CAIIB SUBJECTS

Objective of (he Rumination: To provide advanced knowledge in banking subjects for better decision making.

Question Paper Pattern: Objective Type - Multiple Choice Questions

Eligibility: I. Membership of the Institute

2. Pass in JAIIB examination of the Institute.

Revised Structure:

Revised CAIIB Kxamination **(2010)** is structured with **2** compulsory papers and **11** elective papers as given below.

I. COMPULSORY PAPERS

1. Advanced Bank Management
2. Bank I'inancial Management

II. OPTIONAL PAPERS (Candidates to choose any one)

1. Corporate Banking
2. Rural Banking
3. International Banking
4. Retail Banking
5. Co-operative Banking
6. l-ii!.iiM.il Advising
7. Human Resources Management
8. Information Technology
9. Risk Management
10. Central Banking
11. Treasury Management

To be eligible for the award of CAIIB a candidate must pass both the compulsory papers and any one of the electives of the candidate's choice. Electives have been developed with the objective of giving appropriate speciali/ation to the candidates. Candidates may therefore choose those electives thai are relevant to their current and or immediate prospective job profile. Electives contain, in addition to the knowledge inputs certain managerial inputs also. This is aimed to promote speciali/ation in the study by candidates at the same time enabling them to acquire skills required in bank management.

RETAIL BANKING

SYLLABUS

MODULE A: Introduction

History and dcfinilion. role within the bank operations. Applicability of retailing concepts distinction between Retail and Corporate/Wholesale Banking

MODULE B: Retail Products

Retail Products Overview - Customer requirements. Products development process. Liabilities and Assets Products - Description of Liability products. Description of Asset Products, Approval process for retail loans. Credit scoring.

Important Asset Products - Home I .oans-Hligibility. Purpose. Amounts. Margin, Security. Disbursement Moratorium. Prepayment issues, Repayments/Collection.

Auto/Vehicle Loans - Eligibility. Purpose, Amounts. Margin. Security. Disbursement. Moratorium, Prepayment issues, Repayments/Collection.

Personal Ixtans - Eligibility, Purpose. Amounts. Security. Disbursement. Moratorium, Prepayment issues. Repayments/Collection.

Educational Loans - Eligibility, Purpose, Amounts, Security, Disbursement. Moratorium, Prepayment Issues. Repayments.

Credit/ Debit Cards - Credit Vs Debit Cards, Eligibility, Purpose, Amounts. Margin, Security, Process of using the cards. Billing Cycle. Credit Points.

Other Products - Remittances/Funds Transfer

MODULE C: Marketing/Selling of Retail Products, MIS and Accounting

Retail Strategies; Tie-up with Institutions for personal loans / credit cards /educational loans, with OEMs/ Authorised Dealers for auto/vehicle loans, and with builders/developers for home loans

Delivery Channels - Branch, Extension counters. ATMs. POS. Internet Banking. M Banking. Selling Process in retail products-Direct Selling Agents.

Customer Relationship Management - role and impact of customer relationship management. Stages in customer relationship management process. Regulations and compliance

Technology for Retail Banking - Static information. Account opening, basic loan origination data etc. Updated information like income details at different frequencies. Transaction information from disbursement till final settlement of the loan amount. Analytics/Alerts.

Accounting entries - Loan process and the relevant accounting including EMI Computation.

MODULE D: Other issues related to Retail Banking

Securilisation. mortgage based securities.

Trends in retailing - New products like insurance, demut services, online/phone Banking, property services, investment advisory/wealth management. Reverse Mortgage. Growth of c-banking. Cmss selling opportunities.

Recovery of Retail Loans - Defaults, Rescheduling, recovery process. SARAFAESI Act. DRT Act. use of Lok Adalat (brum. Recovery Agents-RBi guidelines.

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MODULE-A

RETAIL BANKING

Units

1. Retail Banking: Introduction
2. Retail Banking: Role within the Bank Operations
3. Applicability of Retail Banking Concepts and Distinction Between Retail and Corporate/Wholesale Banking

UNIT 1 RETAIL BANKING: INTRODUCTION

STRUCTURE

1.1 Introduction

1.2 Characteristics of Retail Banking

1.3 Advantages of Retail Banking

1.4 Constraints in Retail Banking

1.5 Evolution of Retail Banking

Terminal Questions

Let Us Sum Up

Keywords

1.1 INTRODUCTION

What is Retail Banking? Let us see the different definitions of retail banking.

"Retail Banking is a banking service that is geared primarily toward individual consumers. Retail banking is usually made available by commercial banks, as well as smaller community 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 checking 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, personal 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".

1.2 CHARACTERISTICS OF RETAIL BANKING

The definitions of retail banking as discussed above bring out the following characteristics:

1. Banking facilities targeted at individual customers.

2. Focussed towards mass market segment covering a large population of individuals.
3. Offer different liability, asset and a plethora of service products to the individual customers.
4. 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 and Mobile Banking.
5. Extended to small and medium size businesses.

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 and customers tend not to change from one bank to another very often.
3. 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.
4. There is less volatility in demand and credit cycle than from large corporates.
5. Large numbers of clients can facilitate marketing, mass selling and the ability to categorise/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 also. A few of the constraints are listed below:

1. Problems in managing large numbers of clients, especially if 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 telephone or internet for these transactions and reserve the branches for higher added value transactions).
4. Higher delinquencies especially in unsecured retail loans and credit card receivables.

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

Gung Ho Retail Banking! 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 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.

Before discussing about the design of retail banking, let us have a look at the evolution of retail banking across the globe. 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 study conducted in 20()6 covered 142 banks in 20 countries covering the geographies of Europe - eurozone (Austria, Belgium, France, Germany, Ireland. Italy, Netherlands, Portugal, Spain),Europe-non eurozone (Czech Republic, Norway, Poland, Slovakia, Sweden, Switzerland, UK).North America and Asia Pacific (Australia, Canada, China, US).

The WRBR 2006 gives an overview of the dynamics at work in this retail banking industry.The report profiles indicated what the end consumers pay in a given country for day to day banking services and also the channel strategies. The gist of findings in the pricing front is briefly presented below:

- The average price of banking services increased by over 3% in the countries surveyed. However it was observed that that his trend masked differences between zones, especially between North America, where prices went down and the euro zone where they rose.
- Prices were converging slowly in the euro zone even as price differences between countries - including neighbours - remained high. This trend will continue as a result of central initiatives such as the Single Euro Payments Area (SEPA).The SEPA initiative aims to create a domestic payments market across the euro zone by 2010 and will result in competition, price transparency and homogeneity and will affect the revenue structure of the banks.
- The pricing indices were developed based on three usage patterns viz., less active, active and very active users. Usage pattern for particular products vary significantly between countries, leading to major differences between global and local prices.
- The average price of basic banking services based on the local active customer profile was 76 Euros in 2005.
- In a given region, prices varied according to usage pattern, with a ratio of up to one to 4.6 between prices paid by very active and less active users.
- Although similar prices were observed within a given region, they were the result of very different pricing models.
- Fierce competition (US) and evolving retail banking markets (Eastern Europe, China) have prompted changing price structures.
- Banks are reducing remote channel prices in order to drive greater customer use.
- Prices of seldom - used products have steadily increased over the past two years.
- Banking services follow the standard industrial development pattern in which prices decline with maturity.

According to the Report, the emergence of the new remote channels has changed the distribution paradigm of banks and strategies are to be in place to take on the multi channel challenges. Traditional retail banks are counterattacking incorporating direct sales and service into their channel architectures and continue to invest in alternative channels to keep up with market developments and customer demand. The challenges are two dimensional in multi channel management. The first dimension is to both develop remote channels and reposition branches to create more value for customer engagement. The second dimension is how to increase customer satisfaction and differentiate themselves from the competition while also improving the productivity of the multi channel model.

Capgemini covered a sample of 41 leading retail banks across the globe which included 16 banks in the euro zone. 15 in the non euro zone, five in China and five in North America to study how the banks are dealing with the challenges in multi channel management.The important findings of the study are summarised below:

- The distribution of sales among channels is an important factor in the channel strategies. Selling through the branch channel is the main format but over the years the volumes have dropped. From a high of 94% of sales routed through the branches in 2()00,it has come down to 86% in 2005 and likely to go down to 67% in 2010.On the other hand, sales through the Web which was low at 2% in 2000 moved up to 5% in 2005 and likely to move up to 17% in 2010.Same is the case with sales through phone moving up from a low of 4% in 2000 to 8% in 2005 and likely to move up to 13% in 2010.The above indicates the rapid migration of sales from the direct channels to remote channels over the past five years and the likely more aggressive movement in the coming years.

- The distribution of services among channels is another important factor in channel strategies. The percentage of day-to-day banking transactions carried out through different channels underwent a drastic change over the years. From a level of 70% of the transactions that happened through branch in 2000, it has dropped to 42% in 2005 and likely to drop to 30% in 2()10.Consequently,the transaction level has improved from 19% in 2000 to 29% in 2005 and likely to touch 28% in 2010.1n the same way, the transactions through Web which was very low at 4% in 2000 has moved up to 18% in 2005 and likely to reach 28% in 2010.Phone Banking transaction usage also moved up from a low of 5% in 2000 to 9% in 2005 and to reach 12% in 2010.11 vindicates the growth of remote channels over direct channels in the recent years and the likely explosion of usage of remote channels in the coming years.
- The banks in the sample expect their remote channels to deliver 33% of their sales in 2010 up from 6% in 2000. This trend holds good for all kind of products from simple current accounts to more complex mortgages and insurance products.
- Among the remote channels, though ATMs were the early leader, the Internet is clearly driving the next wave of automation.
- The rise in usage of remote channels will necessitate a fresh look at the branch format and move to advisory selling in branches by suitably repositioning the branches for advisory selling. Staff will be trained as Advisors to handle the customers across multiple channels and their business enquiries. The emerging trend of development of advisors with proactive attitude to clients looks very positive with a score of 88%.
- Managing multi channel challenges includes creation of multi channel common customer file to handle in bound customers and also calls. Only 33% of the surveyed banks have an effective multi channel common customer file.

Retail Banking in UK

In UK the first significant changes in retail banking occurred after the 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. Moreover, a more intense level of communication induced frequent administrative transactions between the head offices and the branches. This later resulted in changes in the organizational structure so that peripheral offices became able of performing operations that were once exclusively delegated to the central offices. During the last quarter of the 19th century, banks were actively involved in the consolidation of branch networks so that they could operate in a more integrated manner at regional level, opening new offices and creating a structure of financial activities from lending to exerting the control of customers. Banks accrued a large-scale dimension by means of extensive mergers and acquisitions. The decline of British banks over time was accompanied by an increase in the number of banking offices. From the beginning of the period, private banks operated just under one-half of all bank offices but this figure faced a decreasing trend after the 1850s. These changes in the management of outlets were mainly due to a greater willingness of joint-stock banks to operate branch networks and a greater concentration of ownership through inter-bank mergers. The aggressive policy of branching continued after the 1900s when the number of offices resulted three times bigger. These considerations lead to the conclusion that whilst diminishing in number, banks accrued higher market concentration and, most importantly, more interoperability. Financial services were then merely restricted to routine operations and the formal provision of short term loans. The necessity of an efficient and reliable information management became clear, for banks could not realize fruitful synergies with the set of industrial activities in the absence of adequate information flows. For these reasons, a core practice in banking has been, ever since the creation of confidential records, to be valid memoranda of the discontinuous relations with customers. More importantly, the activity of record keeping opened way to the definition of standardized practices aimed at connecting efficiently the local offices to the central management. The definition of unofficial standards in operative practices has been a long term phenomenon in banking and it is noteworthy to notice that the grounds of such an argument stand in the very nature of the banking, which is based on trust and confidence mutually established with customers and reinforced by information management. In this perspective, the emergence of clerks and typists seemed particularly important during this phase, due also to the commercial introduction of the typewriter in 1873, for these accrued a dynamic dimension to the process of division of labour. To make the system work more efficiently, introduction of technology initiatives in the banks had gained attention of the banks. The development of services in retail banking is an articulated process within which the technical and the organizational dimensions followed distinct, yet complementary, patterns of growth.

(Source: The evolution of retail banking services in United Kingdom: a Retrospective Analysis. Davide Consoli, CRIC Working Paper No 13, September 2003, ISBN: 184052 0116)

Retail Banking in US

The traditional image of banking in US features a stately office on Main Street where the branch manager understands the local market and has strong customer relationships. But technology and regulatory changes in the 1990s challenged this bricks-and-mortar business model. Automated teller machines (ATMs) proliferated after the national ATM networks dropped a ban on surcharges in 1996; by 2002, there were 352,000 machines in the United States. The Internet gave customers electronic access to their accounts and even gave rise to "virtual" banking organizations; in 2000, forty Internet banks were in operation. Banks also developed centralized call centers to handle customer service issues and to initiate transactions, including deposits and loans. In concert with these changes, many institutions shifted activities once carried out by branch bank personnel, such as small-business loan approval and management, to regional or national offices. All these developments appeared to reduce the role of the traditional bank branch in the delivery of retail banking services.

These changes were reinforced by deregulation in the 1990s. In particular, the Riegle-Neal Act of 1994 allowed banks to branch and merge across state lines, contributing to an era of bank consolidation that focused on reducing costs to boost profits. As a result, the number of US banks and Thrifts fell from about 12,500 in 1994 to a little more than 9,000 at the end of 2003. During the same period, the number of bank and thrift *branches* actually rose. Banking organizations began to expand their branch networks following the banking crisis of the late 1980s and the 1990-91 recession; from 1993 to 2002, the number of bank branches climbed 8.6 percent. The Riegle-Neal Act contributed to this branch expansion, as did the Gramm-Leach-Bliley Act of 1999—the latter because branches could be used to distribute the insurance and securities products that the legislation permitted banks to originate. Together, the declining number of banks and rising number of branches have resulted in greater consolidation of branches and deposits in the nation's larger bank and thrift organizations. In 1994, midsized branch networks (100 to 500 branches) and large branch networks (more than 500 branches) accounted for 53 percent of the country's deposits and 46 percent of the branches. By the middle of 2003, those figures had risen to 61 percent of deposits and 51 percent of branches. The greatest amount of consolidation has occurred in a subset of the large branch networks - specifically, those with more than 1,000 branches—which we term the "very largest" networks. These networks contained almost 20,000 branches in June 2003, up sharply from 9,200 branches in 1994. The very largest branch networks now claim nearly 25 percent of all US bank branches.

The consolidation of branches into larger networks has been accompanied by increased interstate branching and banking. Between 1994 and 2003, the number of organizations with branches in more than one state nearly doubled to 538, while the number of organizations decreased by one third. More than a dozen bank and thrift branch networks now have a presence in at least 20 percent of the country.

The institutions with the widest geographic reach have branches in about half the states—a field of operation that is still short of truly nationwide banking, but considerably more extensive than what prevailed ten years ago. The trend toward consolidation of branches into large branch networks has implications for bank customers and the banks themselves. Traditionally, consumers and small businesses have relied most heavily on bricks-and-mortar branches to access bank services. The evidence suggests that these customers face something of a trade-off in light of the growth of very large branch networks. On the one hand, larger banking organizations tend to charge higher fees than smaller institutions.

Thus, branch-dependent customers could face additional costs as branches are increasingly consolidated into the larger branch networks. On the other hand, large branch networks offer the convenience of many points of contact with the institution and, very often, the ability to avoid ATM surcharges and other usage fees by staying within the bank's network. Academic research suggests that depositors value geographic reach (branches in many states and municipalities) and local branch density (many branches of an institution in a given area) when selecting a depository institution. Market surveys also suggest that customers place a premium on convenience when choosing a bank: 39 percent of bank customers surveyed in 2001 indicated that they selected their bank primarily because of its location. These findings suggest that many customers value the scope and scale of large branch networks. For the banks themselves, the consolidation of branches within large branch networks has implications for cost structure, business focus, and profitability. Full-service branches entail significant costs that banks must cover through the revenues generated by these networks, primarily the implicit and explicit income associated with deposit accounts.

In choosing to continue to expand their branch networks, these organizations seem to have made the judgment that retail banking activities remain an effective channel for generating revenues, despite the associated costs and the development of alternative distribution channels such as call centers, ATMs, and online banking.

(Source: The Evolution of US. Bank Branch Networks: Growth, Consolidation and Strategy - Beverly Hirtle and Christopher Metli- Current Issues in Economics and Finance -Federal Reserve Bank of NewYork - July 2004)

Retail Banking in Europe

Europe's largest economy and the second-most populous nation, Germany was once celebrated as Europe's economic powerhouse. But falling exports combined with high costs due to an inflexible labour and services market and the modernization and integration of East Germany have contributed to muted economic growth. The German banking industry is dominated by universal banks that combine the functions of commercial and investment banks, including the securities business. The Association of German Banks estimates that universal banks contribute to over 75% of the industry's total business volume. A striking feature of the country's banking industry is the high number of banks and the dense branch network. There are over 2,300 banks in Germany with over 46,000 branches. Around 1,500 of the banks are very small in size with a business volume of less than €1 billion.

Germany's fragmented banking sector stands apart in the European banking landscape. Its large private banks, the "Big Five" - Deutsche Bank AG, HypoVereinsbank AG (HVB), Dresdner Bank AG, Commerzbank AG and Deutsche Postbank AG - account for a significantly smaller share of the sector compared to other economies. There are around 400 savings banks while of the 300 odd private banks, around 120 are foreign banks with branches in Germany. Bundesbank data shows that the top five banks together hold 12% of the nation's €1 trillion consumer lending market.

Historically, the country's banking system has been based on a unique three-pillar model comprising private commercial banks, public sector banks and cooperative banks. A recent paper from the Centre for European Reform states that savings banks control around 40% of the banking market, while the

cooperative banks control around 30% of the market. Public sector banks include savings banks or "Sparkassen" that are organized on a regional basis and their head institutions are known as "Landesbanken". They focus primarily on the economic developments of their respective regions rather than profit maximization. This philosophy appeals to the ordinary consumer, especially during times of stress. Local media reports suggest that in face of the current financial crises, Germans are turning towards these savings banks to keep their savings safe. It is estimated that deposits at the 400-odd savings banks increased by more than €1 billion (SI.4 billion) in the first two weeks of October this year. However, the lack of competitiveness of co-operative banks has long been a cause of concern both for the German authorities and business.

According to an analysis by The Banker in 2007, German banks overall managed to increase profits as a percentage of capital, to 7.47% in 2007 from 4.67% in 2006. But. says The Banker, this remains far behind the other large European economies, "owing to low profitability in the Landesbank and savings bank sectors." Germany still hosts the most number of banks in Europe and exhibits the most fragmented market in the region. Savings and co-operative banks account for more than 50% of the country's deposit base and close to 70% of the savings deposits.

Competition is intense in the German retail banking sector. While on one hand, foreign banks such as Citi and Santandcr have established themselves in the highly competitive consumer finance segment, direct players such as ING DiBa, an online subsidiary of ING Bank of Netherlands, have a strong play in deposits and mortgage lending. ING DiBa has very successfully increased its customer base from 1 million in 2002 to over 6 million today. Another key player in the retail banking segment is Deutsche Bank, which for long had focused on expanding its investment banking operations abroad. Its retail banking ambitions are now obvious. In 2006 Deutsche Bank purchased Norisbank, a consumer bank and Berliner Bank, an up-market retail bank, and now has a stake in Postbank. the largest retail bank with 14.5 million customers in the country.

The direct banking model has proved highly successful in Germany. ING DiBa offers solely via phone, Internet, and a large network of ATMs and boasts of the third largest number of customers in the country. The financial services subsidiaries of German car makers such as Volkswagen also operate as direct banks. Volkswagen for instance, looks after 3 million private customers in Germany. Another banking business model gaining popularity is the cooperation of retailers and banks. Big German fashion retailer C&A founded its own bank in the beginning of 2007 and started offering consumer credits online as well as in its stores. In addition, C&A offers motor insurance contracts in collaboration with DA Direkt, a member of the Zurich Group. Another example of such collaboration is Tchibo, a big German coffee bar and shop chain, which offers consumer credits of RBS, current and savings accounts of Deutsche Postbank, sight deposits of Comdirect and insurance products of Asstel. Tchibo sells these products only online or by phone.

Investment in technology among banks is very high, not only among the top tier players but smaller banks as well. Adoption of technology by customers is high too, as is evident from the popularity of direct banks. At Postbank, for instance, over 65% of its customer base uses online banking. The demand for online banking services today is far more than account balance inquiries and transfers. Since the launch of Postbank's online brokerage, at the start of the new millennium, customers have been able to buy or sell shares, bonds and investment funds or subscribe to new issues. SMS alerts when salary

payments are received or when chosen thresholds are reached in safe custody accounts complete the service offerings. In 2007, with iBanking, Postbank was the first bank in Germany to make it possible to use the iPhone for banking. Analyst firm, Forrester estimates that 39% of Germans now bank online. Forrester expects online banking to grow by about 4% each year with 47% of adults or 32 million Germans banking online by 2012. The main drivers of this trend will be users' confidence in the channel, banks' robust security measures, and strong competition for retail banking customers. Broadband connectivity too plays a key role in encouraging online banking usage. Forrester states that by the end of 2007, there were 16 million German broadband households — more than in any other Western European country — but this equated to only 43% of German households. Forrester predicts a further 11 million households will have broadband access by the end of 2013, many of which have dial-up connections today.

(Source .-Article on Banking in Europe - Rekha Menon, Research and Contributing Editor, FinacleConnect)

Retail Banking in Russia

The retail banking scenario in Russia had thrown different business scenarios for banks. A study in 2007 which analysed the retail market trends, non payment risks and loan portfolio profitability of different banks revealed that the retail banking market had not reached the saturation level and there was space to accommodate new banks. Some of the interesting revelations are

- The top ten banks accounted for 63% of retail loans.
- Overdue retail loans were at 75.5bn roubles.
- Overdue auto loans were growing faster than the market.
- Profitability of retail portfolios was between 23-50%.
- The share of retail loans in the loan portfolios increased at a stable rate and was over 24% in the first quarter of 2007.
- Interest margins on rouble retail loans had come down from the beginning of 2006 but remained higher than for other loans. This decline was due to the higher cost of resources and a general fall in interest rates.
- The retail loan market grew by 75% from the beginning of 2006. Auto loans, credit cards and mortgages were the fastest growing segments. Among the banks with the largest loan portfolios are those that entered the retail loan market in 2006, which showed the market had a large capacity and was not saturated.
- Sberbank was the number one in retail banking with a market share of 37% followed by Russian Standard Bank with a market share of 8%.The above banks were the major banks in the retail space and other banks were with market share of below 5%.

(Source : Retail Banking in Russia- Different Loans-Different Risks- June 2007- Report by Rus Rating)

Retail Banking in Asia and South Pacific

Asian banks experienced enormous growth in personal banking in the recent period fuelled by expansion in household credit, online banking, credit cards etc. In Korea, household credit now accounts for about

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half of the total outstanding bank loans and this trend was evident in several other Asian economies. In China as per a recent report of the Lehman Brothers, mortgage and consumer credit in China grew by 70 percent in 2001 and already reached 10 percent of the total bank loan outstanding. Korea, Thailand, Malaysia, Taiwan and Philippines experienced growth in credit cards in the range of 20 percent in 2002 and China's credit card market is expected to grow by 75 percent to 100 percent in the next three years. In Korea value of credit debt, now accounts for about 16 percent of the total household borrowing and about 11 percent of the total private credit outstanding. In 2002, Value of credit card debt outstanding has registered a growth of 47 percent in Korea, 34 percent in Philippines, 30 percent in Thailand, 28 percent in Taiwan, 21 percent in Malaysia and as a percentage of total domestic credit, it ranges from 3 percent in Malaysia to 11 percent in Korea. Growth in the household credit/personal loans was further accentuated by a number of relief measures announced by the governments to promote housing loans, use of credit cards and supplemented by additional measures announced by banks such as fee waivers, higher credit limits etc. With growth of personal banking and household credit, banks are transforming from transaction-based activities to process based activities that requires sophistication in risk management.

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 strategised 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.

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 stems 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) have also aggressively entered and active in this 'Bottom of the Pyramid' segment and posing a big threat to the conventional banking players.

A recent study pointed out that the retail banking industry in India grew by a compounded annual growth rate of 30.5% between 1999 and 2004 and the figures will be much higher based on the performance of the banks in this space in the subsequent years.

In India total asset size of the retail banking industry grew at a rate of 120% to reach a value of $66 billion in 2005. This growth in retail banking sector has helped in the growth of the overall banking sector. Retail Banking is expected to grow at above 30% and retail assets are expected to tough a whooping $300 billion by 2010.But even with this growth rate, still the potential for the growth in retail assets looks very promising. The contribution of retail assets to Gross Domestic Product (GDP) n India is 6% and is comparatively lesser than that of other Asian counterparts like China (15%), Malaysia (33%), Thailand (24%) and Taiwan (52%).This indicates the lower level of penetration of retail banking in India and strengthen the views and strategies of the retail players.

(Source : Retail Banking - Models, Strategies,Performances and the Future- The Indian Scenario - Unpublished Research Report by Dr.J.Sethuraman for IIBF.)

A report by McKinsey & Company on 'Emerging Challenges to the Indian Financial System' (April 2007) has highlighted the huge potential available for personal financial services and the different spaces available for banks to encash this potential. The gist of the observations is detailed below:

- Three forces are shaping the personal financial services (PFS) in Asia: the continuing surge of new customers entering the banking system, the explosive growth of consumer credit at 30 per cent per annum and the emerging need for wealth management due to increasing affluence. These forces can dramatically shift the current focus of banking needs from traditional banking products and services(e.g., deposits,mortgages) to advanced investment, credit and advisory products and services(mutual funds, unsecured personal loans).
- With rising income levels, India is becoming an increasingly attractive market for retail financial products. India's consumer finance boom will see revenues rising from more than 20 to 25 per cent per annum over the next five years, from US $3 billion today to about US $10 billion by 2010.
- In addition to consumer credit, payment products such as credit and debit cards will drive growth, with more than 50 million credit cards likely to be in force by 2()l(),depending on issuers' ability to penetrate second tier towns and segments such as self employed.
- By 2010, the number of high net worth individuals (annual income greater than US $ l million) will grow to 400,000.
- Current offerings will be inadequate to capture these opportunities, leaving a gap for innovative players to fill in.
- In wealth management, local banks have primary relationships and branch networks, but these may not be key buying factors for more sophisticated consumers. Success in affluent/private banking will require an extensive product range spanning debt, equities, investment funds, alternative assets and a range of ancillary services, with a comprehensive expert advisory process.
- Global banks are at advantage since they can already provide a wider range of products and services and have the talent pool to deliver them well.
- To maintain leadership in the emerging sectors, Indian banks will have to develop talent, product and advisory skills within a short time.
- Despite credit and deposits growth in India, banking access remains limited to a few sections of the population and there is great disparity in the penetration of banking products among the different classes. While many customers are well served by traditional financial services providers, the unbanked segment represents an under-penetrated opportunity.

