



## CONTEMPORARY ISSUES AND CHALLENGES OF RETAIL BANKING IN INDIA

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**Abstract:** - The banking industry has a direct impact on the economy and growth of the nation. A bank is now one of the most important aspects of modern life. In order to conduct financial activities, customers and banks have a strong interaction. Retail banking is one of the significant current phenomena among the several advantages provided by the banking industry to the customers. Typically, the common masses are the intended consumer for retail banking services, and they gradually advance to a stage known as "class retail banking." 'Mass retail banking' refers to the phase in which the bank offers its clients standardized banking goods and services. During this period, the banks make an effort to develop a sizable enough customer base that can act as a reliable source of finance. On the other hand, "class retail banking" refers to the phase in which the bank provides specialized goods and services geared towards a certain customer group, high net worth individuals. Private banking is another name for retail banking that targets a specific market sector.

The present study primarily focuses on the issues and challenges of the retail banking in India. The paper also aims at providing suitable suggestions to expand Retail banking in India.

**Keywords:** Retail Banking, Challenges, Finance, banking sector

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### INTRODUCTION:-

Customers each have their own tastes and interests; therefore how a service provider approaches meeting their demands is crucial for the success of the entire industry. India is a country where all socioeconomic groups are represented. When a nation has a wide range of income levels, it must concentrate on meeting the demands of all socioeconomic levels through public-private partnerships. Customers will have the chance to complete transactions quickly as banking provides more importance to cashless transactions, PayTM, online payments, online credit issuances, online money transfers, account summary reports, etc. The public's primary point of contact with banking is through retail. Retail banking is the delivery

of banking goods and services to individual consumers, often for non-commercial uses. Offering products on both sides of the balance sheet is part of retail banking, for example, offering fixed, current, and savings accounts on the liability side and mortgages and loans (such as personal, home, vehicle, and educational loans) on the asset side. Retail banking also includes providing customers with credit cards, depository services, and other Para-banking goods and services including capital market goods, insurance goods, etc.

Retail Banking is also known as Consumer Banking which includes the delivery of services by a bank to individual consumers, rather than to companies, corporations or other banks. Mortgages, personal loans, debit and credit cards, savings and transaction accounts, and other services are available. After the financial sector reforms in the early 1990s, India also saw a rise in retail banking. Numerous indicators point in this direction. India's retail banking sector has experienced rapid growth in recent years and is now one of the main drivers of the country's whole banking industry. Retail banking services therefore roughly match to those offered throughout the middle stage of banking evolution. Although there are fantastic developments potential in retail banking, there are also enormous challenges. Banks must innovate to expand because of the strict regulatory requirements for consumer protection, challenges from a weakening global economy, and rising customer demands.

### **Evolution of Retail banking:-**

Powerful forces are transforming the retail banking industry.

In developed markets, banking has undergone three major periods of development over time. These three phases roughly correspond to the stages of real economic development in the different jurisdictions.

- a) **Initial Phase:** During this stage, banks were primarily involved in providing the fundamental intermediation function, such as providing access to savings accounts and credit for business needs, as well as facilitating payment services such as remittances.
- b) **Intermediate Phase:** In addition to continuing to deliver the initial phase's services, banks now also engage in consumer lending. Additionally, banks began providing para-banking services like insurance and others. The need for these services is principally brought on by the economy's shift from a phase of expansion driven by investment (output) to one driven by consumption. Retail banking is important at this point in the economy's and society's development.
- c) **Advanced Phase:** In addition to the services supplied in the intermediate phase, banks have begun offering high-end savings and investment products, wealth management services, and structured products to both private persons and businesses. To put it another way, the banking system now begins to finance speculative activity in addition to production and consumption activities. At this point, private banking, a more sophisticated kind of retail banking for certain "classes," becomes important.

