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A STUDY OF RETAIL BANKING'S CURRENT CHALLENGES AND OPPORTUNITIES IN INDIA

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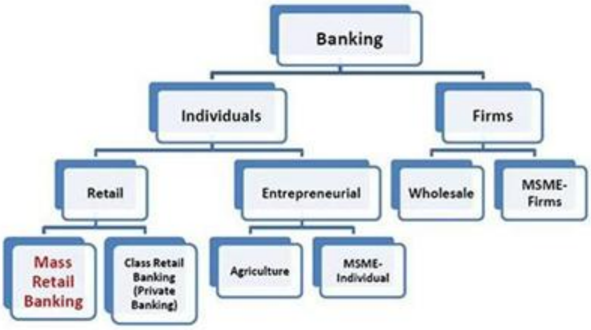
ABSTRACT: India's finance sector is evolving. Remote places will benefit from anytime, anywhere banking with dedicated channels and advanced technology.Technology can lower last-mile expenses and improve non-banker services, increasing financial inclusion. New banks like microbanks help.The financial sector changes for several reasons.Technological, legal, demographic, economic, and customer expectations drive change. Successful banks must overcome these problems and restructure. Banks must adapt to survive. The Indian banking and finance sector is growing. The Indian banking sector is worth $1.31 trillion (Rs. 81 trillion). Mobile phones and the internet speed up bank transactions and engage customers. India has 61 RRBs, 90,000 credit cooperatives, 20 commercial, public, and 43 international banks. Banking might rank third globally by 2025 and fifth by 2020. We evaluate Indian retail banking's opportunities and limitations.

Keywords: *Indian Finance Sector, Financial Inclusion, Remote Banking, Mobile Banking, Technological Advancements, Banking Restructuring, Customer Expectations, Retail Banking, Digital Banking,*

1. INTRODUCTION

Retail banking, often known as consumer banking, is the providing of services by a bank to individual customers, excluding businesses, corporations, and other banks. Mortgages, personal loans, credit cards, debit cards, savings and transaction accounts are available. India saw an increase in retail banking following instituting financial sector reforms in the early 1990s. Multiple sources support this conclusion. The retail banking sector in India has grown significantly in recent years, emerging as a key driver of the country's total banking industry. Retail banking refers to the products and services that banks offer to consumers and small businesses via a variety of channels, including physical branches, internet platforms, and other mediums. The rising popularity of retail loans and deposits on commercial bank balance sheets, along with a constant increase in the number of bank branches, implies that retail banking has recently emerged as an important strategic focus in the Indian banking system. In recent years, retail lending has made a significant global contribution to the commercial banking sector.

The graph below depicts the positioning of mass retail banking in relation to major segments of the banking business.



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2. THE EVOLUTION OF RETAIL BANKING

Retail banking is changing for a variety of reasons. The return on equity (ROE) is constantly poor, expansion is problematic, and cost management is becoming increasingly difficult. Regulation is influencing economics and business fundamentals. Technology is rapidly evolving from a costly nuisance to a powerful tool that enables efficient operations and improves client experiences. Unconventional participants are upsetting the status quo by taking the lead in innovative solutions that prioritize customer demands. New service providers are developing. Consumer demand for value and service is steadily increasing. Trust is seriously missing.

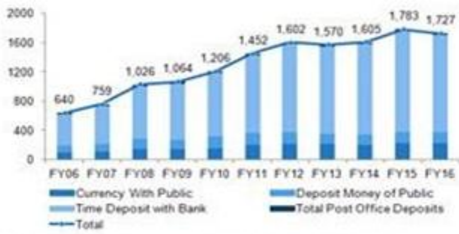
In developed markets, the banking sector has seen three main transformations throughout time. These three levels essentially correspond to the current level of economic growth in each jurisdiction.

