The scoring models are being used for assessing the credit worthiness of borrowers to bring in greater transparency and efficiency. Credit scoring model is a statistical technique that combines several financial characteristics to predict the behaviour of new applicants based on the performance of existing borrowers. Some banks started employing credit scoring even in retail segment. Most of the banks are using credit information reports to assess the financial discipline of the applicants. This is also based on scoring.

Consumer protection environment

Across the globe, the regulators and supervisors are turning increasingly intolerant of unfair market practices adopted by the market participants. It has been observed that large amounts of penalties are levied on banks by the regulators mainly for failing to protect consumers' interests and for unfair practices. More focus needs to be given to develop conviction on the customers that their rights are adequately protected. This has culminated in creation of separate authorities for enforcing fair market conduct and for protection of financial consumers. Therefore, unless the banks in the developing countries are firmly committed to treating their customers fairly and put in place appropriate systems and processes, they would be well advised to refrain from riding the bandwagon of retail banking.

1.7 CHALLENGES FOR RETAIL BANKING

Consumer Protection & Pricing

There are several examples reported on pricing being arbitrary and, to a certain extent, illogical. There are charges for non-maintenance of minimum balance, charges for cheque return and there are charges even where no service has been provided – customers not conducting any transactions, etc. Another disquieting feature in the pricing of products and services by banks, and that is – the poor subsidising the rich. For the retail banking model to be successful, banks' pricing should be non-discriminatory, risk-based, competitive and value added.

Inadequacy of MIS

A crucial input for success of any business is the accurate, consistent and granular information about its various components. The data on segmental revenues and segments of profits are not available with any granularity. Under the circumstances, the banks would find it very difficult to make their pricing risk based. It is crucial, therefore, that if the retail banking has to be rolled out successfully, the banks would need to build an appropriate MIS.

Understanding of KYC/AML issues

The banks in the developed countries have faced significant amount of penalties from the regulators for their failure to conduct adequate due diligence on their customers. Even, in India, RBI had imposed penalties on some of the banks for their failure to have proper due diligence on their customers. It is important, therefore, to understand and appreciate KYC requirements in all manifestations – be it for the products on the asset side of the balance sheet or on the liability side. Banks would also need to be mindful about the KYC due diligence for the third-party products that they sell from their premises/through their delivery channel.

Managing Risk

The retail banking business involves dealing with a large number of customers over varied delivery channels, thereby creating significant vulnerabilities across banks' systems. These could be in the form of inadequacy of internal guidelines or non-adherence by staff, inadequacy in the technology systems supplied by vendors, fraudulent practices employed by customers, hackers, etc. Though banks have developed sufficient safeguards to deal with operational risk associated with traditional delivery channels, it is essential for adequate safeguards for non-traditional delivery channels, as evident from large number of technology related frauds being witnessed across Indian banks in the past few years. The banks would also need to recognize and manage risks arising from mis-selling, etc., besides the other business risks like market risk, liquidity risk, interest rate risk, etc. Unless banks address these issues quickly, even the low-value frauds would have the potential to cause reputational risk and unwarranted litigation for the banks. Now fraudsters/hackers have moved beyond the physical boundaries and time zones open new vulnerabilities. At times technical innovation and upgradations makes the existing systems vulnerable. Lack of customer literacy (more specifically about technology based products) opens up new risks. It is, therefore, absolutely important that the banks improve their risk management systems to address these issues.

Effects of disruptive new technologies

With the increased proliferation of alternate delivery channels (ATMs, internet mobile banking and QR codes), retail banking has become the segment impacted most by technology. While the use of technology-aided delivery channels has grown multifold, so has the scope for fraudulent transactions through impersonations, identity thefts, sim swap, and device control apps etc.

Banks would also need to quickly put in place lasting technology-based solutions to thwart the efforts of fraudsters and minimize the customer complaints. As the use of new delivery channels gets more popular, the banks would need to ensure that their customers continue to have good experience with their service offerings and remain loyal to them.

