Retail Banking - Models, Strategies, Performances and the Future - The Indian Scenario

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List of Abbreviations

PSBs	-	Public Sector Banks
OGPVSBs	-	Old Generation Private Sector Banks
NGPVSBs	-	New Generation Private Sector Banks
FNBs	-	Foreign Banks
ATMs	-	Automated Teller Machines
ECS	-	Electronic Clearing Service
EFT	-	Electronic Funds Transfer
SBU	-	Strategic Business unit
HNI	-	High Networth Individuals
PIN	-	Personal Identification Number
KYC	-	Know Your Customer
ALPM	-	Automated Ledger Posting Machines
DSA	-	Direct Selling Associates
CRM	-	Customer Relationship Management
TPD	-	Third Party Distribution
CASA	-	Current Account Savings Account
BCG	-	Boston Consulting Group

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1. INTRODUCTION

Retail Banking as a business model is adopted by all the banks on account of multiple comfort factors for the banks viz. acquisition of a huge customer base, multiple product offerings, better pricing and profitability, scope for cross selling and up selling financial and beyond financial products for increased per customer revenue and of course better risk proposition. With the changing paradigm of technology as the driver for retail banking explosion, banks are embracing different strategies by redesigning their conventional business silos, re-engineering existing products and inventing products, services, channels, relationships to increase the share of the customers' wallet.

2. OBJECTIVES OF THE STUDY

In this dynamic retail banking scenario, the study is an attempt to understand the different models and strategies adopted by the banks, their performances across retail banking business lines and also derive the inferences for the future. The study is intended to present a holistic picture of the retail banking space in India.

3. REVIEW OF LITERATURE

International literatures and also literature on the Indian retail banking space available from various sources as per details below were reviewed to have an understanding of the international practices and strategies.

- Research Reports on different facets of Retail Banking across the globe by renowned consulting agencies, Universities and domain players in the technology space.
- Reports in Journals carrying special reports of banking in general and retail banking in particular.
- Articles in different Journals, Business / Financial Papers covering the different facets of retail banking across the globe and India and also Annual Reports of public and private sector banks in India.

4. METHODOLOGY

A structure questionnaire was developed covering all the important aspects of retail banking space and sent to select banks in the public sector and private sector (old and new geneation) and foreign banks.

A sample of 10 banks were finalised and the type of banks in the sample are detailed below :

a.	**Sample according to types of bank :**	
Sr. No.	**Type of Bank**	**Sample Size**
1.	Public Sector Banks (PSBs)	6
2.	Old Generation Private Sector Banks (OGPVSBs)	2
3.	New Generation Private Sector Bank (NGPVSB)	1
4.	Foreign Bank (FNB)	1
	Total	**10**

b.	**Sample according to size of banks :**				
Sr. No.	**Type of Banks**	**PSBs**	**OGPVSBs**	**NGPVSBs**	**FNB**
1.	Large Size	2		1	1
2.	Medium Size	3			
3.	Small Size	1	2		
	Total	**6**	**2**	**1**	**1**
	Total Sample Size	**10**			

c.	**Sample according to geography of banks :**				
Sr. No.	**Geography**	**PSBs**	**OGPVSBs**	**NGPVSBs**	**FNB**
1.	East		1		
2.	West		3		11
3.	South		2	2	
	Total		**6**	**2**	**11**
	Total Sample Size	**10**			

- The questionnaire was structured into four sections as per the following :

  Section One - Models

  Section Two - Strategies

  Section Three - Performances

  Section Four - Future

The purpose is to get a cross sectional view of the practices followed in the different models, strategies, performances across different retail banking business initiatives and also the future scenario. From the responses received from the banks, it is intended to study the scenario in retail banking space across banks in India which will be useful for the banks to design and implement the future strategy initiatives.

4. REPORT AND FINDINGS

- The study report was structured on the following lines :

  i. Introduction

  ii. Global Scenario

iii. Indian Scenario
iv. Models
v. Strategies
vi. Performances
vii. Future
viii. Summary of Major Findings & Future Scenario

5. LIMITATIONS OF THE STUDY

The study is structured as a macro research study on the practices followed by banks in general across different spaces in retail banking area and derived inferences from that.