## **Growth of Retail Banking in India:-**

It would be great to look at a single, all-encompassing measure of retail banking activity that could be calculated for individual banks and the industry as a whole in order to assess the changing significance of the sector. Potential candidates include the portion of retail activities' revenue or profit or the portion of risk capital allotted to these business units. The development of financial technology and the automation of banking procedures, which enable cost reduction and reach expansion, have made retail banking more popular. In contrast to traditional branches, ATMs have become a popular alternative banking channel that allows for low-cost transactions. Additionally, it benefits from lessening branch traffic. Additionally, it allows banks with limited networks to expand their reach and spread in order to counteract the usual drawbacks. Additionally, the rapid advancements in information technology, the changing macroeconomic climate, financial sector reform, as well as a number of micro-level supply and demand side factors, are all contributing to the growth of retail lending, particularly in emerging nations.

## **LITERATURE REVIEW:-**

Many academics have discussed how they interpret operations in retail banking. The opportunity to pinpoint problems and emerging trends in retail banking activity has been given. Many writers have emphasized the importance of bank credit in enhancing the level of economic activity in a country as one of the retail banking operations and in encouraging the rapid expansion of its economy in the models of economic growth that they have periodically put out.

**Thingalaya (1968)** outlines the key characteristics of the Pigmy deposit scheme, a ground-breaking retail banking initiative that Syndicate Bank launched in 1928. The scheme focuses on the banking needs of small-scale wage earners, independent contractors, and retail traders by mobilizing deposits and providing financing.

**Gopinath (2005)** outlines the key characteristics of retail banking and emphasizes the importance of including deposit mobilization and liability activities as well as lending and asset-related activities in its scope.

**Agarwal, S., and Kothari, R. (2018)** compared online banking in urban and rural locations. Internet banking has changed the retail banking environment and banking sector in India, according to a research article Banks are embracing technology advancement and launching online and mobile services. Due to disparities in mobile penetration rates, internet banking use has differed significantly between rural and urban locations.

**Sudha, M. & Jyothsna, M. (2017)** have studied the customer preference towards retail credit and preferred banking channels. According to the study with the changing nature of financial intermediation, retail credit management by a commercial retail bank is a very important source of income and important for creating competitive advantage. The age of digitization has made it even more important to use internet for banking purposes. Study attempt to study the customer preferences towards retail loans and the preferred channels of banking. The

results of the study show that low cost of loans, and low fees, satisfactory customer service and internet banking facility.

**Dr.Chaisomphol Chaoprasert (2004)** discusses the significance of Service Quality Improvement. The article reviews prior research on enhancing service quality in the retail banking sector. It is shown that there is a persistent tendency towards a model of service quality improvement, from personnel counter services to electronic services. Improved service quality needs to be implemented in order to sustain core competencies, and this paper provides banks with the knowledge and context they need to apply these results to better position them in the market and provide clients with high-quality service.

### **OBJECTIVES OF THE STUDY:-**

1. To study the importance of retail banking in Indian context.
2. To study the issues and challenges relating to retail banking in India.
3. To give suitable recommendations for the improvement of retail banking in India.

### **RESEARCH METHODOLOGY:-**

The data required for the present study are collected mainly from secondary data. The findings and recommendations reported in this document were developed using this data. Additionally, in order to improve knowledge, the viewpoints and opinions of many individuals from diverse organizations have been researched.

### **IMPORTANCES OF RETAIL BANKING IN INDIAN CONTEXT:-**

Retail banking plays a crucial role in the Indian context and has several important impacts on the economy, individuals, and businesses. Here are some of the key importance of retail banking in India:

- a) **Financial Inclusion:** India has a large and diverse population, with many residents living in outlying and rural areas. A considerable portion of the population has access to basic financial services like savings accounts, loans, and insurance thanks to retail banking, which promotes financial inclusion and draws more individuals into the established banking system.
- b) **Economic Growth:** Through a variety of loan and investment operations, retail banking recycles consumer and business deposits into the economy. Retail banking supports economic growth and development by providing credit options for consumers to purchase homes, cars, and consumer goods as well as working capital loans for small enterprises.
- c) **Employment and Support to small and medium-sized businesses (SMEs):** Retail banks frequently offer financial assistance to small and medium-sized businesses (SMEs), which are crucial drivers of job creation and general economic growth. These banks assist SMEs in growing and prospering by providing loans and other financial products that are suited to their needs.