Continuing growth

Despite banks' concerted efforts on increasing the banking penetration and bringing more and more adult population under the formal financial system over the last 7–8 years, more than half of the target population remains uncovered. Similarly, the credit penetration from the banking system in the country is abysmally low at about 10%. In absence of access to formal sources of finance, the alternate cost of funds for the people is exorbitantly high. As the pricing of loans no longer remains restricted, due to any regulatory/ government fiat, the banks are free to reasonably charge their customers.

All these means that the retail banking has a huge potential to grow in India over time. It is, therefore, assumed that the challenge for the retail banks/banking is not one of finding new customers or new markets; it is more of a mind-set issue. The banks need to get convinced about financial inclusion as a viable and profit-making business proposition and pursue that objective with a missionary zeal.

The growth of retail lending, especially in emerging economies, is attributable to the rapid advances in information technology, the evolving macro-economic environment, financial market reforms, and several micro-level demand and supply side factors. In the context of retail lending, deployment of scoring models would minimize the subjective element and thereby fast-track the decision-making process. Quality of services offered by the banks is going to be another key differentiator. In ultimate analysis, providing better service to the customers would be the key to generate larger revenue for the banks.

Reasons for the Growth of the Retail Banking Segment

There are various reasons that contribute to the growth trajectory of Retail Banking segment, a few of which are as under:

a. **Rise of the Young Indian Professionals:** The rise of the Indian middle class is an important contributory factor in this regard. The percentage of middle to high income Indian households is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes toward personal debt, is contributing to India's retail banking segment.

b. **Growth as an Economic superpower:** Retail banking has played a role in a growing economy of India. As the growth story gets unfolded in India, retail banking is going to emerge as a major driver. A. T. Kearney, a global management consulting firm, identified India as the 'second most attractive retail destination' of the 30 emergent markets.

c. **Increasing purchasing power of middle class people:** The rise of the Indian middle class is an important contributory factor in this regard. The percentage of middle to high income Indian households is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to India's retail banking segment.

d. **Financial market reforms:** The subject matter of retail banking is of prime importance. In recent years, commercial banks have witnessed development in the form of retail lending, all over the world. The growth in the field of retail lending is primarily because of the speedy advancement in the IT sector, evolving macroeconomic environment, numerous micro level demand and supply side factors and financial market reforms. This criterion is based on the market research report on retail banking.

e. **Engine of economic growth:** Retail banks play a critical role in their home economies, and their activities have implications for the global economy as well. They offer critical credit functions, which largely fuel the engine of economic growth in their economies. When problems hit the retail banking sector the result is often dire economic circumstances for the economy as a whole. When retail banks are failing, little or no credit is available for credit seekers, and economic activity becomes depressed.

f. **Mass-market banking:** Retail banks offer a variety of important services to their customers. The retail banking sector is often described as a typical mass-market banking, offering services such as savings and operative accounts and all kinds of personal loans, including auto loans and student loans. Retail banks also offer mortgage services, debit and credit card services and ATM services, all of which have become essential to today's consumers.

g. **Volume driven business:** Retail Credit ensures that the business is widely dispersed among a large customer base unlike in the case of corporate lending, where the risk may be concentrated on a selected few. Ability of a bank to administer a large portfolio of retail credit products depends upon such factors like; strong credit assessment capability, sound documentation, adequate capital base, regular/constant follow-up, skilled human resource and technological support.

h. **Automation of banking process:** The growth in retail banking has been facilitated by growth in banking technology and automation of banking processes to enable extension of reach and rationalization of costs. ATMs have emerged as an alternative banking delivery channel which facilitates low-cost transactions vis-à-vis traditional branches/method of lending. It also has the advantage of reducing the branch traffic and enables banks with small networks to offset the traditional disadvantages by increasing their reach and spread.