a) Initially, the major functions of banks were to provide vital intermediation services, such as granting loans for productive purposes and offering savings choices. They also facilitated payment services, such as remittances.
b) **Intermediate Phase:** In addition to the services provided in the first phase, banks started granting loans for personal use. In addition, banks began selling non-banking services such as insurance. The primary driver of demand for these services is the economy's transition from an expansion phase supported by investment (output) to one driven by consumption. Retail banking is becoming increasingly important in the current stage of economic and societal development.
c) **Advanced Phase:** In addition to the services provided in the intermediate phase, banks now offer wealth management, structured products, and premium savings and investment alternatives to individuals and businesses. To put it another way, at this time, the financial sector begins to fund speculative ventures in addition to production and consumption activities. At this moment, private banking, which is an enhanced form of retail banking geared at affluent customers, becomes critical

3. GROWTH OF RETAIL BANKING IN INDIA

An ideal strategy would be to calculate a comprehensive statistic to evaluate retail banking activities at both the individual bank and industry levels, in order to analyze the growing relevance of retail banking. Potential options include determining the share of revenue or earnings generated by retail activities, as well as allocating risk capital to these business units. The spread of financial technology and the introduction of automated banking operations, which allow for cost savings and increased market penetration, have contributed significantly to retail banking's growth. ATMs have grown in popularity as a cost-effective alternative to traditional bank branches in the banking sector, allowing for lower-cost transactions. Another advantage is that it reduces branch traffic. Furthermore, it helps banks with constrained networks overcome traditional limits by increasing their impact and reach. Retail lending development in emerging markets can be ascribed to a variety of factors, including rapid advancements in information technology, changes in the macroeconomic climate, financial sector reform, and a number of supply- and demand-side factors at the micro level.

GROWTH IN MONEY SUPPLY OVER PAST FEW YEARS (US$ BILLION)



Source: RBI, TechSci Research FY16: as of May 29

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OBJECTIVES OF THE STUDY

This article aims to clarify the changing banking environment and assess the opportunities and problems associated with retail banking in India. Furthermore, an attempt is made to grasp the key priorities of Indian banks. The study's main aims are as follows: To analysethe competition prevailing in Retail Banking Service

- To determine the level of competition in the supply of retail banking services.
- To emphasize the particular potential and problems faced by the Indian retail banking sector, and to make advice on strategies for increasing the retail banking sector in India.

RESEARCH METHODOLOGY

This essay is the result of secondary research undertaken on the retail banking sector, with a focus on the Indian setting. To complete this assignment, we thoroughly reviewed a number of sources, including yearly and topic-specific reports, multiple books, journals, and periodicals, as well as substantial online research.

4. OPPORTUNITIES AND CHALLENGES OF RETAIL BANKING IN INDIA

Retail banking in a developing country, such as India, has great promise. Retail banking will play an important part in driving India's economic growth. The growth of India's middle class is a major driver of this phenomena. The proportion of Indian households earning between middle-class and affluent levels is expected to rise further. The younger generation not only has more financial means than previous generations, but they may also be more comfortable taking on personal debt. Banks that can quickly adapt to the changing financial climate have both problems and opportunities in the shape of tougher rules and more competition for customer deposits. The retail banking business has great development potential, but it also faces formidable challenges. Retail banks' capacity to successfully traverse problems and capitalize on opportunities will be critical to the banking sector's future growth.

When the aforementioned elements align, the retail industry, which is presently in its early phases, is expected to undergo significant growth. When universal banks and financial conglomerates combine services and delivery systems, possible conflicts of interest frequently increase. Several key policy factors affect the retail banking industry, including financial inclusion, sound lending practices, long-term savings, financial literacy, consumer protection, regulatory compliance, and the prevention of financial misconduct.