Another proprietary McKinsey Personal Financial Services Survey in 2004 revealed the following:

- In the "urban mass" households (income between Rs.25,()(M) to Rs.200,000 per annum comprising nearly 32 percent of the total households in India), penetration of credit cards is only 4 percent and that of auto loans is negligible.
- As compared to the above, the penetration of credit cards and auto loans are 22 per cent and 5 per cent for "mass affluent" households (Income between Rs.2()(). (MX) and Rs.500, 000 per annum.).
- In case of "affluent households" (Income between Rs.500, (MM) and Rs. 1000, 000), the penetration levels for credit cards and auto loans are at 34 per cent and 14 per cent.

RBI Data on Retail Banking in India

The growth in various elements of retail banking space over the years are published by Reserve Bank of India in their "Report on Trend and Progress of Banking in India".The growth figures under various spaces as detailed below reflect the business performance achieved in the retail assets and other services:

(i) Growth Rate of Retail Assets of the Banking System

<Rs. In Crores)

S.No	Type of Retail Asset	2004	2005	2006	2008	2009
1.	Housing Loans	89449	134276 (50.5)	179165 (33.4)	252932 (12.7)	263235 (4.1)
2.	Consumer Durables Loans	6256	3810 (-39.10)	4469 (17.3)	4802 (-34.2)	5431 (13.1)
3.	Credit Card Receivables	6167	8405 (36.3)	12434 (47.9)	27437 (49.8)	29941 (9.1)

4.	Auto Loans		35043	61369		87998	83915
					(75.1)	(6.6)	(-4.6)
5.	Other Personal Loans	87170	85077	118355		197607	211294
				(37.8)	(39.1)	(27.5)	(6.9)
6.	Total Retail Loans	189042	266611	375739		570776	593815
				(41.2)	(40.9)	(17.1)	(4.0)

(ii) Percentage of Retail Assets to Total Assets of the Banking System

\ In Crores)

S.No.	*Details of Advances*	*2004*	*2005*	*2006*	*2008*	*2009*
1.	Total Advances of the Banking System	864271	1125056	1473723	2332032	2793572
2.	Percentage Share of Retail Assets to Total Advances	21.9	23.7	25.5	24.5	21.3
3.	Growth Rate				23.2	19.8

Source: Reserve Bank of India - Report on Trends & Progress in Banking in India

(Hi) Number of ATMs of Scheduled Commercial Banks(2008-09)

ATMs	*Numbers*
Number of Onsite ATMs	24645
Number of Offsite ATMS	19006
Total Number of ATMs	43651
Number of Bank Branches	64608
ATMs as a Percentage of Bank Branches	67%
Growth of ATM installations by Banks in 2009 over 2008	25.4%
No. of Branches covered under CBS	44304
Coverage of Branches under CBS in 2009	79.4%

Source: Reserve Bank of India - Report on Trends & Progress in Banking in India

(iv) Retail Electronic and Card Based Payments

Service	*Transaction Volumes (ooos)*		*Growth in Volume (%)*		*Transaction Values (Rs. in Crs.)*		*Growth in Value (%)*	
	2008	2009	2008	2009	2008	2009	2008	2009
ECS CREDITS	78365	88394	13.5	12.8	782222	97487	839.3	-87.5
ECS DEBITS	127120	160055	69.0	25.9	48937	66976	92.3	36.9
EFT/NEFT	13315	32161	178.8	141.5	140326	251956	81.2	79.6
CREDIT CARDS	228203	259561	34.6	13.7	57984	65356	40.2	12.7
DEBIT CARDS	88306	127654	46.7	44.6	12521	18547	53.2	48.1
TOTAL	535309	667825	41.4	24.8	1041990	500322	342.1	-52.0

Source: Reserve Bank of India - Report on Trends & Progress in Banking in India

(v) RTGS Transactions

S.No	*Transactions*	*March 2008*	*March 2009*
1.	Volume in millions	About 6	About 13 About 34000
2.	Value in Rs. Billions	About 15000	

Source: Reserve Bank of India - Report on Trends & Progress in Banking in India

(vi) Deposit and CAS A figures

S.No	*Term Deposits and CASA*	*March 2008*	*March 2009*
1.	Term Deposit Growth Rate	23.1%	22.4% 13.4% 51.08%
2.	CASA Growth Rate	20.2%	
3.	% of Term Deposit to Total Deposits	49.3%	

Source: Reserve Bank of India - Report on Trends & Progress in Banking in India

(vii) Share of Interest Income to Total Income

S. No	*Income Segment*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
1.	Interest Income in%	84	84.3	83.6	83.8 16.2
2.	Non Interest Income in%	16	15.7	16.4	

Source: Reserve Bank of India - Report on Trends & Progress in Banking in India

The above data throws open the following interesting revelations about the performance of the retail banking segment in the recent past.

Performance of Different Segments of Retail Banking from 2004 to 2009

l. Retail Banking in general which had shown a growth of more than 30% during 2005 to 2008 was under strain during 2009.All the major segments of retail banking had lesser growth rates in 2009 than the previous years. The deceleration of growth is more pronounced in the retail asset segment.

Financial turmoil across the globe was the main reason for the slower growth in retail banking and the resultant defaults in retail loans.

2. The retail asset growth which was at about 40% in 2005 and 2006 came down to about 17% in 2008 and further slided down to 4% in 2009.In the retail assets, the segments which suffered most were Consumer Durable Loans and Auto Loans. The receivables in Credit Cards were maintaining the growth rate till 2008 but came down drastically in 2009. Similarly in Housing Loans also there was a drastic reduction in growth.
3. The percentage of retail assts to total assets which was at 25.5% in 2006 had came down to 21.3% in 2009. Again the growth rate of retail assets had also came down to 19.8% in 2009.
4. The number of ATMs as on March 2009 was at 43651 as against the total number of bank branches at 64608.The number of ATMs as a percentage of bank branches was at 67% as on March 2(M)9 indicating the approach of the banks in customer migration from branches to electronic mode. To add. the number of on site and off site ATMS reflect that banks are serious in not only making the ATMS available in the branches but also had increased the convenience factor to enable the customer to use the ATMs in away from branch locations also at different and convenient points.
5. The number of branches covered under CBS looks very attractive.Out of the total 64608 branches of scheduled commercial banks, 44304 branches (69%) are covered under CBS. i.e. offering across geography banking solutions to customers and not restricting to the branch where the account is held. This gives tremendous opportunities for banks to devise an integrated approach to retail banking.
6. Retail electronic and card based payments registered a quantum jump in the past two years mainly due to introduction of RTGS (Real Time Gross Settlement) and NFFT (National Electronic Funds Transfer). The volume and value of transactions through RTGS had more than doubled, though wholesale remittances constitute a major proportion of RTGS transactions. The concept of electronic remittance mechanism is picking up fast over the past two years and this trend offers potential to package a remittance product as a add on in their retail banking package to the customers.
7. The growth rate of Term Deposits of scheduled commercial banks came down marginally during 2009.(Growth of only 22.4% in 2009 as against 23.1% in 2009).lf we take an average of 60% of the term deposits are from the household segments/retail segment (percentage extrapolated based on the historical published figure), the core deposit growth was under stress in 2009.
8. The most affected segment in the retail liabilities space was in the CASA front. CASA refers to Current Accounts and Savings Accounts. There was a drastic degrowth in CASA,with CASA sliding to 13.4% in 2009 from 20.2% in

20()8.The same is supported by the percentage of Term Deposits to Total Deposits which had improved to 51.08% in 2009 from 49.3% in 2008.

9. Another important point of discussion is about the composition of income of scheduled commercial banks. 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.

The different scenarios in retail banking indicated different 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 revenues worldwide. It is expected that this situation will continue and retail banking will remain the dominant source of revenue for banks worldwide through 2015. But the fact is that retail banks are facing tougher competition and continuously declining margins and to overcome this, banks have to develop winning business models and requisite skills.

From the performance behaviour of retail banking space across the globe it is very clear that the segment had picked up momentum during the early 2000s and peaked during 2006 and 2007 but was affected due to the financial turmoil across the globe from 2008.Though India was insulated from the financial turmoil to a great extent due to regulatory discipline, the retail banking space suffered some setback taking a hit in credit card, housing and consumer loans. The growth rate was lower and the delinquencies had started moving up causing concern to the bankers. Of course corrective steps were put in place by the Government, Reserve Bank of India and Banks by formulating and implementing suitable restructuring and rescheduling measures to arrest the erupting Non Performing Assets due to defaults. But the bottom line is that retail banking as a business model is under stress.

Retail Banking - Present Status

A White Paper presented by Boston Consulting Group in October 2009 on the present status of Retail Banking is summarized below:

1. Today's retail banking industry is in crisis. The symptoms can be ticked off like so many ingredients in a bad recipe: lack of market growth, shrinking revenue pools, uncertain long term liquidity, huge loan losses, tightening regulation and sluggish value creation.
2. The economic fundamentals of the banking business are changing. Not only are deposit margins being squeezed by low rates, but the ability of banks to recover is being compromised by hyper-competition lor funding and pressure from regulators on fees. As a result the search for profitability is tilting permanently toward the asset side of the balance sheet where more difficulties arise.
3. Although margins on the lending side are widening and debts are worsening as the results of poor credit decisions made over the past five to ten years, the availability of credit has dropped, and underwriting and risk management have become more critical than ever.
4. Established brands will fare better than monolines or newer, attacker type companies. But both attackers and incumbents will have to dramatically improve their sales and service processes.

Global Trends in Retail Banking

The BCG report has further opined that the global trends in retail banking have crystallized. 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 (which is mandatory for rapid innovation and deployment.

Though the general scenario is under stress, the above trends are also creating opportunities for institutions that astutely adopt their strategies and implement changes quickly, efficiently and effectively and such banks will be the winners in the market.

(Source: Come out a Winner in Retail Banking- Killian Berz, Vincent Chin, and Andy Maguire- BCG White Paper - October 2009.)

Terminal Questions

1. Advantages of retail banking
   - (i) Risk is less as client base is large
   - (ii) Income is relatively more as spreads are more
   - (iii) Stable model with less volatility
   - (iv) i and ii
   - (v) all the above
2. What are the disadvantages of retail banking
   - (i) Huge clientele requires more efforts for monitoring and tracking.
   - (ii) Cost of servicing will be relatively high.
   - (iii) Delinquencies relatively higher in unsecured retail loans like Personal Loans and Credit Card Receivables
   - (iv) (ii) and (iii)
   - (v) All the above

Key

1.(iv); 2. (v) **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 cross selling potential.
- 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 has 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 but was under stress in 2008 and 2009 mainly due to the global financial crisis. But 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 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. In 2008 and 2009, as per RBI data, the retail banking segment suffered setback due to the impact of the global economic turmoil but with the signs of recovery already visible, the industry is poised for a promising growth. The penetration level of retail banking in India is still very low as compared to the other Asian countries like China, Malaysia, Thailand etc..

Keywords

Retail Banking; customer base, risk diversification, spread, customer loyalty, database; delivery model.

RETAIL BANKING: ROLE WITHIN THE BANK OPERATIONS

STRUCTURE

2.1 Introduction

2.2 Business Models

Terminal Questions Let

us Sum Up Keywords

2.1 INTRODUCTION

Banks follow different approaches for their retail banking activities. The role and importance of retail banking across banks differ and 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 and the business projection over the years for retail banking.

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 model is uniformly adopted by all the banks immaterial of their balance sheet size or geography. 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. In 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 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.

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.

In foreign banks also, SBU is the business model followed 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.

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. Let us have a look into the revelations.

2.2 BUSINESS MODELS

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.

Among the public sector banks, some banks aim for a place among the top three retail players across banks including peer group banks while some other public sector aim for a space in the top three among the peer group. But the strategy adopted by these banks was a part of the overall strategy based on the business mix. projections and corporate objectives of the bank.

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. But within the overall objective, for example, one Tamil Nadu based bank aims to achieve one of the top three slots among the peer group banks. Their technology initiatives were in line with their positioning objective.

The new generation private banks have clear vision about their positioning platform. They want to be in Ihe 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 and either 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 came out of their credit card business after taking stock of its viability. On the positive side, though ABN Amro Bank was a late entrant in the retail banking space with their entry in mid 1990s, still they had a clear positioning focus for building up the retail banking franchise. ABN Amro Bank was a late entrant in the credit card space also but they had built up the card base aggressively and posed a threat to other established credit card players.

Terminal Questions

1. The business model followed by Banks for retail banking are

   (i) Strategic Business Unit (SBU) Approach
   (ii) Departmental Approach
   (iii) Integrated Approach
   (iv) Anyone of the above.

2. Foreign banks cited in the topic, which entered in retail banking activities, when not able to achieve the business objectives,

   (i) Continued with their business in spite of not being profitable.
   (ii) Moved out of the business.
   (iii) Changed their focus with some strategic changes.
   (iv) None of the above

Key

1. (iv); 2. (ii)

Let Us Sum Up

- The business models followed by banks for retail banking activities can be any one of the following:
- Strategic Business Unit (SBU) Approach
- Departmental Approach
- 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.
- If the business objectives are not met,foreign banks in the recent past have taken a call to exit the space. BNP Paribas and Bank of America are classic examples in the late 1990s/early 2000s.

Keywords

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

UNIT 3 APPLICABILITY OF RETAIL BANKING CONCEPTS AND DISTINCTION BETWEEN RETAIL AND CORPORATE/WHOLESALE BANKING

STRUCTURE

3.1 Applicability of Retail Banking Concepts

3.2 Distinction - Retail and Corporate/Wholesale Banking

Terminal Questions Let us Sum Up

Keywords

3.1 APPLICABILITY OF RETAIL BANKING CONCEPTS

Retail Banking as a concept has a number of elements which individually and collectively contribute to the success of the segment. It spans across implementation models, business process structure, product and process models etc. Let us have a look at the applicability of the different retail banking concepts that shape the success of the space.

Implementation Models

Banks adopt different models for implementing their retail banking initiatives. The most common strategies are end to end outsourcing, predominant outsourcing, partial outsourcing and in house sourcing. The implementation model depends on the product range, process requirements, technology preparedness, delivery capabilities including human resources and regulatory prescriptions.

Most of the PSBs use only in house resources for retail banking. Only for some activities like ATM/ Credit Cards/Debit Cards, the issue part is outsourced due to lack of in - house facilities. Regulatory prescriptions are one of the major determinants of outsourcing or lack of it in these banks.

In case of old private sector banks also, the activities are carried out through in house resources only. In case of new generation private sector banks, the model is a balanced mix of outsourcing and in house, though a little skewed towards outsourcing. In some banks, asset side is outsourced whereas liability side is not outsourced, though centrally processed.

In foreign banks, the implementation model is mostly outsourced based on the business model. To add, 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.

Business Process Structure in Retail Banking

Boston Consulting Group had conducted a study on the retail banking processes (Transforming Retail Banking Processes) and deduced four broadly delined process models implemented across banks. These models were defined based on the technology and customer interface capabilities of the banks studied. The four broad classifications are

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

The horizontal or vertical model depends on the level of customer information available in a single platform in the data base side for offering multiple products/services across assets, liabilities and other services. 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. Of course, in some banks, predominantly horizontally organised model do exist and reflect the level of common customer information available for some products. In one of the PSBs based in West, predominantly vertically organised model is the scenario implying that the common customer information is available for most of the products thereby enlarging the scope for cross selling and up selling.

The scenario is mixed in case of old private sector banks. In one bank, based in Karnataka. horizontally organised model exists and in another Tamilnadu based bank, the level of common customer information across products is relatively high with a blend of predominantly horizontally and vertically organised models. If we correlate this information with the positioning objective of the bank, the bank had strategised for aggressive retail banking growth.

New private sector banks generally follow a vertically organised model. But surprisingly, in one bank which is very aggressive in the retail side, the model is a blend of horizontally and predominantly horizontally organised. This shows mostly products are sold based on stand alone customer information and common customer information is not available for all products.

In foreign banks, it is mostly predominantly vertically organised model which implies that retail banking initiatives are attempted with common customer information across products.

Business Approach (Domain Specific) in Retail Banking

The business strategies with regard to the domains targeted are approached in different ways by different banks. The most common approaches are as follows:

(a) Segmented Approach - where branches are classified based on the business potential with regard to retail space and business targeted in these segments of branches only with focused marketing strategies. These branches will be positioned as resource centre branches and will form part of the 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.

(b) Geography based approach - where retail models are built based on geographies.

(c) Classification based approach - where strategies are designed based on the type of branch viz., Rural. Semi Urban. Urban and Metro. This strategy helps in better product structuring for specific types of branches.

Most of the PSBs have not developed any specific business model on the above lines and generally adopt a holistic model based on the corporate objectives for retail. In some banks, segmented approach is being built in the corporate model but not a stand alone segmented approach. In old private banks also, the overall corporate objective for retail is the basis for the model and segmentation is built in that model only to a limited extent.

In new generation private sector banks, a mix of segmented model and classification based model is adopted to capture the retail potential in a structured way in segments where it matters. In foreign banks, the model not restricted to any of the above but is based on the retail game plan of the banks.

Product Models In Retail Banking

Product portfolio structuring play an important role in the retail banking strategies of banks and extend across liability, asset, other service and third party products. Though essentially retail assets and liability products constitute the basic structure of retail banking, the trend has changed in the recent years and marketing of third party products has emerged as one of the important constituents of retail banking initiatives of banks. Let us have a look of the product models of banks.

(a) liability Products

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. Attempts are made by banks to expand the scope of generic products from a plain vanilla account to a value enriched account. The days of simple, functional products are gone. Functionality is now perceived to include changed needs. A simple pass book and cheque book to a Savings Account are passe" now. Built in ATM/Debit Cards/Credit Cards/Multi City Cheques have become generic features. Internet Banking, Telephone Banking, Mobile Banking have become essential value play. The value game has extended to tagging group insurance products in the life and non life space at a very competitive premium component. Group Life Policies as value additions and group health policies on a floater basis covering the entire family are offered as part of the account package. Monies in accounts are not allowed to sit idle and undertake active traveling by means of sweep facilities from savings accounts to fixed deposit accounts above a certain specified level. This increases the earning potential of the deposit balances in Savings Accounts. In case of Current Deposits also most of the above features are built in. In addition, in some banks an auto overdraft facility is structured as a part of the package.

In almost all PSBs Savings Bank with ATM/Debit Cards are offered as a standard entry level product. Sweep facilities and add on life/health cover are offered only in some banks. Super Savings Accounts with value bouquet for high Value Customers are also offered by some banks with specific brand names. In current accounts also, the above facilities are offered. In addition, current account with fixed overdraft facility is also offered by most of the banks.

In old private sector banks, in addition to standard savings accounts, add on life cover is offered. In current accounts also the facilities offered by PSBs are offered by them also. In new generation private sector banks, all the above products are offered by them and the same is the case with foreign banks also.

If we scan the products and services across banks, the product differentiation among banks is wafer thin and only value differentiation is the key factor across banks and the technology, process and delivery efficiencies separate men from boys.

All banks oiler term deposit products with provision for monthly, quarterly or cumulative interest payment options. Fixed Deposits built with units of fixed amount are also offered by banks. This is intended to inject an unfixed component in a fixed deposit and enable the depositors to partially withdraw without disturbing the entire amount and the resultant loss of interest. Banks also offer fixed deposits with built in overdraft facilities so that it becomes more a current account than a fixed deposit. These product reengineering measures are adopted by banks to enhance the comfort level of the term deposit account holders and offer convenience as a value proposition.

Almost all banks across sectors offer the above facilities. Some banks offer accidental life cover for term deposits but the group life cover and health cover are not normally offered to term deposits as they are structured as a part of demand deposit accounts due to operational reasons.

(b) Retail Asset Products

Retail asset financing is a major component of retail banking model of banks. In fact retail loans are the backbone of the revenue streams of banks. In any customer expansion strategy, retail loan is packed as the main attraction uniformly by all banks. Product, price, process and delivery innovations are receiving constant attention in the retail asset side. Cross selling and product bundling opportunities are always structured and implemented around retail asset products. The focus is so high that in some banks retail assets constitute as high as 40 to 45 percent of the total asset base. The main advantage is the stability of the asset base because of the large customer base. Other important reasons are the better spreads in income, risk diversification and scope for capturing additional revenue streams from other avenues. The standard retail asset products offered by banks are Housing Loans, Consumer Durable Loans, Car Loans, Credit Cards and Personal Loans. Other retail loans include loan against rental receivables, salary overdrafts, loan against securities, loans for traders in the personal segment. Retail Loans are also structured by some banks to target specific professional segments like doctors, architects and advocates etc, to finance their professional requirements.

Almost all banks extend the standard retail asset products to the customers and prospects. They also extend most of the other retail assets mentioned above. But only a few banks extend loans against rental receivables and salary overdraft. Some banks have special schemes for small traders in the personal segment and also schemes for extending loan/overdraft facility against cars for enhancing their equity. Cars, which do not have a loan tag already will be considered for overdraft

facility against the market value. As already stated, retail loans are the bread and butter of retail banking space for banks and banks vie with one another in designing, marketing and expanding the retail asset space.

(c) Other Products/Services

Other products and services broadly cover the beyond product facilities tagged to the products and services. These enhance the service experiences of the customers by providing process and delivery efficiencies by additional service tools to the basic products. One set of these products are Credit Cards, Debit Cards. ATM Cards, Telephone Banking. Mobile Banking, Internet Banking. Depository Service and Broking Services. Distribution of third party products like life and non life policies, mutual funds, retail sale of gold coins, bill payment services, multi city cheques, payment gateway for rail, air ticket

bookings, wealth management services, portfolio management services and private banking are some of the other services offered by banks. These services are offered with twin objectives of customer multiple need satisfaction and also to augment fee based income. The revenue models from these fee based services are quite attractive and some banks in the private space generate revenues of above 50% of their total revenues from fee based business.

Not all PSBs are in the credit card business since it is a big volume game and needs process efficiencies. Some PSBs offer these products, though Debit Cards, ATMs are offered by almost all PSBs. Most of the banks are now actively paying attention to Internet Banking and Mobile Banking, to realize the huge potential available in this space. Depository Services are offered by some banks but Broking Services are offered only by very few banks. Corporate Agency for Life and Non Life and distribution of mutual funds are done by almost all PSBs while sale of gold coins are done now by a good number of banks. Bill Payment services are attempted by a few banks and multi city cheque facility is offered by most of the banks. Payment Gateway facility is yet to make a big impact and offered only by select few banks. Wealth Management, Portfolio Management Services are not offered by any of the PSBs till now but the days are not far off for introduction of these services by PSBs. While old private sector banks offer standard services, they do not offer Credit Cards, Telephone Banking, Mobile Banking, Broking Services, Gold Coins etc., but some banks offer Depository Services, Mutual Fund Distribution, Life and Non Life policies. Wealth Management, Portfolio Management and Private Banking are not attempted by them. New generation private banks and foreign banks offer the complete bouquet of all the above products/services.

Product Development in Retail Banking

Product Development is attempted by banks in different ways. In house product development independently developing the products based on research and on the market dynamics is one way. In the process, hybrid cross pollination incorporating the best features in the products available in the market along with additional value engineering form part of the product development. Another way of product development is based purely on market conditions and customer segments without any background research and also 'follow the leader approach' by developing on the same lines as the leader. The other most common model is simply following the instructions of the Top Management without any background research or analysis. The basis for these product developments, as said earlier, is either on the segmentation approach or geography based approach or classification based approach or approach based on specific customer segments like NRI, HNI, Mass Affluent, Salaried, Professionals, Women etc.,

In most of the PSBs, product development is done in house incorporating the market dynamics. The market conditions and customer segments of the bank are factored in the development. The views and instructions of the Top Management are the prime drivers of product development in PSBs. In the development process, geography is not given importance but type of branch and centre and business potential are given due importance.

In private sector banks, both old and new, product development is done in house independently, incorporating the market dynamics, segmentation, classification, customer segments, market dynamics and the product positioning adopted by other players.

The fundamental approach to product development starts from conducting a market survey about the need levels and gap among the target group, identifying the needs, developing the product, pilot testing to a sample universe, getting feed back, fine tuning the product based on feedback and then the final roll out of the product across targeted segments. One or more elements of this process are sometimes bypassed due to various factors and are product related or management related. Sometimes some part of the process is outsourced and some through in house resources and also some part of the process is skipped. The practices vary across banks.

In PSBs, market survey is done only through in house resources and not outsourced. In some banks, no market survey is done and products developed are launched based on industry practices and need are expressed by customers and without any pilot run and feedback.

Process Models for Products and Services

Processing of products and services in retail banking is basically approached from three dimensions viz., the entire processing is done through in house resources, some products processed in house and for some products outsourcing is done for process and the third approach is outsourcing of entire process subject to prescribing process standards.

In PSBs and old private banks the entire process for products and services are done through in house resources but in some banks, process part of some products are outsourced. But generally no outsourcing is done for the process part. In new generation private sector banks, outsourcing is attempted partially for some process areas. In foreign banks, the entire process is outsourced and normally happens through a dedicated back office covering the entire gamut of retail banking services.

Banks adopt different process models for retail asset products. Since retail assets form the fulcrum of retail banking activities, banks vie with one another to achieve the best process efficiencies for capturing the customers and enhance their retail asset book. 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. Another model is centralized processing for some asset products (say Housing Loans) and regional processing centres or stand alone processing at branches for other products. The third model is no centralized processing but only regional processing hubs to cater to specific cluster or geography of branches and process on or more loans. It will exist along with the stand alone processing at the branch level. Some banks follow the stand alone branch level processing and delivery of retail assets without resorting to any centralized model or regional hubs. The ultimate aim is to build absolute process efficiencies.

Public sector banks are also implementing the centralized processing model for all assets in a phased way. Some banks have centralized/regional processing hubs for some products and stand alone model for other products and in most of the banks, no centralized model is followed but process happen only through either regional hubs or branches or a blend of both. The level of implementation of centralized retail loan processing centres is low in PSBs and only local processing is happening in most of the banks. In private sector banks, in case of old banks the model is mainly stand alone and in new banks, a

blended model comprising of centralized processing for some products and regional hubs for some other products are followed for effectively controlling the lead time for processing. In foreign banks, centralised processing is the norm for retail asset processing.