i. **Easy and affordable access:** Banks provide retail loans through a wide range of options/flexibility. Banks even finance cost of registration, stamp duty, society charges and other associated expenditures such as furniture and fixtures in case of housing loans and cost of registration and insurance, etc., in case of auto loans.

j. **Financial Liquidity:** Banks making financing attractive by offering free/concessional/value added services like issue of credit card, insurance, etc. As also waiver of processing fees administration fees, prepayment charges, etc., by the banks. In many a case, the cost of retail lending is restricted to the interest costs.

k. **Economic prosperity:** The consequent increase in purchasing power has given a fillip to a consumer boom. Note that during the 10 years after 1992, India's economy grew at an average rate of 6.8 percent and continues to grow almost at the same rate, not many countries can match this performance.

l. **Changing consumer demographics:** The size of population indicates vast potential for growth in consumption both qualitatively and quantitatively. India is one of the countries having highest proportion (70%) of the population below 35 years of age (young population).

BRIC report of the Goldman-Sachs, which predicted a bright future for Brazil, Russia, India and China, mentioned Indian demographic advantage as an important positive factor for India.

m. **Technological innovations:** Technological factors played a major role. Convenience banking in the form of debit cards, internet and phone-banking, anywhere and anytime banking has attracted many new customers into the banking field. Technological innovations relating to increasing use of credit/debit cards, ATMs, direct debits and mobile banking has contributed to the growth of retail banking in India. Now it is possible to manage throughout the country with minimum cash in hand. QR code based payment options are available even at a smallest outlet in remote areas.

n. **Increase the Bank Liquid cash:** Treasury income of the banks, which had strengthened the bottom lines of banks for the past few years, has been on the decline during the last two years. In such a scenario, retail business provides a good vehicle of profit maximization. Considering the fact that the share of retail banking in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.

o. **Decline in interest rates:** The interest rates decline in Indian money market has also contributed to the growth of retail credit by generating the demand for such credit. The interest rates on retail loans have declined from a high of 16–18% in1995–96 to presently in the band of 7.5–9%. Ample liquidity in the banking system and falling global interest rates have also compelled the domestic banks to reduce it.

p. **Declining cost of incremental deposits:** Banks could afford to quote lower rate of interest as low cost [saving bank] and no cost [current account] deposits are available with the bank. These deposits contribute to more than 1/3rd of their funds [deposits]. The declining cost of incremental deposits has enabled the banks to reduce their interest rates on housing loans as well as other retail segments loans.

q. **Change of Terms of Loans:** Banks are offering retail loans for short term, medium term and long term ranging from 15/30 years as compared to the repayment period allowed earlier which was restricted to 5–7 years only. This has given more financial leverage to people.

Scope of Retail Banking in India

a. Increase in economic activity is taking place with some recessionary trends.

b. Increase in purchasing power. The rural India has more purchasing power at their disposal and this is an opportunity to market Retail Banking.

c. India has 300 million households and 400 million middle class population. More than 90% of the savings come from the house hold sector. Falling interest rates have resulted in a shift. "Now People Want to Save Less and Spend More."

d. Nuclear family concept is gaining much importance which may lead to large savings. The number of banking services to be provided is increasing day-by-day.

e. Tax benefits are available. For example, in case of housing loans/ education loan the borrower can avail tax benefits for the loan repayment and the interest charged for the loan.

Future of Retail Banking

Many changes have happened in the banking space during the two years of the pandemic. With ongoing restrictions, lockdowns, and social distancing, digital ways have become the new norm. CEOs and managers who never planned meetings remotely have mastered the art of presiding over on-line meetings. Customers have started using on-line sites for all their shopping needs in a major way. This sudden and rapid transition to digital ways had a ripple effect on many industries, including the banking and finance industry. As a result of this new shift to digital compulsion, banking customers started to seek the same in-branch experiences in their online interactions.