5. CHALLENGES OF RETAIL BANKING IN INDIA

The economic crisis has posed various challenges to the retail banking industry, including lower interest rates, increased regulatory scrutiny, a shift toward digital banking, and a considerable reduction in trust and consumer loyalty. Customer centricity is being promoted as a reaction. The primary focus should be on developing strong customer relationships, while also considering the incorporation of technology such as cloud computing, digital life, connectivity, mobility, and social impact. Retail banks have been forced to reconsider their business strategy as a result of the growing popularity of digital channels and shifting consumer preferences. These two variables are the fundamental driving forces for banking developments. Retail banks can improve their business operations to take advantage of these advancements and offer innovative products as well as faster, more efficient services. To remain relevant, businesses should improve their market competitiveness and optimize the customer experience.

Retail banks today face the huge challenge of providing excellent cross-channel customer experiences that foster meaningful and long-term relationships. To prosper in the upcoming period of severe competition, banks must overcome these challenges and retool. This presents both a fantastic opportunity and an absolute necessity. Financial institutions face the difficult problem of deciding which clients to serve, how to succeed, and which industries to avoid. They must streamline, dramatically reduce expenses, and restructure their organizations to meet the client's needs. To function well, individuals must develop their ability to be

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imaginative, adaptive, and nimble.

First, The present challenges Unsurprisingly, the majority of bankers polled said their top goals for the next two years will be to acquire new clients and keep existing ones. Financial institutions are strongly eager to expand, and a skilled product banker will start the process by identifying potential consumers. In the retail banking industry, client happiness and capacity to retain customers are inextricably tied to the quality of service delivered. Customer complaint management systems must be reliable and effective. Furthermore, bankers claim that in India, a rising market that is surpassing others, the key challenges include the recruitment of qualified persons, the retention of present clients in the face of severe competition, and the introduction of new companies. This is especially difficult for long-established institutions with minimal power. Banks, on the other hand, understand the value of improving client connections and focusing more on specific consumer outcomes. As a result, banks' primary global investment goal is to improve customer service.

Second,the increasing level of debt will be the key impediment for Indian banks in the retail banking market. Consumer debt in India is increasing significantly. Furthermore, the middle class is becoming more likely to take on debt in order to fund their ambitious lifestyles and purchase desirable things, in addition to having more financial resources. There has been a significant increase in the financing of autos, home loans, household appliances, and durable consumer goods. However, given that retail credit consumption in India is significantly lower in contrast to other rich and emerging economies, the country has enormous potential for rapid expansion in all of these areas. Factors driving the increase in demand for retail credit include rising incomes, a desire for asset ownership, and a sense of low risk. Nonetheless, the retail banking industry in India stands to benefit significantly from the country's growing economic power. India's banking industry is expanding rapidly due to rising consumer purchasing power and a more tolerant attitude toward personal debt.

Third, Significant technological breakthroughs are transforming the way banks work. The advancement of technology creates both opportunities and challenges. Population changes will provide chances for expansion while necessitating creativity in the production of new products and services. In the next five years, innovation will be critical in creating long-term growth in both revenue and profit for the banking industry. The key ways for retail banks to differentiate themselves from competitors are through digital innovation, mobile banking, and technological innovation. The rise of online banking, particularly in product marketing and sales, creates significant potential, especially for innovative challenger banks. Customers choose online banking for simple transactions. Prominent financial organizations must actively promote and capitalize on the current wave of innovation. The widespread influence of technology will transform many parts of life, and the ability to innovate will be critical in capitalizing on its potential to provide improved services at lower costs.

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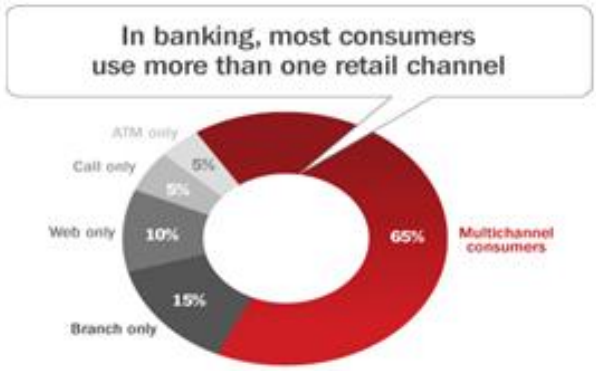
Digitalization presents retail banks with both opportunities and risks. To thrive, they must modernize their internal procedures and systems to better supply the technology and services that their customers require, as well as alter their branch networks to fit with the Internet era. Furthermore, digitalization demands investing resources for change management among bank employees and management, as well as reevaluating, restructuring, and improving the client experience.