The model for processing liability products differs across banks. Some banks follow the centralized model for processing liability products. For example, the opening of a Savings Account involves different stage of processing for tangibilising the service nature into a product nature. Opening of account, issue of Pass Book, Cheque Book, ATM Card/Debit Card, PIN Mailers for the Cards are the stages in the tangibilisation process. In centralised processing all the above activities are carried out in a single point. In regional processing hubs, the same activities are carried out geography wise. In some banks, some activities like issue of cheque books, cards, PIN mailers are centralised or done at regional hubs while opening of accounts will be on a stand alone basis. Some banks follow the conventional model of stand alone processing at the branch level.

In almost all PSBs. stand alone processing model is the norm for processing liability products. Opening of accounts, related KYC compliance and issue of cheque books are done at the branch level itself. Of course, issue of ATM/Debit Cards is done centrally in almost all the banks. In old private banks, in some banks centralised model is adopted while in other banks, stand alone process model is implemented though they are aggressive in the core banking model. In new private sector banks, a judicious mix of centralised, regional and stand alone models are implemented for liability products depending upon the type of products/services. In foreign banks, centralised processing is the norm and mostly done through outsourcing or dedicated back office.

Process models differ for products which require single stage process and multi stage process. For example, opening a fixed deposit and issuing receipt involves only a single stage process. Like wise, giving car loan is a single stage process. But in case of housing loans or Savings/Current Accounts, multi stage processing is involved. In this scenario, the process model should be stand alone or centralised depending on the product for better process/delivery efficiencies. Banks adopt different models in this area. In case of PSBs, no watertight process model is adopted but a judicious mix of the different models is in place. In some banks, end to end process model at a single point is adopted. In old private sector banks, in one bank end to end model is adopted while in new private banks, a holistic model encompassing all the models is attempted. In foreign banks, end to end model for all products and that too outsourced model is the standard practice.

Process time is a major differentiator in the efficacy of retail banking operations. Process Time is business sensitive and customer sensitive. It is an important component of business promises with regard to product delivery. It reflects the confidence and process efficiencies of the bank. The quicker the process time, more the delivery efficiencies and customer recognition. Banks are implementing process time prescriptions for different retail asset products.

Most of the PSBs have prescribed process time for different asset products. Interestingly one south based PSB has implemented the Six Sigma Quality Implementation Model in which the process time also finds a place. In most of the other PSBs, the process time is prescribed and varies from 7 days to 15 days depending upon whether it is processed at the branch or regional hub or centralised processing. The general trend noticed in PSBs is that the process time is almost uniform across products. In old private banks, process time is relatively less for retail asset products revealing their extra commitment in retail asset expansion. In new private sector and foreign banks, the process time for various asset products is structured based on the type of asset as centralised processing is the standard model adopted by these banks. The process time in these banks are clearly drawn between sanction time and actual release of finance.

Pricing of Products and Services

Banks develop models for pricing of products and services based on certain fundamental parameters. Market dynamics, risk perception, return expectations, tenor/duration, resources position, asset liability management positions and customer profile are some of the variables which are factored into the pricing model by banks. The balancing of these various variables dynamically with changing market dynamics is the key function for good pricing model. In addition, regulatory advices (both overt and covert) also influence the pricing models. The fundamental concept of costing in pricing has now gelled with the asset liability management practices of banks.

In PSBs, though pricing is market driven and competitive, in almost all the banks, pricing is mainly driven on the basis of the asset liability management practices of the banks. Of course regulatory advices form part of the price structuring. In general, the model is built on the basis of all the above factors. But some banks like State Bank of India and Bank of Baroda have started implementing aggressive pricing strategies in Housing Loan segment to not only capture fresh accounts but also focus on migration from other banks. They follow a structured step up pricing model with a initial low

and attractive price and switch over to market related pricing after 3 years. The pricing will be slightly aggressive than PSBs in order to capture business in the competitive environment in case of old private sector banks. In new private banks and foreign banks, though the pricing fundamentals almost remain the same, the pricing of products are always aggressive and ahead of the market to set a price race in the market for demand driven products like term deposits, credit cards, car loans, housing loans etc.

Price structuring for products and services is attempted by banks in many ways. Stand alone pricing for different products and services is the basic structure. While the general structuring is basically an outcome of the pricing models, fine tuning always happens due to different factors. Quantum and volumes are two important determinants. Price Preferences/Price rebates based on the above also form part of the structuring. Special quotes for high value deposits and concessional rates of interest are examples of this structuring. 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.

In addition to stand alone pricing structure, most of the PSBs have price concessions as well as rebates as a part of the pricing structure. But the same is applied depending on the volumes, quantum and of course relationship. Offering rebates on completing the repayment schedule is also attempted by some banks. Price bundling is not adopted in a big way by PSBs. In new private banks and foreign banks, effective price structuring happens by actively adopting both concessional pricing based on the above discussed factors and also aggressive bundled pricing structure to effectively cross sell.

In case of olher products and services, some banks are structuring additional models indirectly as a part of the pricing structure. In addition to or in lieu of price rebates/discounts, alternate pricing propositions for other services are offered as additional facilities. For example, free remittance facilities, issue of drafts, waiver of service charges, processing charges are offered as concealed price structures and offered as tag on for quantum and volume business. Almost all banks follow the above structure both as a pricing initiative as well as cross selling initiative.

Technology Models in Retail Banking

The technology platform for retail banking plays a major role in the retail banking initiatives of banks. In today's scenario, technology is the backbone of the process and delivery efficiencies of banks. The technology models basically adopted by banks are In House Models, Outsourced Models, Partially In House and Partially Outsourced Models. Each model will have advantages and disadvantages and the overall business will be the decider of the effectiveness of the model.

Most of the PSBs have primarily in house models with partial outsourcing also. Again, total in house development and implementation by the in house team is practiced by some banks whereas in some other banks, the development is done by some vendor and implementation is taken care of by the bank. In case of total, in house development, the cost factor will be favourable while in the second model, cost factor matters. A south based PSB has successfully implemented the total in house development and implementation and migrated to the core banking platform also seamlessly. Some other banks have totally outsourced packages but implemented in house. Almost all old private banks follow outsourced model for technology basically because of the scale to migrate to Core Banking Model. In case of new private banks, the model is predominantly outsourced with partial in house model. In foreign banks, outsourced model is mostly adopted.

Technology and Retail Banking are inseparables. Technology is the foundation on which the retail banking edifice is built across the globe. Technology is the enabler for building and translating a customer data base into retail banking business. Banks adopt different technology platforms in line with the global trends. The levels of technology implementation in PSBs started from stand alone Automated Ledger Posting Machines (ALPMs) in the early days of computerisation and graduated to total branch automation and regional net worked hubs. New private banks started with technology advantage of a single server environment which gave them the edge over other banks. PSB banks have reengineered their technology initiatives and started implementing core banking solutions networking the customers and accounts in a single platform.Some banks have almost completed the core banking solutions process while in other banks the level of implementation is at various stages. The level of implementation of core banking will directly increase the chances of availability of customer data base across products and will increase the scope for cross selling and up selling. Core banking gives clues about the level to which the data base is horizontally or vertically organized. Horizontal or vertical organized refers to whether data is available product wise on a stand alone basis or data is available customer wise on an integrated basis.

Most of the PSBs have implemented cent percent core banking solution and only a very few banks are yet to catch up. In those banks the present technology model is a mix of Core Banking Model at various stages of implementation. Total Branch Automation and legacy systems (stand alone ALPMs) depending on the type of branch and business. To add, PSBs are more horizontally organized in the process model with various levels of vertical position across banks. Customer data base and products integration has not materialised fully which will be a hindrance to effective retail business. In new private banks and foreign banks, core banking is the technology and process model with which the entire business model is built. It is a vertically organized model with total customer product integration and used effectively to market a bouquet of retail products to a targeted customer base.

3.2 DISTINCTION BETWEEN RETAIL AND CORPORATE/WHOLESALE BANKING

Retail Banking and Corporate or Wholesale Banking differ in their basic approach to banking. The major differences between the two segments are discussed as follows:

1. Retail Banking targets at the individual segment while corporate banking deals mainly with corporate clients.
2. Retail Banking is a mass market banking model whereas wholesale/corporate banking look at a relatively smaller segment of business/corporate client base as compared to retail segment.
3. Retail Banking is a B2C approach (Business to Customer) whereas corporate banking is a B2B approach (Business to Business).
4. The ticket size of loans in retail banking is low whereas the ticket size is high in corporate loans.
5. Risk is widespread in retail banking as customer base is huge whereas in Corporate Banking, the risk is more as the ticket size is big though customer base is relatively small.
6. Returns are more in retail banking as the spreads are more for different asset classes in retail. But in corporate banking, the returns will be low as corporates bargain for lower rates due to higher loan amounts.
7. Monitoring and recovery in retail assets are more laborious because of the larger customer base as compared to corporate banking.
8. In the liability side also, the cost of deposits is relatively less and mostly go along with the card rates as the ticket size in retail deposits is small. In corporate banking, as the ticket sizes of deposits will be large, the cost of deposits will be high due to pressure from the corporates for higher rates and competitive forces to garner the deposits.
9. The impact of NPA will be more pronounced in corporate banking than retail banking as the ticket sizes in corporate loans are higher than retail loans.

Terminal Questions

1. The implementation models followed by banks for retail banking are

   (i) Horizontally Organised Model
   (ii) Vertically Organised Model
   (iii) Predominantly Vertically Organised Model
   (iv) Predominantly Horizontally Organised Model
   (v) Anyone of the above.

2. Price structuring for products and services is attempted by banks in the following ways.
   (i) Stand alone pricing for different products and services.
   (ii) Special quotes for high value deposits and retail assets.
   (iii) Bundled pricing/Holistic pricing based on total relationship.
   (iv) All the above.

Key

l.(v); 2. (iv) **Let Us**

Sum Up

- *The imple*mentation models in retail banking are mainly built under the following broad classifications:
  - Horizontally Organised Model
  - Vertically Organised Model
  - Predominantly Vertically Organised Model
  - Predominantly Horizontally Organised Model
- The horizontal or vertical model depends on the level of customer information available in a single platform in the data base side for offering multiple products/services across assets, liabilities and other services. 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.
- Retail Banking Solutions are offered by banks by extending different retail asset products, retail liability products and plethora of other services covering the entire financial services and investment services and requirements of customers. Banks implement these services mainly through their technology initiatives. Almost all banks have implemented their core banking solutions to offer their customers borderless banking and end to end solutions for total banking experience.
- As discussed above, retail banking is different from corporate banking. In retail banking the impact of NPA will be well spread whereas in corporate banking, the NPA impact will be higher. Likewise, the cost of deposits will be relatively less than corporate banking as the customer base is huge in retail banking and hence pressure for finer rates will be less.

Keywords

Horizontally organised; Vertically organised; standalone pricing; holistic pricing; product models; process models; technology model; deposit products, asset products; other services.

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RETAIL PRODUCTS

Units

4. Customer Requ

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5. Product Development Process

6. Credit Sc

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7. Important Retail Asset Products

8. Creditan

d Debit Cards

9. Remittance Products

CUSTOMER REQUIREMENTS

STRUCTURE

4.1 Introduction

4.2 Maslow's Theory and Customer Requirementsls

4.3 Service Quality

Terminal Questions Let

Us Sum Up Keywords

4.1 INTRODUCTION

Let us first try to understand the customer segment first before discussing about their requirements. Broadly customers are segmented based on their income levels as their need pyramid will vary with the rise in their income levels. Banks develop and market their products based on this segmentation and target the relevant segment for maximum conversion of business. The basic segmentation of customers based on their income levels is presented below.

Income Levels (Rs. Lakhs)	*Customer Segment*
2-10	Mass Market
10-50	Mass Affluent
50-400	Super Affluent
400-4,000	HNW
4000-120,000	Super HNW
Above 120,000	Ultra HNW

HNW - High Net Worth

(Source : Celent Research)

If we look at the customer segments above, the first three segments namely Mass Market. Mass Affluent and Super Affluent are the most important segments for banks with regard to their retail banking initiatives. The products and services will be structured mostly to meet the requirements of the above segments.

The fundamental assumptions about customers for building retail banking products and services are briefly explained as follows:

(i) Customers are different.

(ii) Needs of the customers are different

(iii) Each customer will have different sets of need for financial services.

(iv) The need requirements of customers for financial services will be unique.

(v) Customers can be broadly grouped together based on their need pyramids.

(vi) Customers can be grouped together based on their income, age, geography, profession, employment, vocation gender and family size.

(vii) Product and services can be developed for a single or a combination of the above elements to satisfy most of the needs.

(viii) Products and services can be structured on a niche basis within one or any of the above elements.

The above assumptions about customers help banks to develop suitable products and services to cater to the need spectrum of the customers. To understand this concept, a look into the 'Maslow's Need Hierarchy Theory of Motivation' is necessary. The theory will help us to understand how banks structure products to match the different stages of the need pyramid of the customers.

Customers buy the products and services of the bank primarily to satisfy their needs and if their needs and banks' products match, there is absolute synchrony and if the benefits promised by the bank to the customer are delivered then there will be absolute satisfaction from the customer end. The requirements of the customers in general can be related with the need hierarchy theory by Abraham Maslow.

4.2 MOSLOW'S THEORY AND CUSTOMER REQUIREMENTS

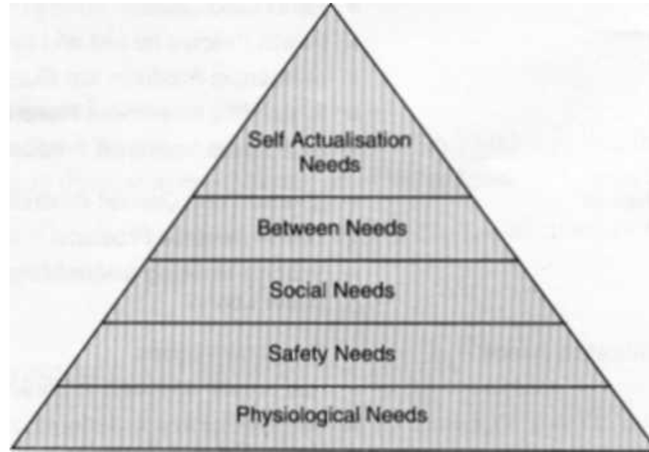

Fig. 4.1 Abraham Maslow's Motivation Theory

Maslow has defined five needs of individuals in their various stages of life. The needs start from the basic requirements and move up the value chain during the life stage progression. Obviously, the need ladder will also move up with the change in the life stage of the customers. If banks structure products and services to match the different stages in the need spectrum, banks will achieve the twin objectives of customer satisfaction and business conversion.Let us demonstrate the above concept with the following illustration:

S.No.	*Need Level*	*Matching Banking, Investment and Insurance Products*
1.	Physiological Needs	• Core Savings Accounts • Personal Accident Cover • Housing Loans
2.	Security/Safety Needs	• Recurring, Fixed Deposit Products. • Life Insurance Products - Endowment Products with low premium, long tenor and high maturity amounts. • Tax Planning Banking, Insurance and Mutual Fund Products.
3.	Social Needs	• Consumer Loans • Personal Loans • Home Loans • Car Loans • Loans for Professional Development for Doctors, Engineers, Lawyers, Chartered Accountants, Management Consultants, Architects etc.,

		• Insurance Cover tagged to above loans. • Retail Gold Coins. • Health Policies for self and family. • Investment Products like Mutual Fund Schemes. • Systematic Investment Plans of Mutual Funds. • Unit Linked Insurance Products.
4.	Esteem Needs	• Special Term Deposit Products. • Term Insurance Products. • Second Housing Loans/Home Improvement/Home Decor Loans.

5.	Self Actualization Needs	• Pensioners Loans • Retirement Solutions in Banking & Pension Plans in Insurance • Senior Citizens Term Deposit Products

The above table is only suggestive and not absolute and products may tend to overlap across the need spectrum and again the banks may come across all the stages run concurrently for the customer base and hence there is tremendous opportunity for banks to convert the potential available across needs for their huge customer base.

Customer Requirements about Service Quality

Service quality is what customers expect from Banks and has different dimensions. Following are some of the requirement s/expectations form the customers about the service quality of banks.

(a) **Tangibles:** Appearance of physical facilities.equipment, personnel and communication materials

- Are bank's facilities attractive?
- Is my credit card statement easy to understand?

(b) **Reliability:** Ability to perform the promised service dependably and accurately.

- Where an Officer says that the amount will be sanctioned in 2 days, does he follow up and inform the status?
- Is my credit card statement accurate?

(c) **Responsiveness:** Willingness to help customers and provide prompt service.

- When there is a problem with the bank statement, does the bank resolve the bank quickly?
- Are the charges which are debited wrongly are recredited to my account properly,

(d) **Assurance**

- Competence - Possession of required skills and knowledge to perform services.
- Courtesy - Politeness, respect, consideration and friendliness of the contact personnel.

- Credibility - Trustworthiness about the service provider.
- Security - Freedom from risk and doubt.

(e) **Empathy**

- Access - Approachability and ease of contact.
- Communication - Keeping customers informed in a language that they understand.
- Understanding the customer - Making an effort to know customers and their needs.

(Source: Competitiveness in Banking Industry and Marketing Challenges, Abraham Koshy, Professor, Marketing Area, Indian Institute of Management, Ahmedabad.)

Customer Requirements and Satisfaction Levels

Fulfillment of the customers' requirements can be measured only from the satisfaction level of the customers. The satisfaction will emanate out of the customers' experiences of the products and services offered by different banks. The experiences may vary across banks like public sector banks, private sector banks (old and new generation private sector banks) and foreign banks. A recent study conducted by a leading research agency to measure the Customer Service Quality as a reflection of the meeting of customers' requirements revealed the following interesting findings:

(i) The study covered about 20000 customers across Metro, Urban, Semi Urban and Rural Branches of Banks having Savings Accounts, about 4000 customers who have availed Home Loans and about 3500 customers who have availed credit cards.

(ii) The objective of the study is to measure the customer service quality of the banks by creating Key Performance Indicators (KPI) on service quality and measure the quality based on the benchmark value of the KPI for that sector/segment.

(iii) The measurement of satisfaction was made on the three basic parameters viz.. Overall Satisfaction, Advocacy and Loyalty.

(iv) The ratings show healthy overall performance by the industry. Ratings on the 3 overall measures are above 80% (satisfaction) for all 3-product segments.

(v) When asked how has their experience with their banks changed, in the last 1 -2 years, 2/3rd customers said it has improved a lot/somewhat improved.

(vi) Almost 9 out of 10 Savings Account and Home Loan customers find excellent value in the respective bank offering. This score is significantly lower for Credit Cards.

(vii) On the satisfaction index. Private banks lead in Savings Accounts and Credit Cards; whereas Public sector banks lead in Home Loans and Foreign banks in Home Loans and Credit Cards.

(viii) Banks were ranked in three clusters and ranked according to Index score for each cluster. Public sector banks lead across clusters in the home loan front. In the credit card side, foreign banks and private banks lead the rankings.

(ix) Amongst all the touch points (channels of interactions) of customers with banks, branch interactions and Communication are seen to be the key drivers of the Index for satisfaction.

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Let us see the satisfaction levels of customers with regard to two main retail banking products viz. Savings Bank accounts and Home Loans in case of a south based public sector bank which came second in the rankings.

4.3 SERVICE QUALITY

Savings Bank

The following dimensions revealed the service quality and delivery parameters for savings accounts:

1. Touch point Experience: Overall Measures - At an overall level, the PSU bank is comparable to the PS banks average across touch points.

2. Branch-Layout and Cash transactions: Performance across parameters above PS banks average.
3. Savings Account: No serious concerns on savings account; Parameters at or above par vis-a-vis private banks.
4. Branch Non-Cash Transactions: Scores on most parameters at par with PS Banks average.
5. Communication: Communication channels available along with information How to customer meets average expectations.
6. Problem Incidence/Recurrence - Very low problem incidence just like the industry.
7. Key Performance Indicator - Savings Account Activation Time - Account activation within 3-day window similar to industry average.
8. Key Performance Indicator - Welcome Kit Receipt Time - Close to 90% receive welcome kit within 14 days.
9. Customer Mindspace (Image Map) - The PSU Bank differentiated on problem resolution & delivering on promise, amongst its customers.

Further Mreasures Needed to Enhance Service Quality

The study suggested further measures to improve the service quality to meet the customer expectations with regard to savings accounts.

1. Need to improve transaction time at the branch.
2. Branch offerings need to be relooked at, in terms of range of services offered, in light of people-related drivers being seen as driving overall customer satisfaction.
3. Lack of adequate channels is felt by the customer, in addressing his needs. Need to relook at current channels and their ease of access/usage for the customer.

Home Loans

The PSU Bank came second in the rankings for service quality with regard to Home Loans. Important service parameters satisfied by the Bank are listed below :

1. The PSU Bank index is above the average for the Cluster it belongs to.
2. Drivers of Satisfaction (Identifying the most important touch points): Product features and communication seen to be driving overall experience the most.
3. Overall Measures: At an overall level, the Bank scored above PS banks average across touch points.
4. Home loan parameters perform above PS banks average.
5. Communication channels & communication received from the bank, all score above PS banks average.
6. Loan Disbursement Time: Disbursement within the 14 day window for the bank far higher than Industry average.
7. Customer Mindspace (Image Map) -The Bank differentiated on responsiveness and customer service, amongst its customers.

Measures Needed to Enhance Service Quality

The bank has scored across parameters at par or above PSU banks' average. But to enhance the service quality, bank has to take the following initiatives.

1. Bank has to focus on strengthening performance across parameters
2. Bank has to pay special attention to range of product features.
3. Proactive customer communication needs to have a systemic approach.
4. Customer-friendly modules on branch network, new products and services need to be developed.
5. Score comparatively lower on handling special requests.
6. Need to reorient employees, towards this key aspect of customer experience, through training and reviews around service time.

The study highlighted that the existing product and service levels are satisfactory and above industry averages among PSBs and also highlighted the action areas in the above segments from the bank side. The above points indicate that the customer requirements with regard to products and processes are generally met by public sector banks and also indicate that there is always scope for improvement to meet the dynamic nature of the customers' requirement.

From the above study of analysing customers' expectations and the service quality offered by different banks with regard to Savings Accounts and Housing Loans, the requirements of the customers from the banks are broadly detailed in the next paragraph.

Customers' Reqirement from Banks

Generally, customers require the following from their bank/s for maintaining their accounts/relationship.

(i) Right product mix to satisfy different customer segments.
(ii) Right channel mix (both direct channels and e channels).
(iii) Structured process time across products and adherence to the time prescriptions.
(iv) Delivery of the promises with regard to products/services and channels.
(v) Satisfactory service experience from the delivery channels and the service personnel.
(vi) Effective Communication about the different products and services.
(vii) Transparent service charges.
(viii) Good ambience.
(ix) Effective and time bound greivance redressal mechanism.

If the above expectations are met by the banks, customer loyalty will be at its peak and deficiency in the above will result in dissatisfaction and deterioration of loyalty and will trigger customer switching.

Terminal Questions

1. The customer segment whose income level is between Rs. 10 lacs to Rs.50 lacs is referred to as

   (i) Mass Affluent
   (ii) Super Affluent
   (Hi) HNW

2. According to Maslow's Need Hierarchy Theory, needs may be broadly classified as

   (i) Physiological Needs
   (ii) Safety Needs
   (iii) Social Needs
   (iv) Esteem Needs
   (v) Self Actualisation Needs
   (vi) All the above.

3. Customers' expectations of service quality mainly depend on the following :

   (i) Tangibility in services.
   (ii) Reliability.
   (iii) Responsiveness.
   (iv) Assurance
   (v) Empathy.
   (vi) All the above.

Key

l.(i); 2. (vi)3. (vi) **Let**

Us Sum Up

- Customer segment is the fulcrum around which the entire retail banking business is operating. Customers can be broadly divided into the following segments: Mass Market, Mass Affluent, Super Affluent, HNW, Super HNW and Ultra HNW.
- Customers are different and their needs are also different. But customers can be grouped and segmented based on their needs. Customers buy different products and services based on their needs and their needs may differ based on their income and also life stages. The needs may be

broadly classified as Physiological Needs, Safety Needs, Social Needs, Esteem Needs and Self Actualization Needs. Banks should target, position and offer suitable products to match the need grid for effective marketing. Expectations from the customers about the service quality of the bank basically depend on the following factors:

- Tangibility in services- physical side of the service
- Reliability- Sticking to agreed terms and promises.
- Responsiveness- willingness to help and extend prompt service.
- Assurance - Competence, Courtesy, Credibility and Security.
- Empathy - Understanding the service expectations from the customers' point of view.

Customer Satisfaction levels are basically derived from the quality of service for different products like Savings Accounts, Home Loans, Personal Loans and varies across products and banks. While PSBs score over private banks in products like Home Loans, private banks do better in Personal Loans.

Keywords

Service Quality; Need Hierarchy; Tangibility; Reliability; Assurance; Empathy; Customer Satisfaction.

PRODUCT DEVELOPMENT PROCESS

STRUCTURE

5.1 Product Development Process

5.2 Product Life Cycle

5.3 Product Lines of a Banker

5.4 Deposit Products

5.5 Credit Products

5.6 Other Services

5.7 Other Fee Based Services - Third Party Distribution

5.8 New Product Development

5.9 Stages in New Product Development

5.10 Constraints in New Product Development

5.11 Product Management

5.12 Product Policy

Terminal Questions Let Us

Sum Up Keywords

5.1 PRODUCT DEVELOPMENT PROCESS

In retail banking, product is the starting point of the marketing process. Product is the fulcrum on which the entire retail banking revolves. Everything is centered on it. The add on and the other value propositions are tagged to the products to offer better value and acceptance to the product. The different definitions for product are discussed below :

Theodre Levitt observes that *"Products are almost always combinations of the tangible and the intangible ....To the potential buyer, a product is a complex cluster of value satisfactions.......................A customer attaches value to a product in proportion to its perceived ability to help solve his problems or meet his needs. All else is derivate"*.

A bank product can be defined as *"Anything that has the capacity to provide the satisfaction, use and return desired by the customer"*.

This brings into focus, the importance of product and the relevance of the product from the customer side. The key factor remains that if the bank product is no longer capable of satisfying customer needs and wants, the product will fade out. To understand more about the products, and develop products, we should understand the concepts of product life cycle.

5.2 PRODUCT LIFE CYCLE

There are various stages in the life of the product. The product after development goes through different stages in its sales journey and in each stage, the impact on sales will be different. The product life cycle journey is illustrated in the following diagram.

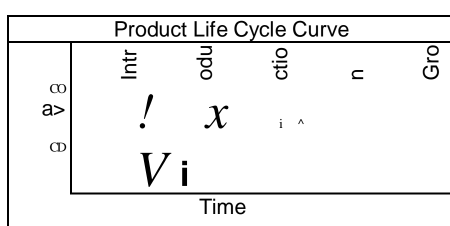


Fig. 5.1

The first stage is the 'introduction' stage when the product is introduced. When a product is introduced the sales volume will be low and revenue from the products will not be sufficient to cover the cost of producing, marketing and servicing it. In the introduction stage it happens because it takes time for the product to occupy the minds of the customers.