Banks and financial institutions have felt tremendous pressure to innovate and provide seamless digital services that replicate the same digital experience that a technology company provides to stay relevant to current times. Fintechs have been dominating the digital payments ecosystem with their privately owned platforms leading the creation of the market for digital payments in India and driving its rapid growth and increase in financial inclusion. Moreover, many emerging tech companies have started to disrupt the industry by providing banking alternatives that address broader personal finance issues like paying down debt, credit saving, and budgeting.

Another major challenge being faced by banks is consolidating data and understanding the variety of relationships, purposes and contexts behind the transactions. Banks have started taking the help of **Application Programming Interface (APIs)** which offer multiple data aggregation platforms, increase in operational efficiencies and niche digital experience. With the integration of the APIs, **experiential banking** will be the new norm for the banking industry.

With all the above in place, the entire digital banking ecosystem has led to the development of new end-to-end approach in banking called **Banking as a Service (BaaS)**. BaaS facilitates fintech companies and other third party organisations like NBFCs to integrate with a bank's system employing APIs. This integrated platform helps organisations build innovative financial services upon the provider bank's regulated infrastructure while enabling open banking services.

The new innovations in the banking space have brought a big change in the product, price and delivery mechanisms and have created new distribution network which will bring a paradigm shift in the way banking is done in the country.

Based on research and findings, here are a few pandemic-sparked retail banking trends worth keeping an eye on for 2022 and beyond.

(1) Growth in Digital Banking

The temporary reduced hours of brick-and-mortar bank branches forced many customers to download their financial institution's app finally. According to a CNBC report, "Fidelity National Information Services (FIS), which works with 50 of the world's largest banks saw a

200% increase in new mobile banking registrations in early April 2020, and mobile banking traffic ballooned 85%."

The same report states that among some specific user demographics, the adoption of Fintech and other digital services has soared. For example, many older Americans are now more comfortable paying bills online over the past six months to eight months. In the pre-pandemic times, according to the Financial Health Network study in 2019, "two-thirds of smartphone users over the age of 50 were reluctant to use their devices for their banking needs."

When we talk of digital banking, it is generally referred to as banking on a mobile app via smartphone or banking online via computer. The benefits and the importance of digital banking can be summarized as under:

- The most important benefit is the Convenience. With the support of mobile app or net-banking, the customers can avail the banking services 24 x 7.
- The digital banking features like UPIs, mobile wallets and internet banking solutions allow customers to make cash free payments thereby providing instant credit to the beneficiary.
- Most of the digital products are rich in features providing an enriching experience to the users. For example, banks offer various personalized financial advice, savings tools, big purchase calculators, tax payments, bill payments or even virtual assistants who can help them decide what splurges they can truly afford, all within the convenience of an app.
- Though digital frauds are on the rise, all the banks are providing high security features embedded in the mobile app or net-banking interface. As per the guidelines, multi-factor authentication is being provided in order to access the mobile app or online bank account.
- Since a lot of processes are automated with the help of digital banking, the services have resulted in reducing certain banking fees like transaction fees and maintenance fees.
- It has also helped to extend banking services to remote corners of the country. With the help of mobile phone, people living in far-fledged places also can open an account and enjoy all the privileges. Digital Banking has been a positive step towards financial inclusion amongst the under-banked.

(2) Rapid Adaptation of Blockchain by Retail Bankers

Traditional money transfer solutions have been problematic in both the B2B (business-to-business) and P2P (peer-to-peer) areas, plagued by slow transfer times and high costs. The clearing firms involved in the transactions have independent processing systems. Each party involved in that process will keep their own copy of that record of a given transaction, making it stringent. The lack of standardization between these bodies and correspondent banks means that costs are high, and settlement periods are longer. But, thanks to Blockchain, which has the potential to solve these challenges by offering faster transaction times, more transparency, and lower costs, changing the money transfer equation.

According to Forbes, Blockchain brings the following benefits:

- Blockchain records and validates every transaction.
- Blockchain does not require third-party authorization.
- Blockchain is decentralized.