- d) **Consumer Expenditure and Demand building:** Retail banking makes it possible for customers to get credit and make purchases, which increases overall consumer expenditure. Spending more fuels the demand for products and services, which in turn boosts economic activity and production.
- e) **IT Transformation:** India's retail banking industry has been leading the way in this area. Customers can now conveniently complete a variety of transactions and access services from their devices thanks to the growth of internet and mobile banking. This digital revolution boosts productivity, lowers bank operating expenses, and improves the client experience.
- f) **Monetary Policy Transmission:** Changes in interest rates and other monetary policy actions affect consumers and businesses more immediately because retail banking deals directly with people and businesses. This guarantees a more seamless transfer of the central bank's monetary policy decisions to the larger economy.
- g) **Wealth Management:** Investments that support wealth management and future planning include mutual funds, fixed deposits, and insurance policies, which are all available through retail banking. This encourages financial planning and fosters a culture of saving.
- h) **Economical Deposits:** Savings accounts and other deposit products used in retail banking allow people to deposit money, giving banks a reliable and affordable source of funding. Banks can use these deposits to fund economic activity by lending to companies and other borrowers.
- i) **Financial Stability:** The overall stability of the financial system is influenced by the health and regulation of the retail banking industry. It lessens reliance on a small number of large borrowers by diversifying the types of loans and clients it serves.
- j) **Initiatives by the government:** The Indian government is aggressively encouraging financial inclusion through a number of programmes, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), which encourages the opening of bank accounts for all citizens. Retail banking serves as an essential conduit for putting such plans into action and distributing government rewards to recipients.

In summary, retail banking plays a critical role in India's economic development, financial inclusion, job creation, and general improvement of people's lives and enterprises. It is crucial in directing money, encouraging investment, and boosting economic activity at the local level.

### **RETAIL BANKING SCENARIO IN INDIA:-**

Due to the quick advancements in technology, the financial sector faces fierce competition around the world in providing integrated financial services. A crucial facilitator for turning the services into successful business models has been retail banking. The main draw for banks in the micro level financial sector is retail banking, which is utilized as a mechanism to maintain income stability and can counteract the volatility in non-retail firms. However, when contrasted to the performance of non-retail banking and financial market operations, the interest in retail banking may change on a macro level. Indian Commercial Banks chose the

retail banking strategy in the 1990s due to a number of comforting aspects, including the acquisition of a sizable client base, a wide range of product offerings, better pricing, and profitability. This service also makes it easier to cross-sell and up-sell financial goods in order to boost client revenue while lowering risk. The banking industry has undergone tremendous change as a result of the technological revolution. In order to improve the wealth of their consumers, banks have redesigned their business structures by reengineering current products and creating new financial products, services, channels, and partnerships.

## **ISSUES AND CHALLENGES OF RETAIL BANKING IN INDIA:**

Retail banks presently have a unique challenge: how to interact with digital customers in a way that creates positive cross-channel customer experiences and long-lasting, meaningful connections. To succeed in the upcoming competitive period, banks must retool and stay ahead of these obstacles. This is both necessary and a fantastic opportunity. Banks must make difficult decisions over which customers to serve, how to succeed, and where not to play. They must streamline operations and significantly cut costs while they reorganize their organizations around the consumer. They must develop their agility, originality, and adaptability if they want to accomplish tasks successfully. Following are some of the challenges of Retail Banking in India:-

- The key challenges of the bank is to strike a balance between credit growth & quality of asset simultaneously and sustaining the profitability in the increasing interest rate scenario.
- With the advancement in technology, there has been increase in the responsibilities & challenges for an IT department in managing, maintaining & optimizing the performance of retail banking networks
- One of the biggest challenges faced by the banks in the field of retail banking is the rising indebtedness. Consumer debt is growing fast in India. The middle class has growing purchasing power, but they also have a changing willingness to take on debt to buy assets and maintain their aspirational lifestyle. The financing of autos, mortgages, white goods, and consumer durables has experienced significant increase.
- With the increasing adoption of digital banking, the risk of cyber threats and data breaches has grown. Ensuring robust cyber security measures and safeguarding customer data are critical priorities
- The issue of NPAs, or bad loans, has been a persistent challenge for Indian banks. To preserve asset quality and financial stability, NPAs must be managed and reduced.
- Fluctuations in Interest is one of the challenges for the banks in India. Interest rate fluctuations may have an effect on banks' net interest margins, which may have an effect on their profitability and lending activity.
- Another issue faced by Retail banking in India is related to understanding and tackling with Know Your Customer (KYC) norms.
- Retail banking in India is also facing challenges in educating or training the people in rural areas who are illiterate and don't know how to avail benefits from banking.

