Unit - 1 : Retail Banking - Introduction

Retail Banking is a banking service that is geared primarily toward individual consumers. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses. Pure retail banking is generally conceived to be the provision of mass market banking services to private individuals.

Attractive interest spreads since spreads are wide, 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. Higher delinquencies especially in unsecured retail loans and credit card receivables.

In some banks retail banking was christened as consumer banking as the focus was towards individual consumers.

Capgemini. ING and the European Financial Management & Marketing Association (EFMA) have studied the global Retail Banking market with the aim of providing insights to financial services community through the World Retail Banking Report (WRBR).

The pricing indices were developed based on three usage patterns viz., less active, active and very active users.

Introduction of the telegraph in the early 1850s which made the process of communication and information exchange faster and reduced the price differentials between stock markets.

Banking services follow the standard industrial development pattern in which prices decline with maturity. The share of interest income had almost remained steady at about 84% and the share of non interest income also is almost stable at around 16%. This indicates that there were no serious efforts by banks to increase the non interest income through fee based product and third party distribution models.

Retail Banking as a concept in India has been initiated by the PSBs and nurtured by the foreign banks and new generation private sector banks.

It grew by a compounded annual growth rate of 30.5% between 1999 and 2004 and expected to grow at above 30% in 2010.

The penetration level of retail banking in India is still very low as compared to the other Asian countries like China, Malaysia, Thailand etc.

The retail banking objectives of any bank would mainly focus on the following:
1. Generating superior returns on assets.
2. Acquiring sufficient funding
3. Enhancing risk management
4. Understanding customers and regaining their trust.
5. Coping with increased demands regarding product transparency and overall service levels.
6. Achieving multi channel excellence with fully integrated banking channels.
7. Moving toward higher levels of industrialization

Unit - 2 : Retail Banking - Role within the Bank Operations

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).

Public Sector Banks in India generally have adopted the Departmental Approach as their retail banking business model.
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.

In new generation private sector banks, the business model is very clear. They had set up Strategic Business Units (SBU) to have clear focus and business objectives.

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.

Banks generally structure their retail banking models mainly on a positioning platform.

Foreign banks generally do not go by positioning objectives but purely on business objectives.

Unit - 3 : Applicability of Retail Banking Concepts and Distinction Between Retail and Corporate/ Wholesale Banking

The most common strategies are end to end outsourcing, predominant outsourcing, partial outsourcing and in house sourcing.

Regulatory prescriptions are one of the major determinants of outsourcing or lack of it in these banks.

In some foreign banks, both front and back end operations are outsourced and in some banks, the back end operations are outsourced while the front end operations like sourcing of HNI clients are done through captive resources.

The four broad classifications as envisaged by Boston group were defined based on the technology and customer interface capabilities of the banks and are

(i) Horizontally Organised Model
(ii) Vertically Organised Model
(iii) Predominantly Vertically Organised Model
(iv) Predominantly Horizontally Organised Model

Horizontally organised model is a modular structure using different process models for different products offering end to end solutions product wise.

Vertically organised model provides functionality across products with customer data base orientation and centralised customer data base is used across products.

Predominantly horizontally organised model is mostly product oriented with common customer information for some products. In predominantly vertically organised model, common information is available for most of the products.

In most of the PSBs, horizontally organised model is the standard norm. New private sector banks generally follow a vertically organised model.

As a part of overall segmentation game plan of the bank, branches are classified as Resource Centres, Profit Centres, Priority Centres and General Centres to have a clear business focus.

This concept is an effective business model for PSBs with large network and useful for focused strategies and already getting implemented in some public sector banks.

Liability products are offered to retail banking customers basically under three spaces - Savings Accounts, Current Accounts and Term Deposit Accounts. Product differentiation among these accounts is best achieved by adding different value propositions. (from a plain vanilla account to a value enriched account.)

Retail asset financing is a major component of retail banking model of banks.

Not all PSBs are in the credit card business since it is a big volume game and needs process efficiencies.

In the development process, geography is not given importance but type of branch and centre and business potential are given due importance.

Banks adopt different process models for retail asset products.

The common form of process models are Centralised Retail Assets Processing Centres where all the retail loans sourced at the branches and marketing team are processed at a single point and assets are financed through that centre or processing alone done at the centre and financing done at the branches.
Opening of account, issue of Pass Book, Cheque Book, ATM Card/Debit Card, PIN Mailers for the Cards are the stages in the tangibleisation process. (Centralized Processing)

Process time is a major differentiator in the efficacy of retail banking operations. Process Time is business sensitive and customer sensitive.

Stand alone pricing for different products and services is the basic structure.

Regarding Price Structuring quantum and volumes are two important determinants.

Structuring also involves price bundling where a holistic pricing is offered across a specific bundling of products and services so that the total price proposition is attractive than the stand alone pricing for the individual products of the bundle.

This structuring is a cross selling strategy to entice the customer to avail more products so that profitability per customer is enhanced.

The technology models basically adopted by banks are In House Models, Outsourced Models, Partially In House and Partially Outsourced Models.