Another benefit from Blockchain that has got large banks excited is keeping track of trades and bonds or stocks by ensuring that the payments are correctly made.

At present, this is a complex process involving banks, traders, exchanges, clearinghouses, and others. It takes two days to verify the seller and buyers and then arrange the movement of funds. But, with Blockchain, all this work can be done in minutes.

It can be summarized as under,

- Blockchain is still a new technology and will soon become the future of banking
- Blockchain is a powerful and secure technology for the banking sector as security is of utmost importance for the financial domain.
- It is worth considering for Payment processing firms, Stock Exchange and Share Trading, Accounting, Bookkeeping, and Audit.

(3) Artificial Intelligence (AI) and Data Science in Banking

With financial institutions revenues exceeding the incomes of nations, it comes as no surprise that they are the first to embrace AI and Data Science technologies. Of all other advanced technologies, bankers and leaders in the banking industry firmly believe that Artificial Intelligence will be game-changing. Banks and financial institutions are further fine-tuning their AI solution strategies to strengthen overall portfolio management. Moreover, according to the forecast of Autonomous Research, by 2030, AI technologies will allow banks to reduce operating costs by 22%.

With its efficiency to work with unstructured data, AI is well poised to deal with the rising incidence of cybercrimes, financial fraud threats, and lots more.

Some of the ways AI & Data Science can be used in banks are,

- **Fraud Preventions**: Such as identity thefts & credit cards schemes. Customer profile,transaction history and GPS based check on the transaction to prevent fraudulent transactions
- **Anomaly Detection**: In detecting illegal insider trading
- **Customer Analytics**: Predicting customer behavioral trends for strategizing the right marketing mix and customer delight.
- **Risk Management**: Minimizing human error by identifying and predicting market trend, competition, customer creditworthiness, and customer loyalty
- **Algorithmic Trading**: High precise trades on the market using a machine learning algorithm by reducing human errors, extending online credit based on digital transaction turnover

Banks & financial institutions with extensive customer data can construct better models and get ahead of the competition.

(4) Cyber Security to be a Top Priority

The banking and financial sector is one of the heavily regulated industries in the world. Banks and financial institutions have always been at the forefront of enterprise cyber security. The enormous stores of cash and consumer data make them a top target for hackers. The threat of financial losses, regulatory consequences, and reputational damage has spurred them to innovate and accelerate the field of cyber security. Financial services executives are already depressingly familiar and aware of the impact of cyber-threats on the industry. In the digital banking age, one area that regulators would scrutinize closely is banks and financial institutions' data ownership.

A few measures requires to be implemented immediately may be:

- A well-defined security policy serves as a crucial road map for any bank IT team to maintain a truly adaptive security architecture going forward
- Lastly, banks must continuously monitor their network for changes to configurations and ensure that these changes are approved and compliant with policy
- A chain is as strong as the weakest link this proverb applies most appropriately for the cyber security of the banks because "humans are the weakest link". That is why 95% of security breaches are blamed to on human error. Training for awareness and fraud prevention for staff and customers education is the need of the hour.

(5) Payment Innovations

The concept of Instant Payment has become highly important in both consumer and B2B payment areas, where settlement time has really been a challenge earlier. The term "Instant Payment" refers to the ability to make payments within a matter of seconds, which in turn will be highly beneficial for both parties throughout the payment landscape. As we advance, mobile wallets will replace physical wallets – a wallet with customer's credit cards, rewards cards, and much more. The volume of mobile wallet transactions was about 4 billion in the financial year 2021. As a result, instant payments have become an integral part of both financial institutions and regulators, driven by key success stories in early deployments.