Addressing these challenges requires a comprehensive approach from both regulators and banking institutions. With the right strategies, retail banking in India can overcome these obstacles and continue to contribute to the country's economic growth and financial inclusion.

### **FINDINGS:-**

- Through the advanced use of Information Technology, the banking sector mainly with the help of retail customer is severely implementing the new method of providing services.
- The Retail banking segment has more scope for innovation as it tries to provide more and more products and services to their customers as desired by them.
- Retail banking has enough opportunity in a developing economy like India. A.T. Karney, a global management consulting firms, pointed India as the 2<sup>nd</sup> most attractive retail destination among the 30 emergent markets.
- Retail banking is one of the important sources for improving the Financial Literacy among the rural people of India.
- Retail Banking is one important avenue for enhancing the Financial Inclusion for the rural people of India.
- Retail Banking is one of the important revenue generators of banks in Indian Context.
- The retail banking sector contributes to economic growth and stability by mobilizing savings and channeling them into productive investments. It aids in the distribution of financial resources, enabling organizations and people to achieve their financial goals.
- One of the biggest challenges faced by the banks in the field of retail banking is the rising indebtedness
- Understanding and complying with Know Your Customer (KYC) regulations is one of the challenge that Indian retail banking face.

### **RECOMMENDATIONS:-**

- Improving retail banking in India requires a multi-faceted approach that addresses various aspects of the industry. Here are some suitable suggestions to enhance the retail banking experience in the country.
- Encourage banks to make investments in cutting-edge digital technologies and streamlined mobile apps. Customers will be able to conveniently complete transactions, access information, and use services online as a result, which will decrease the need for in-person branch visits.
- To secure client data and stop fraud, it is essential to strengthen cyber security measures in light of the rise in digital transactions. Banks should inform customers about secure online banking procedures while also regularly updating their security mechanisms.

- Streamline the customer onboarding process by reducing paperwork and making Know Your Customer (KYC) procedures more efficient. Digital KYC methods and interoperable databases can help simplify this process.
- Introduce loyalty programmes to reward customers for frequent use of financial services. Reward programmes can boost engagement and promote client retention.
- Banks should involve in managing relationship with customers by having an approach of customer relationship management.
- To improve the Retail Banking Bank should improve the interoperability of payment systems to make transactions simple and available on a variety of platforms, such as the Unified Payments Interface (UPI) and digital wallets.
- Retail banking can be improved in rural areas by more focusing on Social media. Therefore it should use Social Media as Media.
- Before Granting Credit to the Retail customer, Bank should properly scrutinize the applicant to minimize the chances of default which in turn may reduce the rate of Non-Performing Assets (NPA).

## CONCLUSION:-

Retail banking plays vital role in the development of Indian banking sector. Through the various products of banking, customer feels utmost satisfied only when the services reached to the bottom level. As a result of shifting consumer behavior, rising expectations, channel expansion, disruption, creative application and adoption of new technologies, and the general digitization of business and society, the financial services sector is experiencing significant transformation. The main drivers in retail banking continue to be lowering costs, boosting top-line revenue, and reducing risk. However, a large portion of the environment will alter considerably in response to influences such as changing economic conditions, new competitors, changing demographics, technology advancements, and regulatory needs. The development of technology has made it possible for banks to create suitable technology-based delivery channels because retail banking necessitates mass manufacturing processes.

The regulators' and policymakers' drive for inclusive growth in the wake of the global financial crisis has also given retail banking a boost. Banks are seen by governments all around the world as being essential to advancing financial inclusion. Additionally, companies must have a well-defined plan in place to handle these issues, which should take into account relationships with other parties and the application of lessons learned from other sectors. To make sure they are prepared to flourish in the future, retail banks need to take further steps.

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