Fourth, The ongoing development of digital models and channels is a major driver of the global shift in retail banking toward digital and direct channels. The rise of direct and digital channels in retail banking, combined with the growing relevance of mobile technology, is definitely not an isolated phenomenon. Retail banks must effectively align their channel distribution strategy and migrate from a multi-channel to an omnichannel approach, as consumers have no strong preferences for specific channels. In the retail banking market, where face-to-face interactions and customized care are highly valued, it is critical to have a customer-centric channel mix that considers the full customer life cycle rather than focusing on specific behaviors. Furthermore, it is critical to use the cost-effectiveness of digital channels to build a robust multi-channel organization. Prior to extending its product offerings, it is critical to develop trust and confidence in digital platforms. By 2020, banks will completely oversee distribution. Banks will create shared platforms that deliver products to all channels rather than incorporating or depending on specific items within each channel.



6. REASONS FOR EXPAND RETAIL BANKING IN INDIA

Every bank must gain a full understanding of the upcoming environment and the ambiguities that surround it. Every bank must have a thorough understanding of the many advantages and disadvantages linked with it. Furthermore, every financial institution must strengthen its safeguards against this turbulent and developing future. Key targets for 2020 Banks must take additional steps to safeguard their future success as the rate of change accelerates. Banks frequently acknowledge that they are unable to address these issues owing to organizational, budgetary, talent, and technological constraints. To encourage innovation and change, banks must quickly remove and efficiently manage these barriers, while simultaneously maintaining their agility to capitalize on market opportunities and overcome unexpected challenges.

Banks will organize themselves around customers instead of products or channels - Their goal is to integrate sales and service across all channels to provide a consistent customer experience. They will gain skill in seeing each client as an individual, valuing their uniqueness, and adapting their services so that clients perceive banks as meeting their needs rather than advertising products. Consumer expectations are molded by experiences with firms in other industries, prompting them to want a better level of service and quality that is prioritized in the customer experience. Customers are also becoming more connected in terms of their social, regional, and demographic qualities. In the framework of the "social world," personal companions and relatives serve as an additional and valuable source of knowledge, advice, and endorsements.

Social media will be the media - One of the most significant difficulties for banks is understanding and properly harnessing the influence of social media. Social and traditional media coexist in the modern era. By 2020, clients will be using social media to research and evaluate banking services. Social media will also serve as the key platform for connecting, engaging, providing information, and understanding consumers' needs and preferences, which range from general trends to particular preferences. Currently, some banks communicate with their customers through social media sites. Social media knowledge will be an essential skill. Furthermore, similar to the present, thoughts and knowledge have the ability to spread widely, posing unprecedented threats and opening up new possibilities. Opportunities include proactive risk management and increased engagement.

Customer trust will be returning - Consumers want their banks to be more socially conscious due to their current lack of confidence. Because of the low costs associated with switching banks and the variety of options available, the developing middle class is predicted to exhibit unexpected behavior in their banking affiliations. Establishing trust through many transactions is critical for developing and capitalizing on a long-term connection with this market. There are rising concerns regarding the security and privacy consequences of people migrating their financial and personal data to internet platforms. Certain banks stand to benefit considerably from leading the public conversation. Prominent corporations will have begun efforts to manipulate public opinion and will have somewhat regained the positive position they lost following the financial crisis. Their goal is to educate and teach people about the core benefits of banking to society, as well as important financial competencies, cultural understanding, and economic concepts, through broad service providing. Banks, on the other hand, understand the value of improving customer connections and focusing more on specific consumer outcomes. Banks should attempt to have a service trust level comparable to that of their physical branches. As a result, the primary priority for banks worldwide in terms of investment is gaining and maintaining client trust.