- With the innovation of advanced technology in payment systems by NPCI (National Payment Corporation of India) and other agencies under ageis of RBI has significantly reduced the payment timings and it is expected to improve further.
- SEPA (Single Euro Payments Area) scheme in the E.U. has significantly brought down settlement times, and the SEPA Instant Credit Transfer Scheme further reduced it.
- In SEPA Instant, the payment will be received in a matter of 10 seconds, which is dramatically faster than traditional methods. However, still much more work needs to be done.
- Adding, the U.S. Federal Reserve has announced FedNow. This service will process individual credit transfers valued at $25000 or less within seconds.
- Instant payment schemes will accelerate and focus on international interoperability, enabled by standardization with ISO 20022 and cross-border schemes.

This will allow banks and financial services to upgrade to:

- Faster and simpler accounts payable/receivable processes
- Less complicated B2B payment systems
- Increased payment volume for payment processors
- Digital wallets, mobile payments will drive payment innovations from now on

In order to achieve these benefits, banks will need to update their systems because the whole chain needs to support the instantaneousness of payments.

(6) Rise of Big Tech in Banking Industry

Tech firms like Apple, Google & Samsung have been providing payment services for several years now, and few have started to coalesce to accelerate their financial services movement. The primary reason is the decreasing financial brand loyalty due to open banking, which has loosened the rope that banks have on their customer data. Many countries are mandating a streamlined switching service to move from one bank to another much more quickly.

Most importantly, banks have a limited ability to retain their users compared to traditional ones. Simultaneously, technology companies have always had much more success in developing in a closed ecosystem. And they are now looking to bring finance under their banner.

- With Apple Card showing its prominence. And Google, Stripe, and PayPal are preparing to start or expand banking and payment-related offerings. The industry is already shaken.
- Open Banking tools made available from PSD2 guidelines give these companies the ability to be bank-like without banks.

It is believed that the partnership between banks and tech companies are more likely than tech companies outright becoming banks. Instead of viewing big tech companies as a threat, banking and financial institutions should embrace partnerships and collaboration with them.

It can be concluded that the world has digitized, and customers are seeking low friction and immediacy over slower traditional ways of banking. Moreover, when we look at banking as an industry and how it has developed, we will understand that it's not just about inserting technology into banking. There is a broader shift here – and a significant part of the shift is around the bank's trust and utility.

Lastly, in order to sustain this banking transformation, listen to your customers, earn their trust by creating transparent and seamless experiences, respect their need for privacy, look out for industry trends, and always choose to make tech investments to align the recent technological developments with what people want that will decide the future of banking industry.

LET US SUM UP

- Banking services offered to a large group of individual customers is referred to as 'Retail Banking'.

- The delivery model of retail banking is both physical and remote through branches and also through remote channels like ATMs, Internet Banking and Mobile Banking.
- Retail Banking has many advantages as a business segment for banks:
  - Risk is less as client base is large.
  - Income is relatively more as spreads are more.
  - Customer loyalty will be strong.
  - Stable model with less volatility in business as the client base is very large.
  - Higher potential for cross selling.
- But it has its own disadvantages also:
  - Huge clientele requires more efforts for monitoring and tracking.
  - Cost of servicing will be relatively high.
  - Delinquencies relatively higher in unsecured retail loans like Personal Loans and Credit Card Receivables.
- Globally the retail banking space had a great growth trajectory and the emergence of the new remote channels have changed the distribution paradigm of banks. Alternate channels have gained prominence to meet the growing customer demands.
  - The performance of banks in retail banking across the globe had a stable growth. The potential for retail banking based on customer segments and household incomes looks highly promising. The growth potential in Asia and South Pacific is very attractive and the numbers are expected to grow in the near future.

Retail Banking as a concept in India has been initiated by foreign banks/new generation banks and nurtured by the PSBs and other private sector banks. It grew by a compounded annual growth rate between 2021 and 2022 and expected to grow further in the coming years. The penetration level of retail banking in India is still very low as compared to the other Asian countries like China, Malaysia, Thailand, etc.

It's been more than one and half year since the coronavirus first made its presence. Lot has changed in these past seventeen months. And, one thing that is quite evident is life has never been the same since then.