In the 'growth' stage, which is the second stage in the product life cycle, the sales volume of the product picks up and the product is likely to break even and start generating profits for the organisation. During this period the consumer awareness of the product will be more and that will result in growth. In the third stage which is the 'maturity' stage, there is more growth and sales volume peaks. Here there is a wide customer base which will result in maximisation of sales with inflow of business and profits. In the fourth stage, which is the 'staleness' stage or 'saturation' stage, because of competition and better products available from the competitors, staleness will creep in, which will result in saturation of sales. Here the business and profits stagnate, customer develop a tendency of indifference to the product.

This will result in the final stage of the product life cycle called as 'decline stage'. In this stage, the product becomes less attractive for the consumers due to various reasons and results in drop in sales volume and profits. This stage if not attended properly will lead to product death. This can be avoided by fine tuning and value adding to revitalise the product for continued acceptance.

These stages of product life cycle are very important for banks in product development. Banks should aim for keeping the product in the maturity stage as long as possible, so that business and profit maximisation happens continuously. And another important point is that product life cycle is different for different products. But it is not always a must that a product should travel through the product life cycle process. Some products will have an instant death immediately after introduction phase. This may happen due to wrong approach towards marketing research und consumer perceptions. Like that, in some case, there will be immediate spurt to the growth and maturity phase in a very short period and will stay there in the maturity period for a very long time. The success of these phases depends on proper approach by the marketer towards packaging strategies and repositioning strategies, so that the products stay in the maturity phase for quite a long period to occupy a permanent place in the perceptual need map of the consumers. In the same way, product obsolescence often contributes to the premature death of products even after effective market research. In the case of computer products, the product life cycle will be very short because of fast changing technologies. This results into a high degree of product obsolescence.

In the banking scenario the product life cycle depends on whether the product is a core product or augmented product.

Core products are essentially those products which define what kind of business we are in. In the banking scenario, some of the core products are Savings Bank, Current Account Term Deposit, Recurring Deposit, Cash Credit, Overdraft, Retail Loans, Term Loan, Drafts etc., These core products are essential products and need not have a strong marketing content. These products will have a stable life in the growth stage of product life cycle, because they are indispensable for the different segments of customers.

Augmented products are products which are developed from formal products by combining two core products and adding value to the product in terms of benefits and comforts to the customer. The augmented product when availed by the customer will result in some value addition to the customer. The concept of augmented product had changed over the years and will continue to change. A decade back, offering an

ATM Card was considered as a value addition to enable the customer to withdraw money 24 hours. But the implementation of technology initiatives aggressively by banks in the past decade had made ATM/ Debit Card as a part of the core product. The penetration of Internet Banking and Mobile Banking has changed the concept of core and augmented products. In the present day scenario, a core Savings Bank will include an ATM/Debit Card and a Cheque Book and augmented product will include Internet Banking, Mobile Banking and a group health or life insurance product tagged to it.

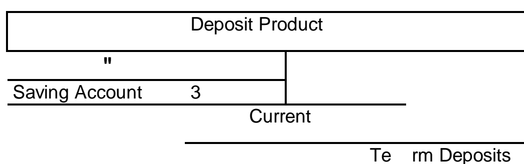
5.3 PRODUCT LINES OF A BANKER

To be successful in retail banking, any Bank has to understand different segments and develop appropriate products to meet these segments. Though different products cater to different segments, there are certain products like core products which cater to all segments. Likewise different bankers market their different products in different names though they have common features. The idea of this is to make the customer identify the bank with the particular name of the product. This initiative of banks to create recall for the products is termed as "Branding". Banks basically adopt two types of branding exercises. Product branding is attempted by banks to create product recall and Corporate Branding is intended to create recall about the banks itself. More of branding initiatives by banks will be discussed separately. Branding initiatives by banks will help them to develop definite business through that product by developing product specific strategies and they do that exercise for different products. These products include core products as well as augmented products. For core products there need not be much marketing orientation but for augmented products to succeed there should be a concerted effort from the marketing angle for the product to succeed. Let us try to explain the different types of products normally marketed by banks. Products can be broadly classified into following:

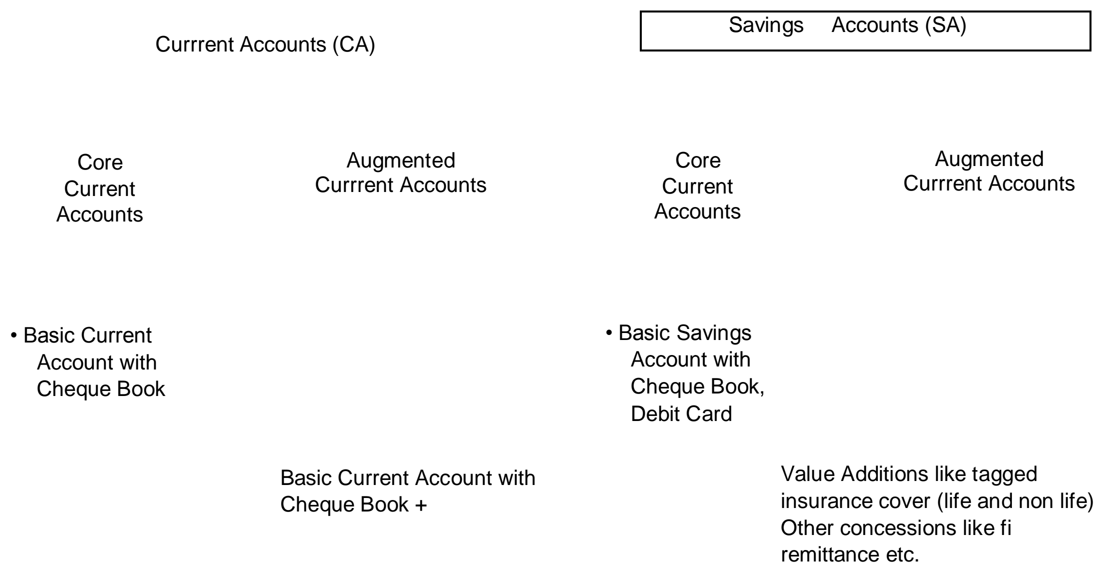
(i) Deposit Products or Liability Products
(ii) Asset Products or Retail Credit Products
(iii) Other Products and Services.

5.4 DEPOSIT PRODUCTS

In the deposit products category, the deposit products can be classified into Savings Deposits, Current Deposits, Term Deposits and Combination Deposits.



(a) Demand Deposits (CASA Deposits)



- Basic Savings Account with Cheque Book .Debit Card, Internet, Mobile Banking

+

- Value Additions like tagged insurance cover (life and non life)
- Personal Accident Cover
- Sweep In/Sweep Out Facility
- Other concessions like free remittance etc.,

Fig. 5.3

(b) Term Deposits (Fixed Deposits)

Term Deposoit Products

Recurring Deposits

- Deposit can be built up on a monthly basis.
- Term Deposit Interest Rate tor the relevant period.
- Flexibility with respect of amount payable every month

Fixed Deposits

- Deposits offered lor a fixed period.
- Option to receive interest at maturity/monthly/quarterly/hal f yearly.
- Interest also reinvested ad payable on matumy along with principal

Combinatio n Term Deposits

- Combination of Recurring Deposits and Fixed Deposits.
- Different combinations are structured.
- The first part will be in the form of RD and the second part will be on any one type ol fixed deposit.

Savings Deposits are offered mainly as a simple product for inculcating the habit of savings and routing the Savings transactions in that account. It's features include free deposit and withdrawal of money by cash and by cheques. It gives absolute flexibility for the customer to operate his account and price is kept at a low level. But the complexion of Savings as a plain vanilla product has changed drastically with the advent of tecnology.ATM Cards/Debit Cards are issued along with the Savings Accounts as essential tags for operation of the account. In addition, for augmenting the product and as a value addition to the customers, some banks are offering group life cover and/or group health cover at a very attractive price as compared to a stand alone cover.

Current Deposits are offered mainly for carrying out business and trade transactions. There is absolute freedom for withdrawal and deposit of trade/business related transactions and service charges are charged for this depending on the volume of transactions. No interest will be paid for the deposit amounts. This is a 'no cost deposit' for the banks. Some banks are offering a tagged Life cover or health cover or both.The core nature of the product has undergone change.

Term Deposits are offered to the customers as a high interest yielding product for the deposit held with the bank for a definite period with interest depending upon the period of deposit. There are different types of term deposits offered by banks with facility for getting monthly quarterly interest as well as deposits with cumulative interest at the end of the deposit period. The second option benefits the customer because the quarterly interest accrued on the deposit is reinvested again to earn a higher yield for the depositor. Another type of term deposits is the 'Recurring Deposit' where the depositor is required to deposit fixed sums of money every months for a specific period and at the end of the period, the principal along with the accrued interest are paid back to the depositor. The advantage of Recurring Deposit is term deposit interest rates for the specified period are offered for this deposit also. It helps the monthly income segment to save regularly a fixed amount and earn higher rates of interest applicable to term deposits. As an additional product extension of Recurring Deposits some banks also offer more than one option regarding the quantum of monthly deposit, the flexibility of paying the instalments in bunch and also combination of both. This will attract business from the segments which do not have regular periodic cash inflows but want to save regularly and earn higher interest.

The fourth important type of bank deposit is the combination deposit. The principal aim of the bank marketer is customer need/comfort maximisation and banks innovate in product development and satisfy the customer by offering a combination of two types of deposits, as a single term deposit. For example, a product is offered in this type in which the customer will have option of putting separate amounts at his will and pleasure. A passbook will be issued for the same. Each of his remittances will be treated as a separate term deposit and interest will be given on a cumulative basis depending on the period of deposit. In another product, the deposit will be kept in multiples of Rs. 1000 in term deposit

Fig. 5.4

and when there is an urgent need for some money, they can withdraw part of the deposit in multiples of Rs. 1000 and the remaining amount continues to earn the same rate of interest. Different banks offer these products in different names likeFlexi Deposit Account, Multiple Deposit Account, Unfixed Deposit, Quantum Deposit etc., Some banks are offering these deposits to customers to keep their deposit in multiples of Rel, so that in case of necessity, he can withdraw the exactly required amount.

Opening of Deposit Accounts and KYC Norms

Deposits are the core resources on which the edifice of retail banking is built. Hence mobilisation of resources assumes great significance. While CASA resources help the banks to bring down the cost of resources and increase the customer base, term deposits bring stability to the resources mobilisation and help the banks to expand the retail asset base with relevant pricing models. In this context, banks go all out to mobilise deposits through different marketing strategies.

Different banks adopt different methods for opening of accounts. In most of the private and foreign banks, opening of deposit accounts is done in a centralised liability processing centre. The application details and other documents are scanned and forwarded to their centralised processing centres for opening of accounts.Most of the public sector banks (PSBs) have already implemented Core Banking Solutions and are technologically at par with their private counterparts. In some PSBs, deposit accounts are opened at the branch level itself. A centralised model is adopted in some other banks and partially centralised model is adopted in other banks. In the partially centralised model, account opening and issue of Pass Book happen at the branch level and issue of Cheque Book and Debit Card are done through a centralised approach. In a centralised model, based on the details forwarded by the branch, end to end opening of accounts are done centrally. The above procedures apply to opening of Current and Savings Accounts. In case of opening of Term Deposits almost all banks do it at the branch level and issue Term Deposit Receipts at the branch itself to the customers.

An important aspect of opening of accounts is the obtention of documents to verify the identity of the customer. The bank opening the account should know the background and credentials of the customer. Initially an introduction is needed for opening of accounts. Norms are prescribed for documents of proof of identity to be submitted by the applicant like copy of Ration Card, Voters Identity Card, Passport Copy etc.,. In addition applicant customers are required to submit another form called KYC Form as an Annexure to Account Opening Form. Submission of KYC Form is a statutory requirement with the objective of knowing about the customer and his background not only for transaction purposes but also to have a check for money laundering activities. KYC Form also serves as a data base for cross selling other products to the customer.

Know Your Customer Forms (KYC Forms)

KYC Forms, as said earlier, are required to be obtained from all the account holders while opening the account itself. It is obtained as an Annexure to the Account Opening Form. It throws light on the different dimensions of the customers and helps the banks to deal with them appropriately. The important details which are to be furnished in the KYC Form are discussed below:

(i) Name and Address of the Customer and PAN/TIN Number
(ii) Details of Spouse/Father and also Son(s)/Daughter(s)
(iii) Type of Account - Savings/Current/Term Deposit/Loan
(iv) Age - Age band - < 20, 21 -40,41 -60 and >60.
(v) Occupation - Details of Service, Profession, Others
(vi) Educational Qualifications - Non Graduate, Graduate, Post Graduate, Others
(vii) Nationality

(viii) Accomodation - Own/Residential
(ix) Conveyance - Two Wheeler/Car etc.,
(x) Telephone
(xi) Credit Card - Details of Credit Cards held
(xii) Details of Deposits/Loans held with other branches/banks
(xiii) Purpose of opening the account.
(xiv) Source of funds - Salary/Business etc.,
(xv) Annual Income
(xvi) If in business, all business details
(xvii) Details of passport, if any.
(xviii) Details of foreign countries visited during the past three years.
(xix) Any other relevant information.

Based on the above information, the branch will record in the from endorsing the identity and genuineness, address verification and risk perception and fix a Risk Level Threshold Limit for the customer. The details will be updated on an annual basis. A look at the above details will indicate that the branch would be able to map the entire biographical, professional, social and credit profile of the customer. In addition to fulfilling a regulatory requirement, KYC Forms also serve as a tool to cross sell different products and services to the customers.

5.5 CREDIT PRODUCTS

Credit products offered by the bank, again, can be classified into two broad categories, traditional credit schemes and market oriented new credit schemes. Traditional credit products are cash credit accounts for business people to fix credit limits and allow them to operate freely within the limits subject to certain stipulations. Overdraft scheme is to allow credit for a short period to be adjusted in a very short time. Likewise Demand Loans, Term Loans and Bill Finance are credit schemes to meet specific credit requirement of the borrowers in their business for purchase of machinery, equipments and other requirements and against their receivables. While the Bill Finance facility is self liquidating with the realisation of bills purchased/discounted for the borrower. Demand Loan and Term Loan have definite repayment period.

In the retail side, credit schemes are offered by the banks for specific segments based on the needs of these segments. Home Loans, Personal Loans, Auto Loans and Credit Card Receivables are some of the generic retail credit schemes.

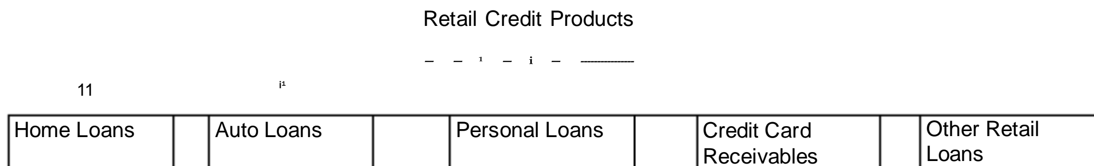


Fig. 5.5 Retail Loans

In addition, loans tailored to meet the individual requirements like Loans for Professionals, Doctors, Lawyers are offered by banks. The basic premises for developing niche credit schemes are two dimensional. The first dimension is looking at the customer segment. If the customer segment is in need of a product and the size of the segment is quite large, then customer need satisfaction will be the first objective of the banks. The second dimension is the business orientation of the bank. If the customer size is justifiable for the product to be developed and marketed and the developed product will generate sufficient volumes and ultimately reward the bank, then the bank will definitely develop and market the product with the proper pricing and features. The details about the individual retail loans are dealt separately.

5.6 OTHER SERVICES

In the other services category, all the services offered by the bank other than the Deposit schemes and Credit schemes can be grouped. Again it can be further classified into Remittances and other Fee Based Services.

In the remittances services, issue of Drafts, Bank Orders/Bankers Cheques, National Electronic Funds Transfers (NEFT),Real Time Gross Settlements (RTGS) are the types of services offered to the customer. The cost of availing these services will depend on the quantum of transactions and the customer's business relationship with the bank.

In other fee based services, Collection of Cheques, Safe Deposit Lockers, Standing Instructions for carrying out the instructions of the customer on a periodic basis. Merchant banking services in the area of capital market issue management in the capacity of Lead Manager, Co-Manager to the issues etc., undertaking Portfolio Management Services for their Non-Resident Indian clients to manage their investment portfolio, Consultancy Services for projects in Agriculture and Export Oriented Projects are some of the other services offered by the bank.

Another important product line for the banker in the 'Other Services' is the non fund based business of the banks. In these types of services, the bank will be guaranteeing on behalf of the customer for whom they will be offering these products. Two examples of non fund based business for the banks are:

(i) Letter of Guarantee
(ii) Letter of Credit

In the Letter of Credit and also in the Letter of guarantee, though at the time of offering these services, there is no fund outlay but at any future time, a liability may arise for the banker to part with the bank's funds. The liability is depending upon the happening or non happening of certain events as specified in the letter of guarantee. Letter of Guarantee is a guarantee given by the bank on behalf of their customer to a beneficiary, guaranteeing the beneficiary to pay if the customer is not paying or performing.

Letter of credit is an undertaking from the banker to pay the beneficiary the prescribed amount, subject to production of certain documents as required in the contract between the customer and beneficiary specifically those that are listed in the L/C itself, if the documents are negotiated as per prescriptions. In the case of Letter of Credit also, through at the time of offering the service, there would be no funds outlay, at a future date a liability may crystallise on the bank. These types of non fund based businesses offer tremendous scope for income and profit because banks collect commission for offering these services without outlay of funds. But the risk involved is, if there is failure of the obligation by the party, then banks' outlay of funds is involved.

The above are illustrations of non fund based business not exactly on the retail side but certain elements of the above embraces retail banking segment also. Non fund based business offers a wonderful scope for the banker to augment their income without outlay of funds. Banks offer these products normally to their well established customers.

5.7 OTHER FEE BASED SERVCIES - THIRD PARTY DISTRIBUTION

Another important segment in retail banking which had emerged on the past decade is the third party distribution model adopted by banks to augment fee based income. Let us see what exactly third party distribution is.

Third Party Distribution is an emerging business model of the banks to augment fee based income by selling products and services of other manufacturers in the financial and investment space like insurance companies - life and non life and also mutual funds etc., These activities are called as para banking activities and Reserve Bank of India has prescribed rules and regulations for carrying out these activities by banks. These aspects will be dealt in detail separately. By this broad classification of the products, we can develop a good understanding of the product line of a banker.

5.8 NEW PRODUCT DEVELOPMENT

We have discussed about the product life cycle in the previous pages and came to know that any product has to normally pass through the various stages of a product life cycle. It goes without saying that even though the products stay in the growth and maturity period longer for long term survival of the product, still any product has to decline and to be phased out over a period with very rare exceptions. The Valve Radio and Record Player are classic examples of death of products. Though stereo cassette recorders as a product class were in the maturity stage of the product life cycle for a long period, they have been replaced by MP3s, MP4s, DVDs etc.. through technological innovations. The success of the marketer will be to correctly identify the existing phase of the product life cycle and by correctly foreseeing the future, has to develop new products to enable the new products to go through the introduction phase and jump to the growth phase when the old product starts its decline phase. This will enable the organisation to survive and achieve the business

objectives. Thus a proactive marketer should particularly watch the product life cycle of the product and the present stage of the product. New product development is an important area for the marketer to survive and grow. Bank marketer is not an exception. The bank marketer has to constantly watch the market, gauge the changing needs of the customer, compare it with the features of the existing product range, check up whether there is scope for developing new products and have to immediately start developing new product and market them to proactively seize the emerging, changing customer needs.

5.9 STAGES IN NEW PRODUCT DEVELOPMENT

A new product development has to pass through several important stages as shown below:

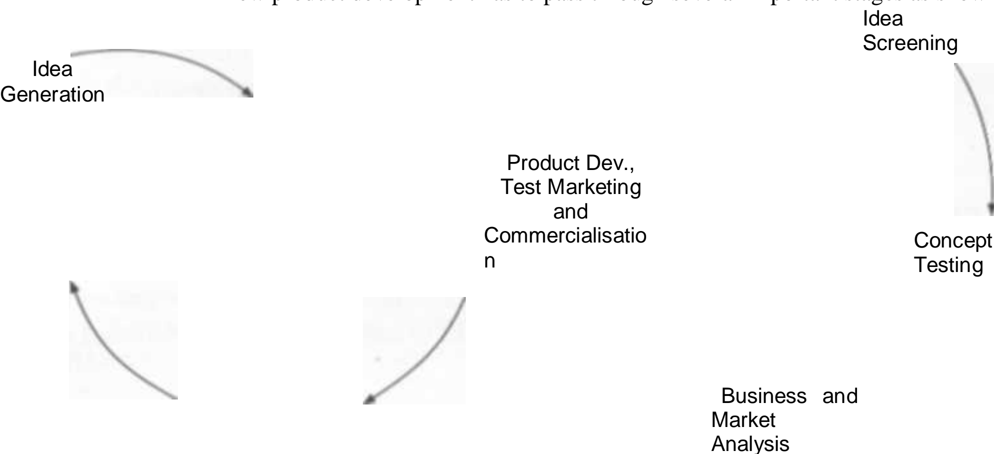


Fig. 5.6 New Product Development

(i) Generating new product ideas
(ii) Idea screening
(iii) Concept Testing
(iv) Business analysis and Market analysis
(v) Actual product development, test marketing and commercialisation :

(i) Generating New Product Ideas

New product ideas are generated from market research based on customer expectations from the existing and potential customers. It is also generated in house from the employees of the banks. In some banks, new product ideas are solicited from the staff members under staff suggestion scheme and members are requested to freely vent their ideas about new products based on their exposures and experiences and feedback they receive from the customers. The suggestion will be invited both on refining the existing products as well as ideas for new products.

(ii) Idea Screening

With the grouping together of all the ideas generated from various sources, internal and external, the ideas are analysed based on the following approach:

(a) Whether there is any felt need for the new product?
(b) Is it an improvement of the existing product?
(c) Can the existing infrastructure can handle the new product?
(d) Is the new product is in our existing line or a new line of business?

The ideas which meet the above questions pass through the screening test.

(iii) Concept Testing

The next stage is the 'concept testing'. The concepts of the new product are tested. The idea here is testing the product concept itself by taking the feedback from the customers about their understanding about the concepts of the product and whether the concepts are attractive enough for them to avail when it is launched to them. This helps the marketer to understand the market response to the 'product concept' idea and to know about the customer perception of the product concept.

(iv) Business Analysis and Market Analysis

This stage will decide whether the product is viable from the financial and marketing aspects. This will be based on a cost benefit analysis of the product from the banker's view point and the customer's viewpoint. It will also analyse the expected increase in business, and profits and also the effect on the expansion and retention of customer base. It will also analyse the expected effect on the market share and also the expected penetration of markets of the competitors.

(v) Actual Product Development, Test Marketing and Commercialisation

After passing through the above stages, then the concepts, analysis are internalised and product development takes place from the data generated. The new product developed is first test marketed in a selected market segment and based on the feedback received from the market the product is launched on a full scale to the desired segments.

A good example of the above stages in new product development is the marketing of a Deposit Cum Credit Linked product by a public sector bank in recent years. The bank developed the new product for working women. The new product idea came from the market as well as from the internal sources. The bank sensing the enormous potential available for business from this segment, developed the product with features of saving in Recurring Deposit Account in fixed monthly installments, and after 3 months they can avail a loan in fixed multiples of RD installment depending on their salary and certain conditions. The end use of the loan would be as per the will and pleasure of the customer. There will be more than one option to repay the loan either directly to the loan account or servicing the interest regularly and adjusting the principal loan amount from the Recurring Deposit maturity proceeds. The product had so many attractive features for the working women segment. It was launched initially only in metro and urban towns targeting the working women in those centres. It was received well but there was some resistance to one of the features of the product that the customer had to wait for 3 months for availing the loan. This minor irritant was immediately rectified so that both RD opening and loan sanction can take place simultaneously. There was very good market response to this new product and it became a big hit for the bank.

Sensing the tremendous potential for the new product, the bank extended the product to the working women is semi-urban and rural branches also and the eligibility norms lor better market acceptance.

Another classic case is new product development on the basis of ideas from the customers of the bank. This is again a case of new product development of a public sector bank. The bank branch was situated in highly densely populated village area in a southern district of a state. In that village almost 90% of the population belongs to a minority community. Because of the employment opportunities boom in Gulf Countries, a number of people moved from that village to various Gulf countries for employment. The composition of the people who were moving to Gulf was mostly semi skilled and unskilled labourers. For meeting the expenses for their visa and other travel costs, they found it very difficult to manage and borrowed money at exorbitant rates to get to Gulf. Some of the valued customers of the bank suggested to the branch manager to think of considering some loan facilities to these people for meeting their visa and travel costs. The idea was passed on to the higher authorities with details of potential business and the resultant customer expansion. A new product 'Visa Loan' was developed and credit was extended to them based on their Visa and travel documents. That was a great marketing success in new product development. The loan beneficiaries not only repaid their loans but also opened Non-Resident Savings and Deposit Accounts in the branch and sent quite a large amount of remittances. Additionally they served as marketers for the branch in Gulf and brought lot of new business connections from new customers in the Gulf for that branch and also for other neighbouring branches of the bank. The business of the branch zoomed like anything. This concept was extended to other similar branches also by the bank.

The success of new product development depends on how effectively the various ideas from different sources had to be given importance and how effectively the marketer can convert these ideas into successful products that maximise the business.

5.10 CONSTRAINTS IN NEW PRODUCT DEVELOPMENT

Though new product development brings new business opportunities for the banks, there are accompanying constraints also. In bank marketing, where competition is the keyword with lot of players vying with one another to take their slice and also grab other's slice of the cake, new product development is inevitable but also faced with lot of constraints.

The following are some of the constraints:

(a) Heterogeneity of the customer base in different branches is one of the external constraints. It would be very difficult to develop a new product to satisfy all the customer segments. The bank while they develop new product, has to take this constraint into account and crystallise the homogeneity among the heterogeneous group and product development had to be attempted.

(b) With the technological revolution in its peak, product obsolescence is very fast and so customer preferences would also change drastically. This would have an effect on the product life cycle of the new product which will affect the economics of the product.

(c) The existing product range is another constraint in new product development with most of the public sector banks. With deposit products more than around 20. their product range had become unwieldy. The exercise was more towards product pruning rather than new product development.

(d) Sometimes the ideation stage in product development would be attractive. But it would be difficult to convert the idea as a product with business potential. This is again a constraint.