Cyber security is paramount to rebuilding this trust – The winners will have invested significantly in this field. Suppliers, employees, clients, and regulators now have higher expectations for the security and privacy of their information. By 2020, major financial institutions will have implemented cyber-security policies that are consistent with their corporate goals, risk management protocols, and legal requirements. Several banks have worked with third-party businesses due to their inability to solve these challenges independently.

Enhanced capital and risk management - Banks that operate on a worldwide scale or are deemed significant to the financial system will be subject to harsher rules in the future. This is owing to the ongoing evolution of prudential norms, as well as the need for capital, liquidity, and stress tests. These criteria, which include risk appetite, capital planning and sufficiency assessment, recovery and resolution planning, liquidity risk management, stress testing, and overall enterprise risk management activities, present a compelling justification for achieving alignment. An effective and unified business risk strategy will be required to meet regulatory obligations on both a macro- and microprudential level. It will be important to create a consistent thread.

Customer experience: Recognize that providing outstanding digital experiences as well as human interaction has a significant impact on customer loyalty and retention. In recent years, customer experience, which includes all interactions between a customer and a company or product, has grown in importance across all industries and enterprises. Instead of simplifying their product offerings, retail banks are focusing on creating a seamless, easy, and personalized customer experience. This transition is being driven by changes in client expectations as well as technological improvements. Several banks have had to rethink their customer service methods in response to clients' growing need for a personalized experience and their increased reliance on digital channels for banking. Conventional banks must use digital platforms to

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improve customer satisfaction and compete with rising digital banks that are reinventing the customer experience and attracting younger clients. To successfully transition to digital banking, banks must develop a comprehensive strategy centered on six key areas: improving consumer, mobile, and online capabilities; leveraging customer data; utilizing social media; modernizing branches and ATMs; and ensuring a consistent experience across all channels.

7. PRIORITIES OF THE NEW MILLENNIUM

To manage this ever-changing landscape, each financial institution must adopt a clear plan. To prosper in this fast changing context, banks must clearly identify their strategic position, selecting whether to be proactive and lead the industry, to be defensive and defer changes, or to radically reform the sector. Flexibility and agility must be developed in order to respond to future quick changes and uncertainties. However, attaining success would require striking the correct balance among the six criteria stated before.

The key priority areas for the retail banking business in 2020 are as follows:

- Create a consumer-centric business model.
- Disseminating information efficiently.
- Optimizing operational and business models.
- Enabling innovation and providing the resources to maintain it.
- Effectively managing capital, rules, and risk on a proactive basis.

8. CONCLUSION

The financial services industry is undergoing significant transformations as a result of shifting customer behavior, rising expectations, widespread use of various channels, disruptive forces, innovative implementation and adoption of new technologies, and the overall digitalization of business and society. Retail banking's major drivers remain expenditure reduction, revenue growth, and risk avoidance. The majority of consumers, regardless of age, income, geography, or kind of bank, prefer online banking services, accounting for 90% of the total. However, a considerable chunk of the environment will change dramatically in reaction to changing economic situations, new rivals, technology breakthroughs, demographic shifts, and regulatory needs. Technological advancements have enabled banks to build adequate technology-based delivery channels to meet the wide operational needs of retail banking. Following the global economic downturn, governments and decision-makers have called for inclusive economic growth, which has benefited the retail banking sector. Governments around the world regard banks as critical to achieving the goal of financial inclusion. Furthermore, businesses must develop a clear plan for dealing with these challenges and prioritizing them appropriately. This plan should include working with external partners and combining information from other businesses. To secure their future prosperity, retail banks must take further steps.

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