Based on research and findings, here are a few pandemic-sparked retail banking trends worth keeping an eye on for 2021 and beyond. They are,

- Blooming of Digital Banking
- Rapid Adaptation of Blockchain by Retail Bankers
- Artificial Intelligence, Machine Learning, Virtual Reality and Data Science in Banking
- Cyber Security to be a top priority
- Payment Innovations
- Rise of Big Tech in Banking Industry

KEYWORDS

Retail Banking, customer base, risk diversification, spread, customer loyalty, database, delivery model, KYC/AML issues, Protection environment, Digital Banking

CHECK YOUR PROGRESS

1. Advantages of retail banking include __________

(a) Risk is less as client base is large
(b) Income is relatively more as spread is more
(c) Stable model with less volatility
(d) All the above

2. Which one of the following is not an advantage of retail banking?

(a) High Cross Selling potential
(b) High customer loyalty
(c) Less volatility in business
(d) High default rates

3. Which one of the following is not part of retail banking?

(a) Internet banking
(b) Mobile Banking
(c) Providing term loans for projects
(d) Credit card facility

4. After outbreak of Covid-19, the future of Retail Banking will depend mainly on _________

(a) Branch Banking
(b) Brick and Mortar banking
(c) Digital banking
(d) None of above

5. The proportion of Housing Loan in Retail Loan segment is more than _________.

(a) 50%
(b) 60%
(c) 75%
(d) 45%

ANSWERS TO CHECK YOUR PROGRESS

1. (d) **2.** (d) **3.** (c) **4.** (c) **5.** (a)

UNIT 2

RETAIL BANKING: ROLE WITHIN THE BANK OPERATIONS

STRUCTURE

2.0 OBJECTIVES

The objectives of this unit are to understand:

- Different approaches in retail banking
- Retail business models

2.1 INTRODUCTION

Banks follow different approaches for their retail banking activities. The role and importance of retail banking differ across banks and accordingly, different models are adopted by banks. The models and processes depend upon the importance attached to the retail banking space in their overall corporate business strategies of the banking organisation and the projected business from retail banking in the coming years.

The business models for retail banking show interesting revelations across types of banks. The models adopted by banks vary among the public sector, private sector and foreign banks. The main approaches are as follows:

a. Strategic Business Unit (SBU) Approach,
b. Departmental Approach,
c. Integrated Approach (part of the overall business plan).

(a) Strategic Business Unit (SBU)

SBU approach aims at dividing the business on lines of Strategic Business Units (SBUs). SBUs are autonomous divisions, small enough to be flexible and large enough to exercise control over most of the factors affecting its long-term performance. SBUs can be defined as profit centres which focus on product offering and market segment. An SBU can be a business unit of a large corporation or it can be a business in itself. As per a research study on the models followed by about 10 banks comprising of public, private and foreign banks, the SBU approach is adopted by one of the top five public sector banks based in Mumbai and their business model is in alignment with private sector banks and foreign banks.

In new generation private sector banks, the business model is very clear. They had set up Strategic Business Units (SBU) since inception in order to have clear focus on business objectives. In foreign banks also, SBU is the business model followed by all with defined business focus. The demarcation as a SBU is more a Management by Objectives (MBO) process wherein the business model is dealt as a modular strategy for achieving targeted profits with a provision to knockdown the module, if the retail plans are not translated as per the objectives.

(b) Departmental Approach

In Departmental Approach, rather than dividing on strategic or business lines, an organisation can also be divided on the basis of functions, various teams perform. The departmental approach is a specialised functional approach within an organisation. This approach segregates the functions of the organisation into departments such as accounting, marketing, finance, planning, etc. Generally, every department has its manager and chain of command. Public Sector Banks in India generally have adopted the Departmental Approach as their retail banking business model. It indicates that the approach is more a general one with retail banking as one of the business models and not a focused business model.

Public Sector Banks in India generally have adopted the Departmental Approach as their retail banking business model. In old generation private sector banks the approach is more conservative. The business model for retail banking is built as a part of the overall business plan and not done as a separate departmental activity, leave alone SBU.