(f) Resistance from the staff for new product development with a view that new products would increase their work load or result in staff pruning/relocation. This attitudinal problem is again a constraint.

We have discussed about some of the constraints in new product development. The constraints are only illustrative but not exhaustive. Each bank marketer will have unique constraints over and above the above mentioned constraints which are more general in nature.

5.11 PRODUCT MANAGEMENT

Product Evolution

Product management is one of the important aspects of the marketing strategies of banks. We have described in the previous chapter, what exactly is a product and products are almost always combinations of the tangible and the intangible. To put in simple terms, product is a 'need satisfying entity' for the customer. But product has undergone great changes over a period from the marketer and the customer's viewpoint. The product has been undergoing rapid changes over the period based on the changing needs of the customer and the marketer constantly upgrading the product and enriching the product. The marketer, to score over competition over a period had refined the product from its basic features to higher and higher levels to satisfy the customer. Let us now try to find out the refinements that had taken place in the product over a period. According to Theodre Levitt, product, over a period, evolved on the following lines :

(i) The Generic Product
(ii) The Expected Product
(iii) The Augmented Product
(iv) The Potential Product

(i) The Generic Product

The generic product is an unbranded and undifferentiated commodity. Like rice, wheat, bread, cloth. It is a core product. In the banking scenario, some examples of generic products are Savings Banks, Current Account, Term Deposits, Drafts, etc., These are core products in banking. The products get an identity through a 'name' given to a deposit as 'Reinvestment Deposit' to give an identity to the product.

(ii) The Expected Product

The expected product represents the customer's minimal purchase condition and what the customer expects from the product. The customer expectations may be different also. For satisfying this, the banker when structuring the product will make these expectations as a part of product structuring and will try to differentiate the product to enjoy the distinction from other similar products. The bank marketer will customise the product accordingly. For example, in a Savings Bank, customer expectation is to withdraw money at will and also collect his cheques through his account and also wants to keep track of his balances in the account. These expectations are met by incorporating the facility of Pass Book for knowing the current balances, cheque book/withdrawal slips for withdrawing money and collection facilities for collecting cheques of the customer.

(iii) The Augmented Product

The Augmented product is augmenting or enriching the product voluntarily. The augmented product is the result of voluntary improvements brought about by the marketers, in order to enhance the value of the product. These improvements are neither suggested by the customer nor even expected by them. The bank marketer on his own, augments the product by adding an extra facility or an extra feature to the product. For example some banks, as a part of their Savings Bank Account, offers the facility of collecting the cheques of the customer at their doorsteps and offers free collection of cheques. Some other banks offer the facility of operating the customer's Savings Bank Account not only from the branch where the customer is maintaining the account but also from any of their branches in India. This type of access to his account from any branch is an augmented feature of the product.

(iv) The Potential Product

Everything that might be done to attract and hold customers is called the potential product. This potential product may be developed based on suggestions, new ideas, redesigning of existing products. In short potential product is tomorrow's product with enormous scope for improvements in the changed competitive scenario. One example of a potential product is availing the service from the site of the customer without going to the bank. In the technology sensitive banking scenario, setting up computer terminals at the customer's site and offering him to bank from his place for retail customers may be a potential product of tomorrow, though it is available today for select corporate customers.

From the above we will be able to understand about the evolvement of product over a period, how each and every stage of the product results in some value addition. Of course the entire development is focussed in one direction (i.e.) the satisfaction of the customer to the maximum possible extent and by continuously reviewing, redesigning the product from various dimensions. The main aim of the exercise, would be of course achieving business objective through customer ecstasy.

5.12 PRODUCT POLICY

Product policy is one of the main tasks in product management. The marketer should decide what exactly the products to be offered to different segments are. Again if the customer base is fairly very large, the product line should be based on the homogenous needs of the heterogeneous customer base and customer segments. Otherwise it will result in unwieldy product range. But of course the marketer has to consider designing product tailored to specific customer base if the segment is an important segment. For deciding that the marketer should develop a product policy which involves the following concepts:

(i) Appraisal of the product line and individual products
(ii) Decisions on product differentiation
(iii) Product positioning
(iv) Brand decisions
(v) Decisions on packaging
(vi) New Product Development

(i) Appraisal of Product Line and Individual Products

A bank marketer, to be effective, has to constantly review his product line. Changes in the environment, changes in customer preferences, competition in the business are potential threats to the existence of products. Though there may not be much changes still the marketer has to take stock of the potential of the present product line. Products which were attractive yesterday may not be that attractive today and may be obsolete tomorrow. A banker has to scan the environment. For example, in the case of Term Deposit, Product variants in this product are Term Deposit with monthly interest facility, a Deposit with Quarterly Interest facility and a Deposit with cumulative Interest facility. These are product extensions. If the banker simply continues to offer these products, separately, without analysing the business potential and taking stock of the situation which may necessitate phasing out the product, it will have direct negative impact on the business strategies.

For example, out of the three term deposit products only one may receive good patronage and others will not have that support. In that case the banker has to think of referring the product or phasing out the products depending on the

situation. Another example is where there are too many product extensions in the case of Recurring Deposits that creates confusion among the customer base. An attempt like integrating the various recurring deposit products into one may help in clearing the confusion among the customers and ultimately help in product pruning also.

(ii) Decisions on Product Differentiation

In the highly competitive field of banking, almost all banks offer products with the features of the product being almost the same. But then how the bank marketer will have an edge over other competitors'.'. For achieving, this marketer has to adopt product differentiation. The efforts of the marketer should be to differentiate his product as far as possible from the competitor's product. The differentiation strategies are adopted by differentiating their features, benefits and satisfaction level by doing some value addition to the product. For achieving this, a tool available for bank marketers is to highlight the USP of the product. USP is nothing but 'Unique Selling Proposition' of the product. Unique Selling Proposition is the specific feature available with the particular product. Each product will have a 'USP' and the differentiation strategy depends on the highlighting the USP of the product. For example, in the case of Reinvestment Deposit Plan of banks, the USP is 'cumulative interest on a quarterly compounded basis In the case of 'Multi-Deposit Account' of Citibank, the USP of the deposit was 'withdrawing part of deposit without loss of interest'. In the case of 'Freedom account' offered by HDFC Bank earlier, 'no minimum balance' was the USP of the product. Like this, in the case of Special Fixed Deposit offered by another nationalised bank, the USP is 'receiving monthly or quarterly interest'.

Thus different banks use USP as a product differentiation tool in planning their products. But over a very short period the uniqueness of the USP will be lost as all banks will come out with the similar products and banks have to build their service capabilities and competencies to strengthen the proposition.

(iii) Product Positioning

Product positioning is an important concept to be recognised when we finalise the product policy. Though it may sound to be an extension of unique selling proposition (USP), it is definitely different from USP. Rosser Reeves in his famous book 'Reality in Advertising' defines 'Positioning' as 'the art of selecting out of a number of unique selling propositions, the one which will get you maximum sales'. For 'positioning' the most important factor is the customer's mind. Positioning therefore starts with the understanding or 'mapping' of a prospective/existing customer's mental perception of products. The customer's mind would be occupied with the different products/services of different banks based on the following positioning grid.

Customer's mental perception of the products of the banks mainly occupies different positions in their mind, based on the return and liquidity aspects of the deposit. The period of occupation of these products in the mental perception of the customer again is there for a short period depending on the effectiveness of the product. The strategy of the bank marketer should therefore be to create a perception of their product in the customer's mind so that it stands apart from competing bank's products and approximates much more closely, to what the consumers want. Again the approach should be to occupy our slot in the mind of the customer for a long period. For achieving this the marketer should find a strong position in customer's mind and sit on that.

Jack Trout, the Positioning Guru defines 'positioning' as 'not as what you do to the product, but what you do to the mind'.

The classic case of positioning in bank marketing is the 'Un Fixed Deposit' marketed by Citibank decades back when they started positioning themselves as a retail bank. Here a unified attempt of product differentiation and unique selling proposition had made an impact on the positioning strategy of the bank. Every bank offered Fixed Deposits and when they want money against the deposit, they have to raise a loan and complete certain formalities. So though the 'return' is fair, the 'liquidity' is poor in the case of fixed deposits. There is some space in the minds of the consumer and the perception of the 'consumer is to have both return and liquidity on the higher side. Citibank sensing the positioning slot available to them, proactively designed a new product called as 'Unfixed Deposit' which had features of a Fixed Deposit with high returns, with a facility to withdraw money when required through a cheque book, without any formalities and marketed them with a unique brand name 'Unfixed Deposit'. The product became an instant hit and occupied a strong position in the customer's mind. But the success of positioning depends on the proactiveness and alertness of the marketer to identify the positional slots. Again the early starter will derive the maximum mileage, because the subsequent followers will take time to position the product in that slot. This proactive positioning idea was copied by other competitors to compete for the position in the customer's mind.

With the environmental changes due to competition, if the positioning is threatened, bank marketers will review the product features and USP's of the product and add value to the product and try to recapture or

retain the position. This approach is called as a repositioning strategy. Banks have to constantly review their positioning strategies and evolve repositioning strategies depending on the need and the business realities.

(iv) Product Branding

Product branding is an important area in the bank marketing. Though banks try to market themselves, as brands in a competitive market, branding the various products of the banks is a very relevant area for branch marketing. Branding can be a powerful tool for relationship building. The branding efforts of products in "banks' begin at the corporate level. Branding exercise for bank products generally involves giving the different products catchy, attractive names for the products according to the features of the product. For example, a Nationalised bank has branded one of their credit products as 'Pushpaka' a scheme for purchasing cars, and 'Subha Gruha' for loans for housing. Branding the products creates customer/prospective customer awareness when it comes to seeing or hearing advertising message and helps the customers in identifying the brand with the bank. Branding also helps in competitive positioning of the products in the existing and new markets. More and more banks are now adopting branding strategies for their products with the increase in competition. It is but natural that the best brands only will survive and grow.

Terminal Questions

1. State whether the following is true :

   (i) Customers are different.
   (ii) Needs of the customers are different
   (iii) Each customer will have different sets of need for financial services.
   (iv) i and ii are true
   (v.) i and iii are true
   (vi) i, ii and iii are true

2. Statement 1 - In the introduction' stage of a product, the sales volume will be low and revenue from the products will not be sufficient to cover the cost of producing, marketing and servicing it. Statement 2 - In the 'growth' stage, which is the second stage in the product life cycle, the sales volumes remains stagnant.

   (i) Statement 1 is true
   (ii) Statement 2 is true
   (iii) Statement 1 and 2 are true

3. Product architecture consists of the following component/s

   (i) The Generic Product - the core product.
   (ii) The Expected Product - adding additional features.
   (iii) The Augmented Product- adding value in addition to features.
   (iv) The Potential Product - futuristic features in anticipation.
   (v) All the above.

Key

1. (vi); 2. (i); 3. (v)

Let Us Sum Up

- Product Development is a very important element in retail banking. Any product development has the following components viz., Generating new product ideas. Idea screening, Concept Testing, Business Analysis and Market Analysis, Actual product development. Test marketing and commercialisation. But product development has its own constraints like heterogeneous customer base, technology explosion and the resultant product obsolescence, lack of clearly defined segment for the products etc., Product ideas emanate from different sources like market intelligence, original market research, customer feed back and banks factor all the ideas in their product development. Product architecture in retail banking is a four stage process:
    - The Generic Product - the core product.
    - The Expected Product - adding additional features.
    - The Augmented Product- adding value in addition to features.
    - The Potential Product - futuristic features in anticipation.
- In the liability side, Banks offer different retail products like Demand Deposits, Time Deposits with different variations with regard to product features and duration. In the asset side banks offer mainly Home Loans, Auto Loans, Personal Loans and credit lines against credit card receivables. In addition, specific products designed for niche customer groups are also developed and offered by banks. In addition a host of fee based products are also offered by banks.
- To improve the sale of products banks adopt different strategies and market with Unique Selling Propositions (USPs) and proper positioning and branding strategies are adopted by banks.

Keywords

Product Life Cycle; Introduction; Growth, Maturity, Decline; Idea Screening; Concept Testing; Business Analysis; Market Analysis; Generic Product; Expected Product; Augmented Product; Potential Product; Unique Selling Proposition(USP).

UNIT 6 CREDIT SCORING

STRUCTURE

6.1 Introduction

6.2 What is a Credit Score?

6.3 Evolution of Credit Scoring

6.4 What's a Good Credit Score?

6.5 Credit Scoring Model

6.6 Managing the Credit Score

6.7 Positive Side of Credit Score

6.8 Warning Signs in Credit Score

6.9 Credit Scoring Bureau in India

6.10 Issues in Credit Scoring

6.11 Mistakes in Credit Scoring

6.12 Troubleshooting Credit Score

Terminal Questions Let

Us Sum Up Keywords

INTRODUCTION

What is credit scoring? Why credit scoring? What are the benefits to the customers and banks thorough credit scoring?

"We should not forget that the basic economic function of these regulated entities (banks) is to take risk. If we minimise risk taking in order to reduce failure rates to zero, we will, by definition, have eliminated the purpose of the banking tystem,"

-Alan Greenspan, President, Federal Reserve Board, New York (May 19%)

The above statement emphasises the need for banks to take risks. As said by Mr.Greenspan, risk is embedded in every action and inaction and the best way to counter risk is to manage the risk in a professional way. To manage the risks, we have to understand the different types of risk and how to mitigate the risks. Basically in the retail side, the types of risks as applicable for corporate credit arc applicable for retail credit also. The types of risks and the triggers for the risk are mentioned below:

(i) Credit Risk - Customer fails to pay
(ii) Business Risk - Loosing money due to wrong strategy.
(iii) Market Risk - Change in market prices.
(iv) Operations Risk - Processing failures and frauds,

The same is illustrated below :

Fig. 6.1 Risks and Reasons

To obviate the above risks and to have a reason based and professional appraisal mechanism for sanctioning of retail loans, the concept of credit scoring was introduced by banks. Since borrowers may avail different retail credit products from different banks based on their needs, pricing, process speed and other features

it was felt that a centralized database for arriving at the credit score will be an effective risk mitigation step, a centralized approach is adopted by banks for credit scoring. The different dimensions of credit scoring are discussed below.

Credit Scoring - Concepts

Every borrower seeks the lowest interest rate, every lender the highest. The return a lender seeks factors in, apart from his profit, a premium for the risk he feels he bears of not being paid back. This risk perception is different for di fferent borrowers and, ideally, should be determined from their credit history. But, till recently, lending banks had only their own experience with an individual to fall back on for this assessment. That has changed now with the entry of agencies that assess the creditworthiness of people. The lending bank can judge how good a borrower can be by sourcing their credit score from different agencies. In this context credit record of the applicant is crucial because a good score can make the loan friendlier with lower rates.

A lending bank can source the credit score of the applicant from credit information agencies to supplement the information they furnish in their loan application. Now, if any applicant had already defaulted on a loan

from one bank, the default would bring down the credit score, which any other lender would also be privy to. And it could determine not only whether the applicant would get a loan or not, but also the rate of interest.

6.2 WHAT IS A CREDIT SCORE?

A credit score takes a 'snapshot' of a consumer's credit report and through advanced analytics turns the information into a 3-digit number representing the amount of risk he brings to a particular transaction. For instance, the Cibil-TransUnion model gives scores ranging from 300 to 900. The higher the score, the lesser is the risk of the consumer going 91-plus days overdue in the next year. While credit scores are new to India, the US has had them since 1989, when the FICO scores were launched. The lines of credit assessed to arrive at this score would mainly be retail products like home loans, auto loans, personal loans, credit cards and overdrafts.

6.3 EVOLUTION OF CREDIT SCORING

In its embryonic days, retail banking in India meant lending to the rich and affluent. But as lenders chase growth, they were increasingly expanding to lower income groups. This calls for sophistication to accurately assess borrowers' ability to repay and, also, to correctly price the loan. To achieve this, banks sought the assistance of credit information companies who provide a comprehensive report on every retail credit customer containing their verified address, the extent of loans they've taken and whether or not they have ever defaulted or failed to repay any loans on time and in full.

Global experience shows that managing risk and knowing retail loan customers is important for business. For instance, when retail credit took off in South Korea and Hong Kong, both countries experienced

large increases in dud loans. A McKinsey study showed that lenders in South Korea and Hong Kong suffered huge losses from defaults in retail loans. Individuals in Hong Kong who went bankrupt were holding, on an average, 14 different cards and debts averaging $75,000 (Rs 32.25 lakh). In fact, bankrupt individuals in Hong Kong owed, on average, 42 times their monthly income as compared to the average of 21 times in the US. In South Korea, too, as credit card usage raised by 90 per cent during 1999-2001, delinquent accounts almost quadrupled. In the U.S.A. three credit bureaus viz. TransUnion, Equifax and Experian provided the credit score for retail customers.

A Credit bureau tracks the indebtedness and repayment history of individual borrowers on loans they have taken from banks, non-banking financial service companies and financial institutions. It also contains certain personal information of each borrower, like name, age and verified permanent address. The information is collected in a credit information report, which is made available to loan-issuing members. Using the credit information report (CIR) provided by the bureau, bankers figure they should be able to avoid disasters like non payment of dues. The credit information bureaus broadly use the following weightages given below to arrive at the score.

(i) Payment History - 35%
(ii) Amounts Owed - 30%
(iii) Length of Credit History - 15%
(iv) New Credit - 10%
(v) Types of Credit in Use - 10%

6.4 WHAT'S A GOOD CREDIT SCORE?

In the US, a FICO score of more than 700 is considered excellent. But whether a score is good or not will depend on the bank's internal policy, its customer profile and its risk appetite. Some bank may perceive 700 as a good score and another may not. Thus, in India, different banks will rank different scores as good. Still, any score over 800 will be considered excellent across the board. But credit score is only an indicative tool for managing risk and its effectiveness depends on the banks' internal control mechanism. An objective thing like the credit score will not only help the banks to reduce defaults but also make loan disbursing faster, improve operational efficiency and bring costs down.

6.5 CREDIT SCORING MODEL

The scoring model used by Cibil-TransUnion employs multiple attributes. The weight it gives to each of these attributes is proprietary information. The following are the details of the attributes.

(i) Credit Utilisation
(ii) Payment History

(i) Credit Utilisation

One of the most important determinants is credit utilisation, that is, how much credit is the customer using. For instance, if you can safely borrow Rs. 1 lakh, but go for a loan of only Rs 50,000, then you are a very safe candidate. It also means that you are not overleveraging.

(ii) Payment history

This is extremely important. The first question that is addressed is: has the person involved ever defaulted on his payments? If he has, it is examined in how many accounts defaults occurred, by how many days and by how much. Earlier, even one instance of default turned you into a bad customer. Today, an otherwise good repayment history can offset the blemish of a default due to unforeseeable reasons.

6.6 MANAGING THE CREDIT SCORE

We have studied about the two important determinants of the credit scoring by banks. But to effectively manage the credit score, the following points are very important.

(i) Credit Utilisation

Effective credit utilisation is a very important step in individual's credit score. If your safe limit is Rs 10000 and you are using only Rs 5000, then you are a very safe customer. If your limit is Rs 10000 and you are not only fully using it, but also seeking further credit, you could be overleveraging yourself and your score could fall.

Are the numbers of enquiries very high? Have you applied for additional credit lines, recently? Unnecessary and frequent shopping for credit or too many new accounts can be taken as an indicator of being over-hungry for loans and impact the score negatively.

(ii) Payment Defaults

How many past accounts are due, by how many days and by how much? The fewer, the better.

(iii) Trade Attributes

How old are your lines of credit and what type are they? Do you have a good mix or is it, say, all credit cards? A history of consistent repayment of various types of credit will improve your score.

6.7 POSITIVE SIDE OF CREDIT SCORE

A good credit score will indicate the character of the borrower in his financial matters. The following are some of the indicators of good score.

(i) Evidence of financial discipline.

(ii) If the borrower has defaulted once or twice due to reasons beyond their control, those would show up as clear aberrations in an overall consistent payment history.

(iii) The longer the credit history, the better. The lender's assessment presumably improves as he gets bigger spans of repayment. One should be judicious about closing old accounts and opening new ones.

(iv) The score normally ranges between 300 and 900 and 800+ is considered as a good score but this may vary from bank to bank.

6.8 WARNING SIGNS IN CREDIT SCORE

The behavioroul pattern of the borrowers will impact the credit score of the borrowers. The following are some of the signals.

(i) Craving for credit.

(ii) Frequent and unnecessary shopping for credit,

(iii) Several new accounts or recent requests for loans can be taken as signs of an over-hungry borrower.

(iv) The length of credit history is also important. Older accounts are generally better, so you should be judicious about closing old accounts and opening new ones.

(v) Trade attributes - does the customer use a good mix of credit?

The above activities will ultimately bring down the credit score. To overcome this the borrower should maintain financial discipline, repay dues on time and do not over leverage themselves. But then how to know one's credit score to maintain financial discipline? Unlike in U.S.A the score is not available to individuals and available only for lending banks. But the days are not far off for the individuals knowing their credit score.

6.9 CREDIT SCORING BUREAU IN INDIA

The first credit bureau in the world. Dun & Bradstreet, (a shareholder in CIBIL) was set up back in 1841. In India. Cibil, in a tie-up with TransUnion of the US, launched the first generic credit score in India. Others have followed—Fair Issac Corporation in a tie-up with High Mark Credit Information Services, and Equifax in association with Crisil and Tata Capital. Let us see the evolution of CIBIL and the services it offers to the banks for credit scoring for retail customers.

Credit Information Bureau of India Limited (CIBIL) is a privately owned company, which collects credit information on over 140 million credit card holders and loan takers. CIBIL is India's first credit information bureau. This credit information bureau was formed on the basis of recommendations of a working group constituted by RBI to establish a world class bureau in India in the private sector, which would be a technology-driven service provider.

The company is owned by a syndicate of banks now, but was originally promoted by the State Bank of India (SBI), Housing Development Finance Corporation Limited (HDFC), Dun & Bradstreet Information Services India Private Limited (D&B) and TransUnion International Inc (TransUnion). A number of banks, including Bank of India, HSBC. ICICI. Central Bank, etc, now hold stakes within this firm.

It helps banks, financial institutions and other financiers to share credit histories of retail and commercial customers. The bureau provides both positive and negative information about bank's borrowers, which empowers lenders in assessing the credit worthiness of potential customers.

CIBIL shares a relationship with all banks based on the concept of sharing. They collate the credit information available from all financing institutions, which are its members, and provide an informed report, which takes into consideration all the financial activities of a consumer when asked for by the bank. Suppose a person has taken a loan from one bank where they have paid their EMI's promptly, however, on another loan taken from a second bank they have defaulted on the payment. In this case, when this customer applies for a credit card or loan again, say to the first bank where his record is impeccable, the bank, by following the norm, would seek out his credit report from CIBIL, which would then show his default oh his prior loan with the other bank. CIBIL works mainly on the concept of reciprocation. Therefore, only those banks, which share all their customers' credit information with them will be given access to the credit reports that CIBIL has. CIBIL's primary job is to collate data on the credit worthiness of all borrowers from banks and prepare customer information reports (CIR) to help credit grantors make faster and more objective lending decisions.

6.10 ISSUES IN CREDIT SCORING

Credit scoring is an enabler for banks to take a call on the risk based on the score and accordingly decide at the price for the risk. IT also enables the banks to speed up credit decisions and disbursement based on the score.

With a bureau in place, responsible customers can expect faster and more competitive services at better terms and rates from banks and other credit companies. Based on CIR, the credit bureau would assign a credit score to every potential borrower which would bring about the differentiation in rates. As per CIBIL norms, customer information reports (CIRs) can be accessed only by member banks. Further disclosure to any other person is prohibited. However, if the bank has drawn a report on you, then you can obtain a copy of the same from the bank. However, a person can access their credit reports directly as well now-a-days by putting in a request to CIBIL directly. One can then go through their report and if there are errors found, one can notify the bank and CIBIL regarding the same. While some people have found out their credit score as well, which is usually a number between 300-900, why is that their score or how can they improve it, if they have no defaults to their name, is still unknown.

On an average a defaulter whose name is on the CIBIL list, and he/she has actually defaulted by intent or circumstances, their name remains on the list for at least 7 years, during which getting a credit card or loan is virtually impossible. The quality of CIBIL reports have further been helped by certain government measures like introduction of PAN numbers and making the same mandatory for availing most banking services.

6.11 MISTAKES IN CREDIT SCORING

It is but natural that mistakes may occur in the credit scoring process due to various factors and if we do not take steps to correct it, our credit score will be arrived at wrongly and will be a detriment when we need a retail loan or credit card. Let us see the common mistakes in credit scoring which will affect the score.

(a) Confusion of Names

There can be lakhs of names that are similar in the CIBIL database. Things can go haywire if a person with your name has defaulted and all his defaults get recorded in your file.

(b) Human Input Error

The information that goes from the banks to the CIBIL on a default may have been erroneous due to simple input error by one of the bank employees.

(c) Identity Theft

This is the most serious of all causes of errors and can have a disastrous impact on a person's credit profile. In recent times, identity thefts are on the rise. Right from a petty shopkeeper who swipes your card several times to sneak in an unofficial payment or track credit card details, which he can exploit, to a terrorist who wants to access a billionaire's account in a remote corner of the world, identity theft is becoming a serious crime that needs check.

6.12 TROUBLESHOOTING CREDIT SCORE

We have to accept that there are chances of mistake in arriving of credit score or mistaken identities creating confusion in the scoring process. Errors and inaccuracies are possible with CIBIL report. The steps for seeking clarifications in your credit report are as follows.

(a) Contact the bank that declined a credit card or loan application on the basis of your poor credit score. Ask them for a clarification on the poor credit score and request them to provide the control number for your credit report.
(b) The bank will provide you with the control number of the credit report and also share the information on the credit report that is responsible for your poor credit score.
(c) Get in touch with CIBIL by calling their help desk numbers in their website, www.cibil.com. You could also drop in an email at info@cibil.com referring your credit report's control number. When attempting to clarify the information on your credit report, you need to inform CIBIL about the exact nature of the discrepancies in the report that you have been made aware of, by the bank.
(d) The control number is a nine digit unique number that helps CIBIL track an individual's credit report from its database. Banks feed in borrower data and personal information, which the CIBIL systems pool together. The control number is generated when banks pull out your credit report on a requirement basis. The control number is a unique number, which is generated every time any bank or credit institution pulls out a credit report on you.
(e) CIBIL requires this number because it enables them to view the exact details that the bank has seen when they drew a report on you. Hence, it is important for you to request the bank to provide you the control number.
(0 When the bank is uncooperative you could post a complaint in the bank's website and if the bank does not respond within 15 days, you can register a complaint with the banking ombudsman.

presenting a copy of the complaint posted on the bank's website as proof. You can either register this complaint through their website, www.bankingombudsman.rbi.org.in or locate the nearest branch office through this link, http://rbidocs.rbi.org.in/rdocs/Content/PDFs/68033.pdf to register your complaint.

(Sources : CIBIL, Article on Mint Newspaper and other sources)

Terminal Questions

1. Credit Scoring Models are based on the following details of applicants:

   (i) Family Size
   (ii) Income Levels
   (iii) Occupation/Business
   (iv) Repayment History on earlier loans
   (v) All the above.

2. The most common mistakes in credit score will be due to the following;

   (i) Confusion of names
   (ii) Human Input Error
   (iii) Identity Theft
   (iv) All the above.

key

1. (v); 2. (iv)

Let Us Sum Up

- For retail asset products, to take a call on the lending decisions, credit scoring models are adopted by banks. Credit Scoring Models are used to arrive at the credit score based on the applicants' family size, income levels, occupation/vocation/business, status, repayment history on earlier loans etc.
- Scores are awarded based on each parameter of reference for arriving at the total score. For each parameter, the strength of the applicant will earn higher scores. This total score by the borrower will be the determinant to enable banks to take a lending call. Credit Score helps banks to take more qualitative lending decisions.

Keywords

Credit Score; Family Size, Income Levels, Identity Theft, Repayment History; CIBIL.

UNIT 7 IMPORTANT RETAIL ASSET PRODUCTS

STRUCTURE

7.1 Home Loans

7.2 Home Improvement Loans

7.3 Home Decor Loans

7.4 Auto/Vehicle Loans

7.5 Personal Loans

7.6 Educational Loans

7.7 Processing of Retail Loans

Terminal Questions Let

Us Sum Up Keywords

As mentioned earlier the important Retail Asset Products are Home Loans, Auto Loans, Personal Loans, Credit Card and Other Personal Loans. Let us see the details of the different retail loans.

7.1 HOME LOANS

No.	*Particulars*	*Features*
1.	Eligibility and Other Conditions	• Individuals/Group of Individuals/Members of Cooperative Society.

		• Individuals should have regular income from Agriculture/Profession/Trade, Business/Salary in case of employment. • In case of employed persons, minimum three years of confirmed service is necessary. • In case of Self Employed Professionals, Business Persons, minimum three years standing in their respective field is necessary. • Applicant should not be enjoying credit facility for the same purpose from any bank/financial institution and should not be a defaulter in the case of any other credit facility from any bank/financial institution. • Applicants who own a house in the name of self or spouse or minor children are also eligible. • Applicant should not be more than 60 years of age.
2.	Purpose	• For purchase/construction of new/old houses/flats and for extension of already owned houses. • In case of old houses/flats, the age of the house/flat should not be more than 15 years.
3.	Amount	• Many banks offer Housing Finance for resident individuals upto Rs.50 lakhs. • For High Net worth Individuals, loan up to Rs.2 crores is considered. • Loan is fixed based on the age and repayment capacity of the applicant.
4.	Margin	• 20%
5.	Security	• First Mortgage of the property to be financed. • The land should be in the name of the applicant or jointly with the spouse who should be a co obligant. The applicant should have a clear and marketable title to the property.
6.	Disbursement	• In case of construction of house, the disbursement will be in stages based on the progress in construction.

		• In case of purchase of plot and construction, loan will be disbursed first for purchase of flat and then as per the procedure described above for construction. • In case of flat, again disbursement will be made based on the progress of construction in case of new flat. • In case of already completed flat and old flats, the loan amount will be disbursed in one go based on the Agreement of sale.
7.	Moratorium	• Holiday period - upto 18 months for construction of house and 3 months for purchase of house/flat.
8.	Prepayment Issues	• Some banks levy pre payment charges for pre closure of loans. • Generally public sector banks do not charge the customers for pre- closure.
9.	Repayments/ Collection	• Normally repayable in 15 to 20 years • Repayment period starts from even 5 years. • Some banks offer loans upto 25 years. • In case of fixed rate loans maximum repayment period is normally 10 years.
10.	Price and Interest Rate	• Interest rate depends on the size of the loan and repayment period. • Interest also depends on whether it is a fixed rate or floating rate loan. • A new pricing model has emerged for Home Loans in the recent past. Step up pricing i.e. lower interest (teaser interest rates to initially attract customers) for the entry years (2 to 3 years) and subsequently hiking to fixed or floating rates prevailing at that time for the remaining tenor. • Interest Band - 8 % to 12 % per annum depending on the tenor and also whether the loan is fixed or floating. • In case of floating rates, rate varies with the Bank's Prime Lending Rate. • In case of fixed rates, the rate is reset over every fixed period; say 5 years, indicating that even on fixed rate loans, the price will vary over a long tenor. • Most of the banks allow switch over from fixed rate to floating rate and a rewriting fee of 1 % is charged and a lock in period of three years is prescribed. • Processing charges varies from 0.5 % to 1 % and some banks waive processing charges during special campaigns to mobilise accounts and as a marketing initiative.

The above retail loan is a plain vanilla product for resident individuals. There are special products for High Net Worth Individuals. Non Resident Indians offered by different banks. In addition, banks offer loans for Home Improvement, furnishing Homes (Home Ddcor) as add on loans or stand alone loans in different brand names. Let us discuss about the different add on Home Loans offered by some banks.

7.2 HOME IMPROVEMENT LOANS

No.	Particulars	Features
1.	Eligibility and Other Conditions	• Individuals/Group ot Individuals/Members of Cooperative Society who owns a house/flat. • Individuals should have regular income from Agriculture/Profession/Trade, Business/Salary in case of employment. • In case of employed persons, minimum three years of confirmed service is necessary. • In case of Self Employed Professionals, Business Persons, minimum three years standing in their respective field is necessary.
2.	Purpose	• For repair, renovation, upgradation, painting, and other repairs.
3.	Amount	• Maximum of Rs. 5 lacs but some banks give higher amounts upto Rs.10 lacs also.
4.	Margin	• 20% to 50%
5.	Security	• Equitable mortgage of property under repair/ renovation or any other unencumbered immovable property also accepted by banks.
6.	Disbursement	• Depending on the nature of repair/renovation.
7.	Moratorium	• 3 months.
8.	Repayments/Collection	• Maximum 10 years.

7.3 HOME DECOR LOANS

No.	Particulars	Features
1.	Eligibility and Other Conditions	• Individuals/Group of Individuals/Members of Cooperative Society who owns a house/flat. • Individuals should have regular income from Agriculture/Profession/Trade, Business/Salary in case of employment.

		• In case of employed persons, minimum three years of confirmed service is necessary. • In case of Self Employed Professionals, Business Persons, minimum three years standing in their respective field is necessary.
2.	Purpose	• For furnishing the house/flat, interior decoration/air conditioners, etc.
3.	Amount	• Maximum of Rs. 5 lacs but some banks give higher amounts upto Rs.10 lacs also.
4.	Margin	• 20% to 50%
5.	Security	• Equitable mortgage of property under repair/ renovation or any other unencumbered immovable property also accepted by banks.
6.	Disbursement	• Depending on the nature of repair/renovation.
7.	Moratorium	• 3 months.
8.	Repayments/Collection	• Maximum 10 years.

Different banks offer different variations of the above loans. But the fundamental approaches of the banks will be to address the entire needs of the customers regarding housing loans.

7.4 AUTO/VEHICLE LOANS

The approach for sanctioning of car loans differs from bank to bank. Private sector banks and foreign banks approach it aggressively while public sector banks generally are not very aggressive in car loans but for a very few banks. Private sector banks adopt a model involving the manufacturer, dealer and the financier(bank).The pricing is structured after a combined approach to pricing by all the three involved factoring the manufacturer's pricing, dealer margin, volume of sales etc., This mechanism results in finer pricing by private banks and foreign banks. In addition, manufacturers themselves float their financing arms and through dealers they extend finance to their own cars through their dealer network. To take the competition on, private and foreign banks go aggressively on the marketing side and conduct special and seasonal campaigns jointly with the dealers to push up the off take of vehicle loans. They do so for both cars and two wheelers. But the two wheeler financing is not a focus area by banks nowadays as the ticket size is small and they are taken care of by Non Banking Finance Companies (NBFC) mostly. Let us discuss below the norms generally adopted by public sector banks for extending car loans.

No.	*Particulars*	*Features*
1.	Eligibility	• Individuals in confirmed service in Government, Public Sector Undertakings, reputed private organisations and institutions.

		• Professional & Self Employed persons ■• Business people • In case of employed people, take home pay not less than 50% of gross salary.
2	Purpose	• To buy new or used car. • In cased of used car, the age of the car should not be more than 5 years.
3	Amounts	• In case of new car, 90% of the invoice price. • In case of used car, 75% of the market value subject to a ceiling of Rs.5 lacs. This may vary among banks. • 90% of the invoice price or 10 times the gross salary or Rs.60000 whichever is less.
4	Margin	• 10% for new cars. • 25% for used cars • 10% for two wheelers. • Margins also may vary with the banks.
5	Security	• Hypothecation of the vehicle to be purchased out of the loan.
6	Disbursement	• Payment to the dealer for the cost of the car on road.
7	Moratorium	• Normally no moratorium. • Repayment of the loan commences from the immediate following month. • Some private banks collect the advance EMI at the time of disbursement.
8.	Prepayment issues	• Public sector banks normally do not charge any pre payment penalty. • Some Private Sector banks collect pre payment while some don't.
9.	Repayments/Collection	• New Cars - Normally 60 Earnest Monthly Instalments (EMIs). Used Cars - 36 EMIs
10.	Price	• Banks charge from 11% to 14% depending on the bank. • Processing charge is also collected by banks and the rates vary across banks.

7.5 PERSONAL LOANS

Personal Loans are basically unsecured in nature and are backed by personal guarantees only. As credit risk and delinquency rates are more in this segment, public sector banks tread cautiously in this segment and private banks do it aggressively. But post global financial crisis, this credit segment is down as private banks have become cautious and also due to southward movement in the demand side.

Personal Loans can be grouped under two segments:

(i) Big Ticket Personal Loans and
(ii) Small Ticket Personal Loans.

Big Ticket Personal Loans are loans in which the ticket size (amount of loan) is above Rs.50,000/- and an average ticket size of about Rs. 1,25,000/-. Small Ticket Personal Loans are loans less than Rs.50,000/ - and an average ticket size of Rs.23,000/-.Small Ticket Personal Loans are mostly extended by Non Banking Financial Companies.(NBFCs) and banks focus mainly on Big Ticket Personal Loans. The features of personal loans are discussed below :

No.	*Particulars*	*Features*
1.	Eligibility	• In most of the public sector banks -Salaried Class employed in Government,Public Sector Undertakings, reputed private organisations and institutions confirmed in service. In private sector banks they additionally cover - • Professional & Self Employed persons and Business people • In case of employed people, take home pay not less than 50% of gross salary.
2.	Purpose	• For any purpose including any social/financial commitment.

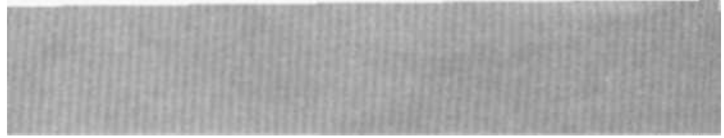
3.	Amounts	• Upto Rs.5 lacs extended by private banks generally. • But public sector banks extend upto Rs.2 lacs generally.
4.	Security	• Unsecured Loans. • Only Personal Guarantee from two guarantors, the salary of each guarantor being almost equal to that of the borrower.
5.	Disbursement	• Generally disbursed in one go.
6.	Pricing Issues	• Pricing will be more as the loans are unsecured. • Normally about 4% above the BPLR in case of PSBs. But private banks price it higher as compared to PSBs.
7.	Moratorium	• No moratorium. Repayment commences from the next month.
8.	Prepayment issues	• No prepayment penalties levied by public sector banks. • But some private banks levy pre payment penalties.
9.	Repayments/Collection	• Normally repayment in 36 monthly EMIs. • Some banks extend repayment upto 60 EMIs in case of big ticket personal loans.

- In case of bulk loans to a group of employed persons, public sector banks insist for either routing the salary account through them or undertaking from the employer to deduct the EMIs from the salary and remit to the bank.
- Banks also take post date cheques from the borrowers (minimum12 and to be replenished annually) for payment of EMIs on the due dates.

7.6 EDUCATIONAL LOANS

India has got the biggest advantage as regards to population and comprises of a good percentage of youth who will take our country forward to make it as a super power. This advantage which our country enjoys is called the "Demographic Dividend". Education is the important tool for empowering youth and to realize this, a simple and hassle free educational loan scheme was devised.By this scheme, nationalised banks were advised to implement a model educational loan framed by Indian Banks Association to make available educational loans to all the eligible students under the scheme. Let us see the important features of the scheme.

No.	*Particulars*	*Features*
1.	Eligibility	• Students studying in Professional/Other Colleges • Indian Banks' Association has brought out a Model Educational Loan Scheme prescribing the modalities to be followed by banks regarding disbursement of educational loans. The objective of IBA is to make the banks to adopt a uniform approach as per the prescribed guidelines. • Amount of loan, purposes, approval requirements of colleges, security prescriptions. • Loan to be given jointly to the student and their parent.
2.	Purpose	• To pursue professional degree/diploma and other course as prescribed in the IBA guidelines. • For studies in India and abroad.
3.	Amounts	• Inland Studies - Upto Rs.10 Lacs. • Foreign Studies - Upto Rs.20 Lacs • In case the amount required is more, the same can be considered by banks on a case to case basis.
4.	Security	• Upto Rs.4 Lacs - No security. • Above Rs.4 Lacs and upto Rs.7.50 Lacs - Additional Personal Guarantee worth the amount. • Above Rs.7.50 Lacs - To be secured by tangible asset to cover the loan in the form of property, Govt. Securities like NSC.KVP etc.,



5.	Disbursement	• To be disbursed in stages - semester wise or annual payments as per the requirements of the institutions • Payment to be made direct to the institution.
6.	Moratorium	• One year after completion of the studies or employment which ever is earlier.
7.	Prepayment issues	• No prepayment charges. • But generally pre payment will not happen in Educational Loans as the repayment is fixed only after completion of the studies and revenue streams for pre payment will be very rare. • But parents have the option to service the interest whenever due and if interest is serviced, Tax Exemption for interest serviced is available. • Some banks offer Interest Rebate of 1% for prompt repayment of the loan.
8.	Repayments	• Repayable in 60 monthly instalments (EMIs) after the moratorium period as prescribed above.

In addition to the core retail loans discussed as above, banks are structuring specific need oriented retail loans to niche retail segments. Loans to Professional like Doctors. Advocates, Architects, and Chartered Accountants for their professional development are structured by banks to cater to their customer segments. Banks always look for opportunities to introduce different and need oriented products to satisfy their customer needs as well as to bring in new customers into their fold.

7.7 PROCESSING OF RETAIL LOANS

The success of retail asset expansion by banks depends on the processing speed of retail loans and making the procedures hassle free for the customers. Banks adopt different models for processing of retail loans. The important models of retail loans processing are explained below:

(i) Stand Alone Model and
(ii) Centralised Model

Stand slone Model for Retail Loan Processing

Stand alone model for retail loan processing refers to processing of retail loans independently at the branch level. Based on the discretionary powers given the Branch Head, Branch will market the retail loans and process and sanction the loans based on the eligibility of the applicants. Obtention of the necessary documents, appraisal of the proposal and sanction of the loans will be done independently at the branch level. The valuation, legal opinion etc, are obtained at the branch level through the approved panel valuers/lawyers. If the proposal exceeds the discretionary limits of the Branch/Branch Head (as the case may be),the proposals are referred to the Regional/Circle/Zonal Office of the Bank for approval and sanction. On approval, the loan is released at the Branch after completing the documentation/mortgage formalities at the branch level.

Centralised Model for Retail Loans Processing

Centralised Model for retail loans processing refers to processing of loans at a centralised place depending upon the geography of branches. Banks adopt different centralised models for processing of retail loans. Some of the names. Banks give to these retail loans processing centres are

(i) Retail Loan Factory
(ii) Retail Loan Hub
(iii) Retail Loan Processing Centres
(iv) Retail Asset Processing Centres
(v) Retail Loan Branches

To explain further, some banks set up exclusive retail branches through which they sanction all retail loans in that location/specified geography. Some banks set up retail loan factories in specified locations and do the end to end processing at that branch. Some banks set up retail loan processing centres at metros, state capitals and centres where there is good potential for retail lending. These branches/ processing centres will be fully supported with marketing personnel, panel lawyers, approved valuers etc. for speeding up the process, sanction and disbursal. The process/workflow of these centres are on the following lines:

1. Branches attached to the Retail Loan Processing Centres (RLPCs)and marketing personnel in these centres market various retail asset products to the target segments. Business is sourced in both the above ways based on the customer data base as well as market scenario and market intelligence.
2. The application and the required documents are forwarded to the retail loan processing centres. In some banks, relevant information is transmitted electronically by the branches for quick processing.
3. On receipt of application and details from the branches, RLPCs do the following steps:

    (i) Process the application.
    (ii) Do the verification checks.
    (iii) Arrive at the Credit Score.
    (iv) Do the valuation (wherever applicable) through the panel valuer.
    (v) Obtain the Encumbrance Certificate (wherever applicable) through the panel lawyers.
    (vi) Obtain the legal opinion (wherever applicable) from the panel lawyer.
    (vii) Arrive at the quantum of finance based on the margin requirements for different loans.
    (viii) Pricing of the loan based on the Type of Loan/Credit Score/Individual Borrower/Group Borrowers.
    (ix) Advising the sanction of the loan to the Borrower/Branch with the terms and conditions.
    (x) Receiving acceptance for the terms and conditions from the applicant.
    (xi) Execution of documents for the loan and also completing the mortgage formalities wherever applicable (any mortgage backed retail loans like Housing Loans etc.,).
    (xii) Release of the loan to the borrower.
    (xiii) Verification of end use by the borrower.

The procedures for sanction and disbursement of loans through RLPCs vary among banks. In some banks, appraisal and upto sanction are taken care of by RLPCs and post sanction formalities like release of loan, documentation, creation of mortgage.follow up and monitoring are taken care of by the respective

branches. In some other banks, RLPCs function as separate branches. They offer end to end solutions right from processing to release and also monitoring and follow up. Branches have to just source the business and forward the details to RLPCs. They do the rest of the job. In both the above methods, the objective is to speed up the process of sanctioning retail loans.

Stand Alone Vs Centralised Model for Retail Loans Processing

The above two models are implemented by banks for quick disposal of retail loans. Both the models have their own advantages as well as disadvantages. Let us discuss some of them.

S.No	*Stand Alone Model (Branch Level Processing)*	*Centralised Model (Retail Loan Processing Hubs/Centres)*
1.	Better Understanding of the customer requirements.	Based on documents only.
2.	No standardised approach	Standardised approach.
3.	Retail Loans are only one part of the multiple activities.	Exclusive activity and hence will be more faster and professional in approach.
4.	Difference in quality of appraisal based on the branch and its personnel.	Quality will be uniform as the activity is exclusive.
5.	Processing time may differ based on the priorities of the branches and importance of the customers/proposals.	Processing time will be uniform and based on fixed Turn Around Time (TAT) for different retail loans.
6.	Compliance of appraisal norms may be biased based on the customer profile.	Uniform and impersonal appraisal standards.
7.	Documentation standards may not be uniform.	Professional documentation standards.

The above are only illustrative and not exhaustive. To sum up. RLPCs definitely have an edge with regard to processing of retail loans as compared to processing at branches. But as said above, branches will understand the customers' requirements on a personal basis as against the mechanical approach of RLPCs. But the introduction of RLPCs by banks has definitely helped banks to improve the quality appraisal and reduce the documentation gaps as compared to branch level appraisal.

Terminal Questions

1. Home Loans are sanctioned by Banks for the following purposes:

   (i) Purchase/Construction of House.
   (ii) Purchase/Construction of Flat
   , (iii) Purchase of land and construction
   (iv) Additions to the existing house
   (v) All the above.

2. Auto Loans are given by banks for the following purposes:

   (i) Purchase of New Car
   (ii) Purchase of Used Car
   (iii) Purchase of Two Wheelers
   (iv) All the above.

3. Personal Loans are sanctioned by banks based on

   (i) Salary in case of employees
   (ii) Monthly/Annual Income in case of business
   (iii) Number of years of service/in business
   (iv) All the above.

4. Retail Loan Processing Centres of banks are designed to

   (i) Source retail asset business
   (ii) Process retail loans

(iii) Do the valuation/legal opinion wherever necessary
(iv) Release the loan either at their end or advise sanction to branches.

Key

l.(v);2. (iv);3. (iv); 4. (iv) **Let**

Us Sum Up

- In the retail asset site, the important products offered by banks are Home Loans, Educational Loans, Personal Loans and other retail loans developed for specific customer segments.
- Each loan is designed for a specific purpose and need and structured in such a way that the needs and requirements of different customers are taken care of.
- Banks process and sanction retail loans in two different ways. They sanction retail loans on a stand alone basis (through the branches) or through a centralised model (through retail loan processing hubs/centres).Each model has its own advantages as well as disadvantages. In the branch model, personal touch is more, in the centralised model, more professional approach is followed. The introduction of RLPCs has definitely helped banks to improve the quality of appraisal and also has reduced the gaps and deficiencies in the documentation side.

Keywords

Retail Loans; Home Loans; Auto Loans; Personal Loans; Educational Loans; Retail Loan Processing Centres.

CREDIT AND DEBIT CARDS

STRUCTURE

8.1 Credit Cards

8.2 Evolution of Credit Cards

8.3 Type of Credit Cards

8.4 Salient Features of Credit Cards

8.5 Credit Card Issuing Process

8.6 Debit Cards

8.7 Credit Cards vs Debit Cards

Terminal Questions Let

Us Sum Up Keywords

8.1 CREDIT CARDS

What is a credit card? A credit card is a thin plastic card, usually 3-1/8 inches by 2-1/8 inches in size that contains identification information such as a signature or picture, and authorizes the person named on it to charge purchases or services to his account — charges for which he will be billed periodically. The information on the card can be read by ATMs, Point Of Sales (POS) Terminals at different establishments like Textile Stores, Super Markets, Jewellery Showrooms, Book Shops, Restaurants etc.. Before we go into the details of the end to end process cycle of the issue, use and management of credit cards, let us have a look into the operational process of credit card usage.

- **Different Type of Cards, Targeted Volumes and Business, Customer Screening and Selection based on Credit Scores, Type of Card, Card Limit etc.**

- **Usage Pattern and Frequency, Usage Amount. Type of Usage**
- **Percentage Usage to Total Limit on a regular basis**

- **Frequency of Card Payments - one time payment or using the credit limit and paying in instalments**
- **Payment on or before due dates, delayed payments and payment defaults**

Fig. 8.1 Operational Process of Credit Card Usage

To put it in a simple way, the concept behind Credit Card is "Buy Now, Pay Later". It sounds very simple but credit cards have lot of complexities. Credit Cards are plastic cards that double up in lieu of money for payment of goods/services and also enable withdrawal of cash if needed. The payments made through the card or cash withdrawn have to be paid after a certain agreed period of time and also with a payment option spread over a period. The process starts with the usage of the card and ends with the payment of card dues. The process gets repeated over a period depending upon the needs of the card user and also the periodicity of needs and requirements. Cards as a payment instrument have evolved tremendously over the past decade in India and the same are reflected by the volumes and values as shown below.

Service	*Transaction Volumes (ooos)*		*Growth in Volume* ***(%)***		*Transaction Values (Rs. in Crs.)*		*Growth in Value* ***(%)***	
	2008	2009	2008	2009	2008	2009	2008	2009
CREDIT CARDS	228203	259561	34.6	13.7	57984	65356	40.2	12.7

The volumes and value have shown a good growth 34.6% and 40.2% respectively in 2008 but has come down in 2009 basically due to the economic melt down and shrinkage in consumption by the consumers.

Let us look in detail, the evolution, growth, mechanics and dynamics of credit cards.

8.2 EVOLUTION OF CREDIT CARDS

Global Scenario

Credit Cards had their origin right from 1800s. It was first practiced by shop keepers who wanted a fast way of keeping track of customer purchases made on credit. Instead of constantly writing down their customers' personal information, they issued tokens with numbers on them. When the customer made a purchase the store keeper simply had to write down the token number. The history of credit cards is not all that exciting since nothing major happened for the creation of credit cards to come into being.

In the United States during the 1920s, individual companies, such as hotel chains and oil companies began issuing them to their customers for purchases made at those businesses. This use increased significantly after World War II.

The first universal credit card that could be used at a variety of stores and businesses — was introduced by Diner's Club Inc., in 1950. With this system, the credit-card company charged cardholders an annual fee and billed them on a monthly or yearly basis. Another major universal card — "Don't leave home without it!" — was established in 1958 by the

American Express Company. In 1951 the Franklin National Bank thought of a revolutionary new way of issuing credit to their customers. They created revolving credit accounts which allowed their customers to borrow money, repay it and then borrow again without constantly having to be approved for a loan so long as they stayed under their credit limits. Soon other banks started following in their footsteps and began offering their customers revolving lines of credit.

Next the banks started issuing credit cards that could be used to make purchases at local merchants. However, customers quickly wanted to be able to use their credit cards beyond their own localities. Later came the bank credit-card system. Under this plan, the bank credits the account of the merchant as sales slips are received (this means merchants are paid quickly — something they love!) and assembles charges to be billed to the cardholder at the end of the billing period. The cardholder, in turn, pays the bank either the entire balance or in monthly installments with interest (sometimes called carrying charges).

The first national bank plan was BankAmericard, which was started on a statewide basis in 1959 by the Bank of America in California. This system was licensed in other states starting in 1966, and was renamed Visa in 1976.

Other major bank cards followed, including MasterCard formerly Master Charge. In order to offer expanded services, such as meals and lodging, many smaller banks that earlier offered credit cards on a local or regional basis formed relationships with large national or international banks'(Source: *Wikipedia and other Internet Resources)*

Indian Scenario

Citibank and HSBC were the pioneers in the Indian credit card market in the 1980s. Over the next two decades, the number of players increased to more than ten in 2000. The credit card market registered a healthy annual growth rate of over 25% during 1987-2001.Among the public sector banks, Andhra Bank, Bank of Baroda were the early starters followed by Bank of India. Among the foreign banks,

Standard Chartered Bank entered the credit card space and built volumes steadily. Canara Bank is another bank which entered credit card space subsequently but improved the volumes by tie up with other PSBs like Union Bank of India, Indian Overseas Bank etc., Canara Bank pioneered the concept of franchisee and co branded model in credit cards space for achieving critical mass in credit cards. But in spite of all the above developments, foreign banks continued to dominate the credit card market in India till the entry of two big local players viz., ICICI Bank and subsequently State Bank of India. Both the above banks aggressively launched their credit card initiatives and penetrated the market with user friendly requirements for availing the cards. State Bank of India started a separate subsidiary with GE Capital for their credit card operations. HDFC Bank is another major player along with the above two. A number of banks, both foreign, private and PSBs entered into the credit card space down the line but Citibank. Standard Chartered Bank, State Bank of India, ICICI Bank and HDFC Bank dominate the credit card market with more than 90% market share.