(c) The Integrated Approach

The Integrated Approach is usually adopted by smaller businesses. It combines all socio economic aspects and adopts a cohesive approach to tackle problems of the business. It is assumed that having a unified business would reduce risk and increase profitability through scale rather than having separate entities for each business line.

If we go further deep into the models of retail banking followed by banks with regard to products, processes, delivery channels, technology, etc., the real depth of retail banking, the relevance of each element for the efficiency of the total model and the inter dependency of these elements for the success of the models are revealed.

2.2 BUSINESS MODELS

Banks generally structure their retail banking models mainly on a positioning platform. Strategies are based on the positioning objectives and vary from bank to bank depending on the importance attached to the business model.

In case of old generation private banks, the positioning platform is very clear. It is based on the overall business plan and in line with their size and scale. The new generation private banks have clear vision about their positioning platform. They want to be in the top slot across all class of banks and justifiably so. The technology, strategy, customer and business initiatives and aggressive positioning are the advantages these banks enjoy to achieve the desired objectives. Even recent entrants in the private sector side have clear positioning strategies about where they want to be, going forward, in the next two/three years and put suitable action plan to achieve their objectives.

Foreign banks generally do not go by positioning objectives but purely on business objectives. They go by customer, business and profit targets. They take a call on the business model itself or one segment of the overall model. If the same is not profitable, they exit the retail banking segment itself or exit a particular business line within the model. The classic example is BNP Paribas which entered the retail banking space very aggressively during the late 1990s with a full-fledged brand building exercise but quit the space after they found that it was not a profitable segment for them with the business they generated. Likewise, American Express Bank came out of their credit card business after taking stock of its viability. Recently Citibank has quit retail business in India as a part of their global strategy which has been acquired by Axis Bank.

LET US SUM UP

Business models are adopted by banks keeping in mind their overall business strategy, projections for future, business mix and corporate objectives. The business models followed by banks for retail banking activities can be of Strategic Business Unit (SBU) Approach, Departmental Approach, and Integrated Approach (part of the overall business plan). Banks generally structure their retail banking models mainly on a positioning platform and to be the best/top three among the peer group players or across players. Strategies are based on the positioning objectives and vary from bank to bank depending on the importance attached to the business model. It is used as a barometer for all decisions that impact the marketing strategy of the bank. Foreign Banks normally do not go by positioning objectives. Rather strategy plays a big role in foreign banks. Foreign banks had in the past have existed when their business objectives have not been met. A classic example is BNP Paribas existing in the late 1990s. Citibank is the recent example of exiting retail business in India.

KEYWORDS

Business Model; Strategic Business Unit; Business Plan; Positioning platform; peer group

CHECK YOUR PROGRESS

1. The business model followed by banks for retail banking are __________.
   (a) Strategic Business Unit (SBU) Approach.
   (b) Departmental Approach.
   (c) Integrated Approach.
   (d) Any one of the above.
2. Foreign banks cited in the topic, which entered in retail banking activities, when not able to achieve the business objectives:
   (a) Continued with their business in spite of not being profitable.
   (b) Moved out of the business.
   (c) Changed their focus with some strategic changes.
   (d) None of the above.
3. The suitability of a business model or approach of a bank depends upon __________.
   (a) Corporate strategy only. (b) Business objectives only.
   (c) Business mix only. (d) All of the above.

4. Business models of retail banking are being drawn based on various aspects. In this context which one of the following aspects is incorrect?
   (a) Product
   (b) Capacity
   (c) Delivery channels
   (d) Technology

ANSWERS TO CHECK YOUR PROGRESS

1. (d) 2. (b) 3. (d) 4. (b)

UNIT 3

APPLICABILITY OF RETAIL BANKING CONCEPTS AND DISTINCTION BETWEEN RETAIL AND CORPORATE/ WHOLESALE BANKING

STRUCTURE