8.3 TYPE OF CREDIT CARDS

Credit Card as a product has a generic name but within the generic concept a number of sub brands which have different characteristics exist. The following are the main types of cards issued by banks.

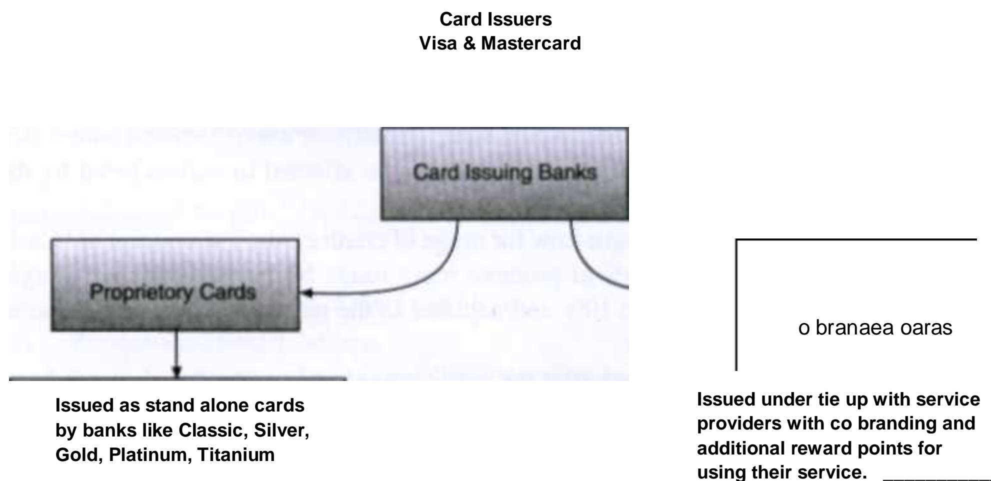


Fig. 8.2 Types of Cards

The proprietary card issuers like Visa and Master Card tie up with banks for issue of credit cards. Banks issue the cards under their brand and market the cards aggressively based on their business plan for credit cards. While marketing the cards they mention clearly their association of the card issuer in the card so that the brand equity of the card issuer is an impetus for generating volumes.

Mainly credit cards are issued by banks in two formats viz., the proprietary format and the co- branded format. In the proprietary format, banks issue the card in different brand names like Classic. Silver,

Gold, Platinum, Titanium etc.. Credit limits, cash withdrawal limits and other facilities will depend on the type of card. In the co branded format, banks tie up with service providers like Hotels, Oil Companies, Airline Companies etc. and offer the cards as a co branded product with the brand name of the tied up company also embossed in the card. This enables brand recall and results in better utilization of the products offered by the tied up product. Special incentives/reward points are offered for using the co branded card.

8.4 SALIENT FEATURES OF CREDIT CARDS

1. Credit Cards are accepted globally through their affiliation with Visa and Master Card.
2. Credit Cards are issued with limits of usage called "Card Limit" which fix the upper limit upto which the cards can be used. Within the overall limit, limits on cash withdrawal through ATMs are fixed which will be equal to or less than the total card limit. While the overall limit can be used at any point of time without any charges, for withdrawal of cash, finance charges are recovered depending upon the frequency of withdrawal.
3. Credit cards have a regular billing cycle and billing date and due date of payment is decided from the billing date. The period after which payment is to be made after the billing date is called as the free credit period and will be usually between 20 days and 50 days and differ across banks.
4. To induce usage of cards, reward points are awarded based on the amount and type of usage. Reward points vary for different classes like Silver, Gold, Platinum, Titanium etc., The reward points will be awarded based on the usage and will be a fixed points per Rs. 100 and the total reward points for the usage will be based on the usage and calculated per Rs.100.The reward points can be redeemed by the card holders as prescribed by the card issuing bank. Usually, for every 2 reward points. Re 1 will be redeemable and the redemption of reward points can be affected in outlets listed by the card issuer.
5. Another promotional concept is in vogue now for usage of credit cards. The concept of "Cash Back Offer" was introduced in credit cards to promote more usage by incentivizing the usage. This incentivisation is offered from 2% to 10% and adjusted in the payment. Cash Back Offer always comes with a cap on the total amount.
6. The payment for the usage of the card after the credit period and on the due date can be paid in different ways. The payment can be made in full on or before the due date. Alternatively, a minimum of 10% of the outstanding amount can be paid every month on due date. The third option for payment is to convert the outstanding amount into a loan and repay the same in equated monthly installments (EMIs).

7. Charges for late payment beyond the due date is collected as late fees and varies from Rs.200 to Rs.500 across banks.
8. Cards are issued with photos also as add on feature.
9. Liability for the card holder in case of loss of cards is limited to a small amount in case of most of the credit card issuers. Usually the liability is restricted to Rs. 1000/- (Rupees One Thousand Only) and the balance liability if any is borne by the card issuer through an insurance protection. Liability for lost card can be controlled from the time the loss is reported to the card centers which operate on a 24 hour basis.
10. For online purchases using credit cards, additional password protection just like PIN for ATM transactions can be secured with special security features such as Verified by Visa, Mastercard Secure Code et., and the above procedure is mandated by Reserve Bank of India.
11. Some banks offer free personal accident insurance cover for the card holders ranging from Rs. 1 Lac to Rs. 10 Lacs depending on the type of card.

8.5 CREDIT CARD ISSUING PROCESS

Issue of credit card involves the following processes.

1. Obtaining an application from the prospect.
2. Processing the application.
3. Analysing and arriving at the Credit Score.
4. Decision on the type of card to be issued.
5. Issue of Card & PIN Mailer
6. Dispatch of Card & Acknowledgement of Receipt.
7. Card Operations.

Let us discuss the different aspects of the issue and operations in detail.

1. Credit Card Application Form

The details called for in the application form of a public sector bank are discussed below:

(a) Personal Data of the Card Applicant

(i) Name of the applicant
(ii) Name to be embossed in the Credit Card
(iii) Present Residential Address
(iv) Permanent Residential Address
(v) Contact Telephone Numbers - Landline and Mobile
(vi) Nationality
(vii) Income Tax Permanent Account Number (PAN Number)
(viii) Identity/Residential Proof Details - Passport/Voters ID/Driving License/Ration Card
(ix) E -mail Address
(x) Date of Birth & Age
(xi) Sex
(xii) Educational Qualifications
(xiii) Marital Status
(xiv) Residential Ownership Status
(xv) Vehicle Ownership Status

(b) Official/Professional Status

(i) Professional Status - Salaried, Self Employed, Business/Profession, Retired/Pensioner.Housewife etc.,
(ii) Company & Ownership Details

If employed - Public Sector/Private Sector/MNC

If Self Employed - Proprietor/Partner and Ownership Stake in percentage.

(iii) Designation/Profession

(iv) Completed years of experience in Service/Business/Profession.

(v) Name of the Company/Firm

(vi) Business/Office Address & Contact Numbers

(vii) Mailing address for Bills. - Residence, Office, email, mobile alerts.

(c)About Income

(i) Income from Salary/Business/Profession with proof

(ii) Other Income with Source

(iii) Income of Spouse - with proof

(iv) Spouse Name

(v) Spouse's Employment Details.

(d) Particulars of Savings and Liabilities

(i) Details of Bank Deposits Held

(ii) Details of Credit Facilities availed with Banks.

(e) Details of Immovable Properties Owned

(i) Residential House

(ii) Land/Plot

(iii) Total Value of the Property

(f) Details of Bank Account

(i) Name of the Bank & Branch

(ii) Type of Account - Savings/Current

(iii) Year of opening

(iv) Details of other accounts

(g) Details of Other Cards

(i) Other Credit Cards - Card Issuers/Card Limits/Expiry Date

(ii) Outstanding in Other Credit Cards.

(h) Nomination Details for Accident Insurance Cover

(i) Details of the Nominee - Name & Age.
(ii) Relationship
(iii) Address

(g) Payment Instructions

(i) Standing Instructions/ECS Payments Mandate
(ii) Bank Account Details for Payment Debits.

(h) Request for Add on Cards:

(i) Details of Add on Holder - Name, Age, Date of Birth, Relationship
(ii) Name to be embossed.

(i) Photos of the Card Applicant and Add on Members

(i) Photos of the applicant and add on members for incorporating in the cards. *(j)*

Declaration

(i) Confirmation about the terms and conditions for issuing the card.
(ii) Confirmation about the details submitted in the application form.
(iii) Confirmation for allowing the card issuing bank to share the information among other banks/ credit bureaus/other institutions.
(iv) Confirmation for the liability that may arise out of usage of add on cards.

If we look at the above information obtained by the card issuing banks, the objective is to get a holistic picture of the applicant to consider issue of a card and also a suitable limit based on the total picture reflected by the details in the application form. The details are processed by awarding a score for each element of information and arrive at the total credit score for taking a call on the card limit. To understand the above concepts let us look into a simple Credit Card Scoring Module for awarding the score.

8.6 CREDIT SCORING FOR CREDIT CARDS

Credit Scoring Module for credit cards consists of two parts.

Part I deals with the criterion to take a decision to issue a card or not.

Part II deals with the scoring for various parameters submitted by the applicant.

Credit Card Scoring Module - Part I

Part I deal with the eligibility criteria for issuing a credit card and check the primary status of the applicant.

S.No	*Criteria*	*Yes/No*
1	Is applicant a major and above 21 years of age	
2	Is the applicant residing in the present address for the past more than 6 months and has been identified to the satisfaction of the Branch.(If it is less than 6 months then valid reasons are given for shifting)	
3	If above address is temporary, whether permanent address is given?	
4	Is the applicant an existing customer of the bank and satisfactorily operating the bank account? OR The identity of the applicant has been established beyond doubt through standard acceptable proof such as Income Tax/PAN Number/ID Card/Driving License/ Passport/Ration Card.	
5	(i) Is the applicant serving and his minimum service is 3 years? OR (ii) Is the applicant self employed or a professional and he has been in this current profession for more than 2 years? OR (iii) Does the applicant have a positive net worth and earnings are reasonable to service and repay the dues in the credit card?	
6	Are the minimum annual income criteria as per norms satisfied?	

For all the above questions, a "YES" response is required, if the application is to be entertained. Only if the applicant clears the Part 1, the Part II portion will be assessed to arrive at the credit score. If the response to Part I is not on the desired lines, the process will stop and card request will be declined. Let us proceed to Part II of the Scoring Module.

Credit Card Scoring Module - Part II

Score will be allotted in a graded manner for different parameters and the total of the score will reflect the credit score of the applicant. The arrived score will form the basis for the final decision on the sanction of the credit card and the total score shall confirm to the benchmark prescribed by the bank. In this example the minimum qualifying score is fixed as 50 by the public sector Bank. Let us see the scoring module.

S. No.	*Parameter*	*Categories*		*Marks Scored*
		Band	Score	
1.	Age	(i) 21 -30	4	
		(ii) 31 -45	5	
		(iii) 46-59	3	
		(iv) = or > 60	1	
2.	Educational Qualifications	(i) Professional/PG	5	
		(«) Graduate	4	
		(iii) Diploma	3	
		(iv) Undergraduate	2	
3.a	Nature of Organisation working	0) Govt./Public	5	
		(ii) Public Ltd. Co.	4	
		(iii) Pvt. Ltd. Co.	3	
		(iv) Others	1	
3.b	Self Employed/Ownership stake	(i) Solely Owned	5	
		(ii) Owning => 50%	4	
		(iii) Owning < 50%	2	
4.	Length of Service or Years in Profession/Business	(i) => 5 years	10	
		(ii) => 2 yrs < 5 yrs	5	
		(iii) => 1 yr < 2 yrs	3	
		(iv) < 1 year	1	
5	Dependants	(i) <=2	5	
		(«') 3 to 4	3	
		(iii) > 4	1	
6	Owning a House	(i) Self Owned	5	
		(ii) Company provided	4	

		(iii)	Parent Owned	3	
		(iv)	Rented	2	
		(v)	Others	0	
7	Owning a Vehicle	(i)	Self owned Car	5	
		(ii)	Financed Car	4	
		(iii)	Company provided Car	3	
		(iv)	Two Wheeler	2	
		(v)	Other	0	
8	Annual Income	(i)	> Rs.10 lacs	25	
		(«)	> 5 lacs <= 10 lacs	20	
		(iii)	> =2 lacs < 5 lacs	15	
		(iv)	<= 2 lacs	10	
9	Spouse Income	(i)	> Rs.10 lacs	3	
		(ii)	> 5 lacs <= 10 lacs	2	
		(iii)	< 5 lacs	1	

10	Banking with the Bank	(i) > 3 years	5	
		(ii) 1 - 3 years	3	
		(iii) 6months to 1 year	1	
		(iv) < 6 months	0	
11	Deposits with Bank	(i) > 5 lacs	10	
		(») 3 to 5 lacs	5	
		(iii) >1 lac to < 3 lacs	2	
		(iv) <= 1 lac	1	
12	Existing Credit Cards	(i) > 1 card	2	
		(ii) 1 card	1	
		(iii) No card	0	
13	Integrity, Character, Conduct and Branch Experience with the party	0) Excellent	11-15	
		(H) Good	6-10	
		(iii) Fair/Satisfactory	1-5	

If we look at each of the parameters, the score is based on the strength of the parameter. For example, more the income level more will be the score as the default risk is less. Likewise, in the employment parameter, the nature of job will be a determinant of the score. The classic case is the employees of software companies. In 2008, when there was a scam in a big software company, the employees' credit and cash withdrawal limit were immediately reduced drastically by the card issuing banks due to fear of job retrenchments and losses, hence expected higher default risk. In the same way, owning a house will carry a better score than a rented house. Employment of the spouse will get additional score. Likewise, an existing customer of the bank with good account relationship will earn a better score. In the same way, a person who already holds a credit card will get a better score as he had already been rated by another card issuer. The number of dependants is another factor. More the number of dependants less will be the score as the expenses will be more in a bigger family. Type of ownership of vehicle is another important parameter. Higher the type of vehicle, more will be the score as it reflects the social status and income levels.

The sum total of the score calculated for each parameter will indicate the risk perception for issuing the card. More the score less will be the risk of default in payment for usage of credit card. Credit Scoring is an effective risk mitigation tool used at the time of issuing the credit card.

If the credit score is at an agreeable level, then card limit will be finalized and approved by the competent authority. After approval, card and the PIN Mailer for operating through ATMs for cash withdrawal will be issued. Issue and dispatch of Credit Cards and PIN Mailers are usually outsourced by banks through authorized service providers.

Important Terms in Credit Card Operations

There are different terms used in credit card operations spelt out by card issuing banks for the various usage patterns. Credit Card users should clearly understand the meanings of the different terms and also

know the implications of each term in the operations of credit cards. The important terms used in the credit card operations with regard to Fees, Charges, Interest etc., are discussed below:

Joining Fees & Annual Fees

Joining and Annual Fees are charged at the time of issue and at the end of every year respectively and varies with the type of card. While standard cards are issued 'life time free' by most of the card issuers as a marketing strategy, most of the premium cards are charged with annual fees or one time fees or free based on the card issuer.

Charges

Charges are levied from time to time and are payable by the cardholders for the different services offered by card issuing banks.

(i) **Finance Charges** - Applicable in the event of the card member deposits part of the Total Payment or the Minimum Amount Due. The balance outstanding amount payable shall be carried forward to subsequent statements. The amount attracts finance charges on entire outstanding including fresh purchases and other bank charges till the date of full and final payment. Finance Charges on cash advances are applicable from the date the card holder incurred the transactions until they are fully paid.
Finance charges are calculated on a daily basis at the end of every day based on the current outstanding balance of the customer.

Illustration:

- Balance outstanding as on the statement date - Rs.20000
- Balance is not paid on the due date.
- Interest - 3.5% per month
- Daily Interest Charge for the above balance is = 20000 x (3.5% x 12 months)/365 = Rs.23.01
- Total interest payable by the next statement cycle (after 30 days) = Rs.23.01 x 30 = Rs.690.41 + Service Tax

(ii) **Minimum Amount Due** - Minimum Amount Due (MAD) is calculated by adding New Debits for the month, previously unpaid payments and other charges. Minimum amount also includes the amount by which the card holder exceeded the card limit.
Minimum Amount Due every month shall be higher of the following:

(a) 5% of the statement outstanding or
(b) Sum total of all installments billed, interest, fees, other charges, amount that is over limit and 1 % of the principal or
(c) Rs.250/-. In case of default or if the statement balance is less than Rs.250/-. the entire outstanding amount has to be paid.

Minimum Amount Due is a very teasing concept in credit card dues repayment. It is intended to generate more revenues for the card issuer as it will prolong the repayment and interest will be charged at exorbitant rate for the balance amount. For example, if we spend Rs. 10,000/- and pay back exactly the Minimum Amount Due every month, it will take approximately 6.5 years to pay back the complete amount.

(iii) **Maximum Interest Free Period:** Maximum Interest Free Period is the period for which no interest is charged for the card balances subject to the condition that there are no outstanding previous card dues. The period depends on the type of card and may vary from 20 days to 50 days depending on the card issuer. This is applicable only on retail purchases and if previous month's balance is paid in full.
Illustration :

1. Assume that your statement date is 2nd of every month.

2. For example, your 2nd October Statement will contain all your transactions that have been billed between 3rd September and 2nd October and you have to pay in 22 days time and the card due date shall be fixed based on that.
3. If you make a transaction on 3rd October, it will appear on the statement of 2nd November and the payment due will be 22 days thereafter. But if the payment in full is not paid by the due date, then interest will be charged for the whole period and subsequent purchases.

Interest Free Period does not apply for Cash Advances and Revolving Balances.

(iv) **Annualised Percentage Rate (APR)** : Interest will be charged for the unpaid balances as on the due date and also subsequent purchases. The interest rate was expressed as a monthly percentage rate previously to reduce the impact of high rates when calculated on an annualized basis. But regulatory prescription had resulted in credit card issuers to clearly mention the interest rate on an annualised percentage rate. The monthly interest is annualized to arrive at the Annualised Percentage Rate (APR).As an illustration, let us see the APR charges by a card issuing bank for different types of transactions.

(a) Monthly retail interest of 3.1% p.m. is annualised to arrive at an APR of 37.20%
(b) Cash Transactions will attract an interest rate of 3.49% and APR of 41.88%.
(c) The interest rate for retail transactions is variable and will vary between 2.49% p.m. (APR of 29.88%) and 3.49% p.m. (APR of 41.88%).
(d) In case of EMI Cards, monthly interest rate of 2% is annualised (APR of 24%) on transactions greater than Rs.2000/-.

From the above, it will be clear that interest rate varies with the type of transactions and more for cash withdrawals as compared to other retail transactions, though both the rates are abnormally high. But the rates are fixed high because card dues are unsecured and the expected delinquencies will be always high. But APR will be reviewed by most of the card holders every 3 months based on the card usage and repayment behavior.

(v) **Other Charges & Penalties:** Credit Card issuing bank levy different types of charges and penalties. The charges/penalties for various facilities/defaults charged by a bank are detailed below. It may vary among banks but broadly on the following lines:

S.No.	*Type of facility/Penalty*	*Charges*
1	Cash Advance Transaction Fee	2.5%(Min. Rs.300) of the cash amount
2	Card Replacement (lost/stolen/re-issue/ any other)	Rs.100/Rs.200 depending on the card
3	Overdue Penalty/Late Payment Fee	15% of Total Amount Due (Min.Rs.350, Max.Rs.650)
4	Over Limit Penalty	Rs.600/-
5	Cheque Return/Dishonour Fee	Rs.500/-

The charges are structured high to prompt repayment in time and operate within limits with sufficient balance in accounts to honour repayment cheques.

The above discussions on credit cards and their different dimensions throw open lot of important revelations about credit cards.

1. Credit Cards are customer friendly initiatives empowering them with financial limits to use it for different purposes including cash withdrawals.
2. But credit cards if not used judiciously will result in a debt trap on account of high financial charges and interest charges.
3. Credit Cards Receivables are unsecured advances for banks and hence higher pricing for card receivables.
4. Profitability from credit card operations is quite high due to higher interest charges but at the same time, the defaults/delinquencies will also be on the higher side.
5. Credit card usage should be strictly as per the terms of the card and any deviation will attract heavy charges. To put it simply credit cards are double edged swords which have to be used very carefully and judiciously.

8.6 DEBIT CARDS

The characteristics of Debit Cards differ vastly from Credit Cards. As already explained, Credit Cards define the concept of "Buy Now, Pay Later" but Debit Cards explain the concept of "Buy Now and Pay Now". The important aspect of

Debit Card is that at the point of purchase itself, the payment is made directly from their account balances. The details of the account are embedded in the debit card and can be used at both merchant locations through a POS Machine for purchases made and also in ATMs for withdrawal of cash. The technology aspects of credit and debit cards are same with regard to usage, size, numbering etc., but there are differences between credit and debit cards with regard to features and charges. When debit cards were introduced initially, they were marketed with sub brand names Electron (Visa), Cirrus (Master).But the Electron and Cirrus are not seen nowadays and simply issued as International Debit Card by both Visa and Master.

Debit Cards are issued when account is opened with the bank and had become an essential value addition for Savings Banks and a part of the core product. Debit Cards are issued by banks in two ways. At the time of issue, a generic debit card without embossing the name is issued for immediate operations. The second way is, after opening account, the account details are incorporated and embossed/loaded in the debit card and issued within two/three weeks from the opening of the account. Like Credit Cards, Debit Card operations are centralized in banks. The card can be used for any operations like payment of purchases, cash withdrawal (subject to per day limit) through ATMs, Utility Payments etc. The important differences between Credit Cards and Debit Cards are summarized below:

8.7 CREDIT CARDS VS DEBIT CARDS

S.No.	*Credit Cards*	*Debit Cards*
1.	Different Types of Credit Cards are offered by different banks.	All banks offer a standard type of Debit Card either with Visa or MasterCard.
2.	Card Limit varies with individuals.	No limit prescribed as drawing is from the existing balance in the account.
3.	Allows purchases at one point and payment to be made subsequently.	Purchase and payment are happening at the same time.
4.	Free Credit Period is allowed.	Not applicable as payment is instantaneous.
5.	Payment can be made in EMIs converting the dues as a loan.	Direct debit from the account at the point of purchase.
6.	Interest is charged for unpaid and carried over balances.	Not applicable as payment is instant.
7.	Various Charges/Penalties are levied for facilities and defaults.	No penalty or charge of any nature.
8.	Specific Cash Withdrawal Limits are set within the card limits.	The limits can be set as per customers' requirements.
9.	Default Risk is high.	No Default Risk.
10.	Assumes the character of an Asset: when the card is used it becomes a Receivable.	Debit Card is only an operative instrument of a Liability Account. (Savings Accounts)

The above mentioned are some of the visible differences between Credit Cards and Debit Cards.

Apart from Credit and Debit Cards, a new class of cards has emerged in the recent past and has become an integral part of retail banking in banks. These cards are called as Prepaid Cards or Pre Loaded Cards. These cards are pre loaded with specific amount and offered as bearer cards with a PIN Number. The main feature of the card is that the card can be used by the bearer of the card only for purchases upto the amount loaded in the card.No cash withdrawal is permitted in the card. It is mainly intended as a Gift Card to be gifted to anybody with a choice to use it for any purpose except withdrawing of cash for the amount loaded. The advantage of the card is that it is a bearer card and anyone can gift it to anybody and the card can be used within the validity period for any purpose. Prepaid debit cards are issued by corporates to provide their staff with lunch expense reimbursement upto a designated amount and which can be topped up on a monthly basis. In addition to the above, a new class of Forex Cards was introduced by banks to substitute Foreign Currency Notes/Travellers Cheques for those travelling abroad. In these cards, a fixed amount of foreign exchange (Dollars) will be loaded and issued for travel abroad. Forex Cards facilitate monitoring of overseas spends, regulatory compliance and have international acceptance.

Terminal Questions

1. Types of credit cards issued by banks in general are

(i) Silver Card

(ii) Gold Card
(iii) Platinum Card
(iv) Titanium Card
(v) All the above

2. The features available in all types of cards are

(i) Facility for payment of purchases.
(ii) Facility to withdraw cash from ATMs upto a fixed limit.
(iii) Reward Points for usage of cards.
(iv) Cash Back offers upto a certain limit for purchases made.
(v) All the above.

3. The characteristics of Debit Cards are

(i) Payments for purchases are directly debited into the account.
(ii) Cash Withdrawals through ATMs are debited to the account immediately.
(iii) Payments made for purchases/usage will be debited subsequently after a certain period.
(iv) Only i is true.
(v) Both i and ii are true.

4. Payment Default Risk (chances of failure to pay the card dues) is embedded in

(i) Debit Cards
(ii) Credit Cards
(iii) Both i and ii.
(iv) Only ii.

Key

l.(v);2. (v); 3. (v); 4. (iv)

Let Us Sum Up

- Credit Card is plastic money with pre-set limits based on the credit score of the customer and can be used across merchant establishments for payment of purchases and in ATMs for withdrawal of cash.

The operational process of a credit card starts from the card issue, matures into card usage and closes with the payment of credit card dues. Banks issue different types of cards with targeted volumes and business objectives after proper screening of applicants, arriving at the credit score and issuing the relevant card matching the credit score with fixing of appropriate limit. The card issue will be justified if only the card is used frequently upto the limit made available. Payments by the customers for credit card usage are the deciders for revenue generation. The payment may be made one time or in installments subject to the minimum payment due every month. More the credit limit is used; more will be the revenue but is subject to payment without defaults and delinquencies.

- Banks issue different types of cards like Classic, Silver, Gold.Platinum, Titanium etc., in collaboration with card issuers like Visa and Master Card and they mainly do it in two ways;proprietary cards and co branded cards. While proprietary cards are issued by banks generally, co-branded cards are issued with specific tie ups with other institutions like petroleum companies, travel companies, retail stores with the objective of focused marketing and extra benefits to the card user for using the facilities of the tied up institutions.
- Banks advise the credit card users about the terms and conditions of the credit card usage and the standard terms used in the payment mechanisms. These terms like Annual Fee, Minimum Payment Due, Credit Limit, EMI Payments, Interest and method of interest calculation. Penalties etc. have their own implications in the credit card payments.
- The characteristics of Debit Cards differ vastly from Credit Cards. As already explained, Credit Cards define the concept of "Buy Now, Pay Later" but Debit Cards explain the concept of "Buy Now and Pay Now". The important aspect of Debit Card is that at the point of purchase itself, the payment is made directly from their account balances. The details of the account are embedded in the debit card and can be used at both merchant locations through a POS Machine for purchases made and also in ATMs for withdrawal of cash. Debit Cards are issued when account is opened with the bank and had become an essential value addition for Savings Banks and a part of the core product.
- Other pre-paid debit cards are issued both in rupees for various domestic purposes and forex cards with pre denominated forex loaded in the cards for travellers going abroad.

Keywords

Silver, Gold, Platinum and Titanium Cards; Credit Score; Credit Limit; Minimum Payment Due; Visa Cards; Master Cards; Annua) Fees, Late Payment Charges; EMI; Reward Points; Cash Back Offer; Prepaid Debit Cards;

REMITTANCE PRODUCTS

STRUCTURE

9.1 Remittance Products

9.2 National Electronic Funds Transfer (NEFT)

93 NEFT - Rights and Obligations of Customers and Banks

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9.5 Electronic Clearing System (ECS)

Terminal Questions Let

Us Sum Up Keywords

9.1 REMITTANCE PRODUCTS

Remittances are important and integral part of retail banking. Remittance products have evolved over a period from physical movement of remittance instruments to instant electronic transfer of remittances across the country and globe. Cheques, Demand Drafts. Bank Orders, Telegraphic Transfers are some of the earliest remittance products that constituted the core remittance mechanism across banks. But the invasion of technology in banking has permeated into the remittances space also. Technology brought about a paradigm change in the whole remittance space with newer, speedier and innovative remittance products in banking. Most of the new generation remittance products are relevant in retail banking.

Retail electronic and card based payments registered a quantum jump in the past two years mainly due to introduction of RTGS (Real Time Gross Settlement) and NEFT (National Electronic Funds Transfer). The volume and value of transactions through RTGS had more than doubled, though wholesale remittances constitute a major proportion of RTGS transactions. The concept of electronic remittance mechanism is picking up fast over the past two years and this trend offers potential to package a remittance product as an add on in their retail banking package to the customers. Let us discuss in detail, the features of two important remittances products NEFT and RTGS which are applicable to retail banking operations also.

9.2 NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT)

Reserve Bank of India has introduced an electronic funds transfer system called 'The Reserve Bank of India National Electronic Funds Transfer System"

The objects of the NEFT System are:

(i) to establish an Electronic Funds Transfer System to facilitate an efficient, secure, economical, reliable and expeditious system of funds transfer and clearing in the banking sector throughout India, and
(ii) to relieve the stress on the existing paper based funds transfer and clearing system.

The success of the NEFT is demonstrated by the spurt in volumes and transaction values through NEFT and the same are given below:

Retail Electronic Based Payments

Service	*Transaction Volumes (ooos)*		*Growth in Volume (%)*		*Transaction Values (Rs. in Crs.)*		*Growth in Value (%)*	
EFT/NEFT	2008	2009	2008	2009	2008	2009	2008	2009
	13315	32161	178.8	141.5	140326	251956	81.2	79.6

Source: Reserve Bank of India - Report on Trends & Progress in Banking in India

The transaction volumes and amounts have both shown stupendous growth in 2008 and 009 and reflect the acceptance of NEFT as an effective electronic remittance product. Let us discuss the process flow of NEFT transactions.

NEFT - Process Flow

The parties to a funds transfer under NEFT System are

(a) the sending bank,
(b) the sending Service Centre,
(c) the NEFT Clearing Centre,
(d) the receiving Service Centre and
(e) the beneficiary branch.

The request from the customer of a bank to remit through NEF will go through the following steps encompassing the above stages.

Request for NEFT by Bank Customer

- A bank customer (i.e. sender or originator) desirous of remitting funds under the system shall submit an "NEFT Application Form" (to be designed by the participating bank) authorising the sending bank to debit the sender's account and transfer funds to the beneficiary as specified in the NEFT Application Form.
- The application could be submitted either in physical form or electronically.
- A transaction within the NEFT system will be said to have been initiated when the sending bank accepts a payment instruction issued by the sender.
- If in a single payment instruction, the sender directs payments to several beneficiaries, each payment direction shall be treated as a separate payment instruction.
- A bank branch may reject a customer's request for funds transfer when, in the opinion of the sending branch,

  (i) the customer has not placed funds at the disposal of the sending bank; or funds placed are not adequate to cover the sum to be remitted and the service charge; or

  (ii) the beneficiary details given in the NEFT Application form are not adequate to identify beneficiary by the beneficiary bank. The essential elements of beneficiary's identification are:

  Beneficiary's Name: Beneficiary
  Branch Name: Beneficiary Bank
  Name: Beneficiary's Account
  Type: Beneficiary's Account No.
  : Beneficiary's Branch IFSC:

- The sending bank shall prominently display at its premises the cut-off timings up to which it shall receive the NEFT Application Forms from its customers for different settlements and the likely timings of the settlements by the NEFT centre.

Any payment instruction received after the cut-off time shall be included for the next available settlement either on the same NEFT day or the next NEFT day.

Data Entry at the Sending Bank Branch

- The sending bank branch shall prepare the Structured Financial Messaging System (SFMS) message as and when the application for the funds transfer is received and arrange to send the message to NEFT Service Centre till the cut off time for the batch.

Processing/Data Upload at Sending NEFT Service Centre

- The sending NEFT Service Centre shall accept/reject the messages received from the branches/ from internet banking customer through net banking platform.

Transmission/Submission of NEFT message to the NEFT Centre

- The sending Service Centre shall transmit the NEFT SFMS message to the NEFT Clearing Centre by using the communication network designated by Reserve Bank. Processing & transmission of NEFT message to the beneficiary banks.
- After consolidating all NEFT messages received from originating banks, the NCC shall process the data and generate the settlement of each beneficiary bank which has at least one inward remittance transaction in a given batch.
- NEFT messages generated for destination banks will be transmitted to the service centre of each receiving banks using SFMS.

Data Validation at Receiving NEFT Service Centre

- On receipt of the NCC NEFT message, the receiving NEFT Service Centre shall process these files and forward them to the destination branches using SFMS.

- Alternatively, the receiving NEFT Service Centre may use the Straight Through Processing Interface (STPI) available in SFMS and upload these NEFT messages to their internal banking solution directly, to afford the credits to the beneficiary banks account centrally.

Payment to beneficiary

- The beneficiary branches would make payment to the beneficiaries instantly on the same day by crediting the specified account of the beneficiary or otherwise placing funds at the disposal of the beneficiary.

Revocation of Payment Instruction

- A payment instruction issued for execution shall become irrevocable when it is executed by the sending bank. Any revocation, after the payment instruction is executed by the sending bank shall not be binding on any other party in the NEFT system.

Acknowledgement by the Beneficiary Bank and Return in Case of Non-credit:

- No acknowledgements are envisaged under NEFT Scheme. A message which is not returned uneffected before the next settlement day is treated to have been completed and credit afforded to the beneficiary's account by the beneficiary branch.
- It is, therefore, vital that uneffected credits are re-transmitted back as return NEFT transactions in the immediate next batch itself.

Sender to be Advised in Case of Refund

- If the beneficiary specified in the sender's payment instruction fails to get payment through the NEFT system for some valid reasons, the sender shall be informed immediately after the sending bank gets the returned NEFT. The sending bank shall also arrange to make payment to the sender by crediting the account of the sender or otherwise placing funds at the disposal of the sender.

Beneficiary to be Advised of the Receipt of Funds

- After crediting the account of the beneficiary, the beneficiary bank shall advise the beneficiary of the funds received. The Statement of account/Pass Book entry or any online messaging system shall indicate briefly the source of funds as well.

Holidays

- In case of a holiday at the beneficiary branch, the credit will have to be effected on a value dated basis wherever feasible or latest at the commencement of business on the next working day.

9.3 NEFT - RIGHTS AND OBLIGATIONS OF CUSTOMERS AND BANKS

Reserve Bank of India has prescribed the rights and obligations under NEFT for both customers and banks. The same are detailed below.

1. Every participating bank or institution shall maintain the security, integrity and efficiency of the System.
2. Funds transfer instruction shall be issued by the customer in a manner prescribed by the participant bank.
3. The format shall be complete in all requisite particulars.
4. The customer shall be responsible for the accuracy of the particulars given in the payment instruction.
5. The customer shall be bound by any payment instruction executed by the bank if the bank had executed the payment instruction in good faith and in compliance with the security procedure, provided that the customer shall not be bound by any payment instruction executed by the bank, if he proves that the same was not issued by him and that it was caused either by negligence or a fraudulent act of any employee of the bank.
6. The customer shall ensure availability of funds in his account while issuing the payment instruction to his bank.
7. The payment instruction shall become irrevocable once it is executed by the Bank. The bank is not bound by any notice of revocation unless it is not in compliance with the security procedure.

8. In the event of any delay in the completion of the Funds Transfer or any loss on account of error in the execution of the Funds Transfer pursuant to a payment instruction, the bank's liability shall be limited to the extent of payment of interest at the Bank Rate for the period of delay in the case of delayed payment and refund of the amount together with interest at the Bank Rate upto the date of refund, in the event of loss on account of error, negligence or fraud on the part of any employee of the bank.
9. The sender/originator shall be entitled to claim compensation from the sending bank for the period of delay in the completion of funds transfer, and/or any other penalty which may be levied/decided by RBI.
10. Customers can complain to the Banking Ombudsman if the complaint is not resolved within thirty days.

(Source: National Electronic Funds Transfer System, Procedural Guidelines, Reserve Bank of India, Department of Payment & Settlement Systems, Central Office, Mumbai)

6.4 REAL TIME GROSS SETTLEMENT SYSTEM (RTGS)

Real Time Gross Settlement System (RTGS) is a remittance product that has drastically changed the complexion of the remittances scenario in financial services. This global practice was introduced in India for changing the model of remittances and to bring in efficiency in settlement of transactions on a real time basis. The impact and growth of RTGS in the past two years is demonstrated by the following figures.The quantum jump in volumes and value by more than 100% in 2009 over 2008 reflect the acceptance and growth of the product as an effective and speedy remittance tool though it is skewed more on the corporate and interbank side than the retail side.

S.No	*Transactions*	*March 2008*	*March 2009*
1. 2.	Volume in millions Value in Rs. Biilions	About 6 About 15000	About 13 About 34000

Source: Reserve Bank of India - Report on Trend & Progress in Banking in India

RTGS has replaced high value clearing across all the centres in India, thus saving a significant expense in the manual running of such activities. With the implementation of Core Banking Systems (CBS) in all the banks, many banks have enabled Straight Through Processing (STP) of RTGS transactions by corporate and retail customers with the use of net banking tools. This has greatly reduced operating expenses and consequent operational risks for the banks which were handling remittances in a manual mode till recently.

International remittances from NRIs has been considerably made faster and more accurate with the introduction of electronic payment platforms like SWIFT, INDIA LINK, Western Union transfers etc., This has replaced the more time consuming and expensive practices of mailing DDs which were prevalent till recently.

Evolution of Real Time Gross Settlement System (RTGS)

Real Time Gross Settlement System (RTGS) is regarded as the centre piece of an integrated payments system.

The Core Principles for Systemically Important Payment Systems, outlined by the Committee on Payment and Settlement Systems of the Bank for International Settlements, Basle, define payment systems as *"a set of instruments, procedures and rules for the transfer of funds among system participants"*.

As per our Payment System Bill, 2002, a 'payment system' means "a system that enables payment to be effected between a payer and a beneficiary and includes clearing, settlement or payment service".

The Payment System has importance for the functioning and integration of financial markets. It influences the speed, financial risk, reliability and cost of domestic and international transactions. Payment system operates on the following principle.

"Anyone can make payments to whomsoever one likes, whenever one likes, in whatever type of currency one likes, at the cost of a few cents per transaction. There are no settlement delays or mountains of paperwork and value is received instantaneously. There are no distinctions in costs or delays between a domestic and a foreign currency transaction. Interest is computed real-time rather than on a "settlement day ", a relic from the ancient times, when accounting was done manually. Finally, privacy and security are guaranteed."

The above quote sums up the essence of RTGS. Transactions are processed instantaneously and settlement made on a gross basis.

RTGS - Process Flow

Remittances and Funds Transfers through RTGS are transmitted through a series of process inputs and travel from the customer end to the beneficiary end. The remittances are communicated through a structured messaging process and settlement for the message is made on a gross basis from the liquidity maintained by the sender bank with the settlement bank. The remittances are credited on a dynamic basis and settlement also made on a dynamic basis. That is message communication, remittance, credit and settlement for the credit are done immediately subject to the systems and procedures prescribed for remittances through RTGS. The procedure for remittance through RTGS is explained below:

1. The transactions carried out by RTGS are "Inter Bank Transactions" and "Customer Payment Transactions" and "Delivery Vs Payment Transactions"
2. Inter Bank Transactions are used to settle the participant bank's financial obligations on their own account.
3. In "Customer Payment Transaction", customer information along with the payment message can be transmitted in a structured format.
4. "Delivery Vs Payment Transactions" will arise out of RBI's Securities Settlement System and is settled in the RTGS as a separate transaction.

- Inter Bank Payments and Transactions mainly arise out of treasury operations such as money and debt market deals and foreign exchange transactions.
- In Customer to Customer Transactions, remittances from the customer to a beneficiary in the same bank/other bank are handled. The transactions are routed from one RTGS enabled branch to another RTGS enabled branch of the same bank/other bank through the centralised RTGS operations of the bank and routed through a centralised gateway to another bank.
- Own account transactions relate to the transfer of funds from the bank's one RBI account to another done by the treasury department of banks to maintain the liquidity limits prescribed by RBI.

In retail banking space, customer based transactions mainly assume importance and RTGS has emerged as a very effective remittance mechanism in lieu of drafts, bank orders but only if the amounts to be transferred is above the minimum prescribed limit to be eligible for RTGS remittance. Let us see the process flow for customer based transactions.

1. Request to emanate from the customer to route a remittance through RTGS. The customer would request his banker to debit his account and pay the money to the beneficiary providing the details of bank account of the beneficiary.
2. The originating bank would debit the account as per the mandate and create a structured message under RTGS.
3. The message after due authentication would be communicated to the payment system gateway of the bank. The same would be transmitted to the RTGS system.
4. The messages would be routed through a central hub which will receive the messages in a queue and forward the message to the gateway of the other bank.
5. After authentication, the message will be processed and debited from the sender bank and credited to the beneficiary bank. After the debit, credit is made with the customer details and beneficiary details.
6. The beneficiary bank (message receiving bank) will then transmit the message to the beneficiary branch for credit of the beneficiaries account with the branch.
7. For effecting RTGS debits and credits, banks would be maintaining settlement accounts separately with RBI and sufficient liquidity has to be maintained in these accounts.
8. If there are any shortfalls in the liquidity of banks in their settlement accounts, mechanisms are in place to provide temporary liquidity so that the transaction processes are not jeopardised.

RTGS as a funds transfer mechanism has revolutionalised the concept of remittances though it is more relevant for big ticket transactions and applicable in a limited way for retail banking.

9.5 ELECTRONIC CLEARING SERVICES (ECS)

Though NEFT and RTGS have emerged as very fast remittance products in the recent past, Electronic Clearing Services (ECS) has stood the test of times as a dependable payment product.ECS when introduced decades back has won instant recognition from users as it has offered lot of convenience for the account holders to manage their routine payments.

Electronic Clearing Services (ECS) is a mechanism to effect payments to a desired beneficiary on a periodical basis for the monies payable to them. The process flow of ECS is briefly mentioned below:

1- (iii); 2- (iv);3. (v)

Let Us Sum Up

- Remittance products have evolved over a period from physical movement of remittance instruments to instant electronic transfer of remittances across the country and globe. Cheques, Demand Drafts, Bank Orders, Telegraphic Transfers are some of the earliest remittance products that constituted the core remittance mechanism across banks. But the invasion of technology in banking has permeated into the remittances space also. Technology brought about a paradigm change in the whole remittance space with newer, speedier and innovative remittance product in banking. Most of the new generation remittance products are relevant in retail banking.
- Retail electronic and card based payments registered a quantum jump in the past two years mainly due to introduction of RTGS (Real Time Gross Settlement) and NEFT (National Electronic Funds Transfer). The volume and value of transactions through RTGS had more than doubled, though wholesale remittances constitute a major proportion of RTGS transactions. The concept of electronic remittance mechanism is picking up fast over the past two years and this trend offers potential to package a remittance product as a add on in their retail banking package to the customers.
- The parties to a NEFT transaction are

  (a) Customer who wants to send the remittance.
  (b) Sending bank who originates the remittance.
  (c) Sending Service Centre who channelizes the remittance.
  (d) NEFT Clearing Centre who clears the transactions.
  (e) Receiving Service Centre who redirects the receipt of remittances and
  (f) Beneficiary branch who receives the remittance.
  (g) Beneficiary who receives the amount

- Real Time Gross Settlement System (RTGS) has drastically changed the complexion of the remittances scenario in financial services. This global practice was introduced in India for changing the model of remittances and to bring in efficiency in settlement of transactions on a real time basis. The impact and growth of RTGS in the past two years are demonstrated the effectiveness of the product. The quantum jump in volumes and value by more than 100% in 2009 over 2008 reflect the acceptance and growth of the product as an effective and speedy remittance tool though it is skewed more on the corporate and interbank side than the retail side.
- Customer Based Transactions in RTGS are relevant for retail banking. The process flow for customer based transactions is as follows :

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  1. Request to emanate from the customer to route a remittance through RTGS.
  2. The originating bank would debit the account as per the mandate and create a structured message under RTGS.
  3. The message after due authentication would be communicated to the payment system gateway of the bank. The same would be transmitted to the RTGS system.

4. The messages would be routed through a central hub which will receive the messages in a queue and forward the message to the gateway of the other bank.
5. After authentication, the message will be processed and debited from the sender bank and credited to the beneficiary bank. After the debit, credit is made with the customer details and beneficiary details.
6. The beneficiary bank (message receiving bank) will then transmit the message to the beneficiary branch for credit of the beneficiaries account with the branch.

- RTGS as a funds transfer mechanism has revolutionalised the concept of remittances though it is more relevant for big ticket transactions and applicable in a limited way for retail banking.
- Electronic Clearing Services (ECS) is another payment mechanism in which the payments are authorized for a specific period and amount through a mandate to the beneficiary.ECS is a convenient and flexible payment option for both the parties concerned i.e. the issuer and the beneficiary.

Keywords

National Electronic Funds Transfer; Real Time Gross Settlement; Customer Transactions; Sender Bank; Beneficiary Bank; Remittances, Electronic Clearing System

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MODULE -C

MARKETING IN RETAIL BANKING

Units

10. Marketing in Retail Banking

11. Delivery Channels in Retail Banking

12. Delivery Models

13. Customer Relationship Management in Retail Banking

14. Service Standards for Retail Banking

15. Technology in Retail Banking

UNIT 10 MARKETING IN RETAIL BANKING

STRUCTURE

10.1 Marketing and Delivery Channels In Retail Banking

10.2 Marketing In Retail Banking

10.3 Marketing Mix In Retail Banking

Terminal Questions Let

Us Sum Up Keywords

10.1 MARKETING AND DELIVERY CHANNELS IN RETAIL BANKING

Retail Banking unlike Corporate Banking is primarily driven by number of customers each bank possesses. More the number of customers more will be the profitability and strength of the retail banking models. Since profits have to be derived from a large clientele base, banks would be more comfortable with a broader base and would focus on building up the customer base.To achieve that marketing promises and delivery of products and services are the top priorities of banks in the retail banking space. Let us see the different dimensions of marketing of retail banking services and the changing paradigm of delivery channels in retail banking.

10.2 MARKETING IN RETAIL BANKING

Let us first understand what is marketing in banking and the relevance of marketing to a customer base.

Sir Frederick Seebohmn defines Bank Marketing as 'the creation and delivery of customer - satisfying services at a profit to the bank'.

Kenneth Andrew defines Bank Marketing as 'the matching of bank's resources with the customer's needs in the most profitable manner'.

A more specific definition spelt out by Deryk Vander Weyer looks at Bank Marketing as a proactive business strategy aimed at organisational excellence. The explanation more apt to retail banking space as spelt out by him is as follows:

(i) Identifying the most profitable markets now and in the future.
(ii) Assessing the present and future needs of customers.
(iii) Setting business development goals and making plans to meet them,
(iii) Adapting to a changing environment in the market place

It will be clear that all the above concepts point out for a well laid marketing strategy for retail banking focussing on the customer. As said earlier, customer is the centre of attraction in retail banking and marketing and all the activities have to be focussed towards

(a) Identifying the customers' needs,
(b) Developing appropriate products to satisfy their needs,
(c) Providing them with efficient delivery channels for availing the products.
(d) Making them avail the products continuously.

The ultimate objectives of the above initiatives are to achieve the business objectives of growth and profit.

10.3 MARKETING MIX IN RETAIL BANKING

Marketing mix in retail banking refers to the different ingredients that make up a good meal for the customer. The ingredients are structured and offered to the customers to make them consume sumptuously and enjoy and get satisfied also. For that the service and delivery levels should match the expectations of

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the customers. If the customers like the spread, they will go on consuming it continuously, the feast offered. What are the ingredients that make up an apt and good marketing meal for the customers. Let us discuss the fundamental ingredients of an effective marketing mix in retail banking which are as follows:

(i) Product
(ii) Price
(iii) Promotion
(iv) Place
(v) People
(vi) Process
vii. Physical evidence

Basically the above seven Ps play a vital role for the banks in their retail banking strategies. Bankers give lot of importance for these factors while designing and developing the marketing strategies.

The difference lies in how the different dimensions in the above Ps are tweaked and reengineered by the retail bankers. Those who develop winning combinations of the above Ps and also effectively deliver the promises tirade with regard to the above Ps will be the winners. It is a fact that there is more than one winner in retail banking. That shows that the retail banking canvas is very huge and there is place for every body to play their game and win their customers. Let us now discuss about the different elements of the marketing mix.

1. Product

A bank product can be defined as "Anything that has the capacity to provide the satisfaction, use, and return desired by the customer". The different retail banking products like Deposit, Asset and Other Service products were already discussed in the earlier chapters.

2. Price

'Price' in the marketing mix refers to resultant transaction cost to be borne by the banker or the customer depending upon the product offered or availed.

In the case of deposit products, 'Price' refers to the interest rate offered by the banker to the customer. In asset products, 'price' refers to the interest the bank is quoting to the borrower customer for offering the loan product to the customer. In case of other services, price refers to the fee/charges the bank is charging for offering the different services.

3. Promotion

'Promotion' refers to the efforts of the banks to reach the customers. The promotion of the product will be based on a multipronged approach by developing various promotional strategies. This includes personal promotional measures and other promotional measures. But the ultimate objective of these promotional measures is only to win the customer and make him to avail the bank's products & services. The various

ways in which the marketer develops promotion strategies are through Personal Selling, Advertisement, Sales Promotions, Publicity etc.,

4. Place

'Place' in retail banking generally refers to the place where the Bank is offering its product. The concept of place has undergone drastic changes during the past decade. Earlier 'Place' was very much limited to the place of bankers (i.e.) the location of Branch and where the services were delivered. But technology has changed the concept and place has shifted from the brick and mortar format to e format and has reached the customer in his place through internet banking and mobile banking.

5. People

'People' again is a vital link in the marketing strategy chain. Retail Banking basically being services marketing addressed to a large customer base, human factor plays a very essential role in the success of the retail banking strategy. Again if we take the marketing concepts, the important aspect of bank marketing is How of services from the banker to the customer through effective marketing strategies.

In the chain of events taking place in marketing, the effort starts from human factor and ends with human factor (i.e.) the banker and the customer. So 'People' concept in marketing refers to the people who are doing the marketing strategies and also 'people' wh«. are the beneficiaries of the marketing strategies. The inseparability principle of bank products adds more importance to the people concept because the effectiveness of the product depends on the effectiveness of the people delivering the product.

6. Process

'Process' is an all permeating concept running through the product development, product structuring and delivery stage. Process will be successful only when the out put derived from the process is delivered in the expected way fulfilling the promise. In short, process relates to all organisational activities which go into the marketing of the final product to the customer including delivery channels.

7. Physical Evidence

Physical evidence refers to developing tangibility to the intangibility concept of banking services. Some of the approaches include developing an efficient packaging, other measures to improve the tangibility. Especially in the retail banking operations. Debit Card/ATM Card, Personalised Cheque Book are classic cases of attempts by banks for tangibilisation.

The seven Ps are both independent as well as interdependent in the marketing effectiveness. Each one of the Ps is very important in deciding the marketing strategies on its own because of the built in mechanism of the whole strategy. They individually contribute their part in the effectiveness. But the individual contribution is not the only factor. These P's are interlinked in such a way that one P will be a deciding

P for the effectiveness of the other P. For example, though product is an important element of the marketing mix, the effectiveness of the product and the strategy depends on the price. Like that, even though price is an important element in the marketing mix, the product and price will not matter much if the promotion or the place aspects are given due consideration. To go further, again if the 'process' element is not taken care of, the other Ps will not be effective. Thus it is not only a fact that the Ps in marketing mix contribute substantially to the effectiveness of the marketing strategies individually but also contribute in an integrated way. Thus marketing mix and the elements of marketing mix namely the seven Ps represents a holistic approach to retail banking and marketing effectiveness.

The effectiveness can be measured by the response of the customer to the marketing strategies. If the customer is responsive, availed the products/services from the marketer and satisfied about it, then that would result in repeated purchases/availment of the products/services. If the customer is not satisfied, there is no reason for him to come again because his needs were not satisfied with your products/ services. This will make the customer to think about the competitors. So the success of the seven Ps and the marketing strategies are measured only by the responses from the customers from the point of view of need satisfaction. Then the question of delivery channels in retail banking come into picture.

Terminal Questions

1. Bank Marketing refers to
   (i) Identifying the most profitable markets now and in the future.
   (ii) Assessing the present and future needs of customers.
   (iii) Setting business development goals and making plans to meet them.
   (iv) Adapting to a changing environment in the market place.
   (v) All the above.
2. Marketing Mix refers to
   (i) Product & Price
   (ii) Promotion &Place
   (iii) People & Process & Physical evidence
   (iv) All the above.

Key

l.(v); 2. (iv) Let Us Sum

Up

• The success of retail banking depends on effective marketing of the retail products and services. Customers are different and their needs are different but at the same time, as customers are grouped together into definite segment buckets, reaching them with relevant products and services is a must. This can be best achieved with the different elements of the marketing mix viz.. Product, Price, Promotion, Place, People, Process and Physical Evidence. The right mix will deliver the right results.