2. THE GLOBAL SCENARIO

Globally, the financial services Industry is in the midst of aggressive competition with the compulsive convergence of banking, insurance, mutual funds and capital market spaces seamlessly integrating to offer holistic financial services. Retail Banking has emerged as an essential enabler to translate these spaces into profitable business models of banks across the globe. The objective is to expand and hold the customer universe and increase the profitability on account of the attractive margins in the retail asset space and also fee-based income space through third party distribution. Banks are dynamically re-engineering their retail strategies on four basic parameters viz., Product, Process, Technology and People, to realise their business objectives. The approaches of the banks to retail business run concurrently along with the corporate business objectives and subject to market dynamics in other business spaces of banks. Globally, at the micro level, the principal attraction for banks for retail banking stems from the fact that the revenues are stable and can offset the volatility in non retail businesses. At the macro level, the interest in retail banking fluctuates in rather predictable ways with the performance of non retail banking and financial market activities. (Timothy Clark et al, 2006)

In recent years, retail banking has become a key area of strategic importance across some of the largest U.S banks and 'Return to Retail' has become the new mantra among these banks. This was in stark contrast to the strategies adopted by them in the 1990s when banks sought to diversify revenues, de-emphasise branch networks and target financial services to a broader range of clients. The 2005 Annual Reports of major US banks reveal their renewed interest in retail banking and the exhaustive information provided in the reports show their confidence in the model and also their level of activities in different retail initiatives.

Bank of America serves more than 38 million customers in the retail space and the complete range of services are provided through more than 5800 banking centres and nearly 17000 ATMs in 29 states and the District of Columbia. The bank has grown to become the nation's largest provider of checking and savings accounts, the No.1 credit and debit card provider, leading home equity lender and the fifth largest originator of consumer mortgages.

Citigroup's Global Consumer Group provides a wide array of banking, lending, insurance and investment services through a network of 7237 branches, 6920 ATMs, 682 Automated Lending Machines and serves more than 200 million consumer accounts.

JP Morgan Chase provides consumer banking through more than 2600 bank branches and 280 mortgage offices and through relationships with 15600 auto dealerships and 2500 schools and universities. 11000 branch sales people offer different products and 1500 mortgage officers provide home loans with a footprints in 17 States from New York to Arizona.

Wells Fargo and Co., through their Community Banking Group provides complete line of banking and diversified financial products and services and clocks an annual sales of upto $20 million. Wells Fargo also offers investment management and other services, insurance, security brokerage services through affiliates to retail customers and other high net worth individuals. These services are offered through a wide range of channels which include traditional banking stores, in-store banking centres, business centres, ATMs, Phone Bank Centers and Online Banking Services.

Retail banking business in China has established firmly and the future looks very promising. When it comes to banking preferences, China's highest earners are interested in more than standard checking and savings accounts; they prefer products and services ranging from credit cards and mutual funds to personal loans and mortgages. This is among the key discoveries in last year's study by China Merchants Bank, which also found that high-income households want to invest their new found money in guaranteed investments such as insurance, treasury bonds and education funds and encashing the opportunities in retail space. As early entrants, both HSBC and Citibank have a distinct advantage and entered the credit card space targeting a market in which today just 1 percent of Chinese citizens hold a Western-style credit card. By 2010, there might be 50 to 75 million credit cards issued in China, according to MasterCard. (A. T. Kearney Report, 2007). Also, until recently, Chinese consumers only paid cash for their purchases. With loosening regulations, consumer credit and credit cards are more available and, because of this, spending and borrowing are on the rise. Indeed, the combined total of residential lending, automobile loans and consumer credit accounted for 20 percent of all new loans by financial institutions in 2002 - a rise from zero in 1995.The above developments strengthen the future potential for retail banking in China. Foreign banks are collaborating with Chinese banks for retail banking initiatives by entering into capital tie ups and product offerings (KPMG Report, 2007).

In Europe, the integration of retail banking across countries in the European Union and the emergence of the concept of TEBA (Trans European Bank Account) have thrown open new challenges in the retail banking segment across banks. Critical mass for TEBA and also the services opportunities in mobile banking through mobile network of the leading telephone operators has opened up new market segments for retail banking (Trans European Retail Banking - An Instructive Case Study of Mobile Banking - Ivan Mortimer - Shutzz 2006). Retail banking continues to be competitive and dynamic in the UK and Europe. The strongest new entrants have broadened their service offerings while established banks are looking for new growth, better retention and efficiency. The retail banking sector in Central and Eastern Europe is growing at a double-digit pace and even triples the Euro zone's growth rate in some countries. Two prime examples come from Bulgaria and Romania, where retail banking assets went up by 30.4 percent and 31.3 percent respectively year-on-year as of September 2006 (Deloitte Report, June 2007)

These outstanding results and promising perspectives are attracting new players who strive for the largest possible share in the rather saturated Central European market. “This situation is visibly reflected in the measures taken by banks in order to win an advantageous position in the market and attract suitable clients to support the banks' further development,” says Mike Jennings, Financial Services Industry Partner of Deloitte Czech Republic. “Examples of banks operating on the Czech market prove that achieving outstanding results is possible in Central and Eastern Europe, which could be an incentive to prospective investors. It's clear that there is still room in the market and available opportunities to set up a successful retail banking business in Central Europe.”. In Central and Eastern Europe, banks compete in winning a significant market share, which is the major source of increasing their income. Because of the double-digit growth pace (e.g. the volume of mortgage loans for retail clients in the Czech Republic increased by nearly 43.1 percent last year) and ever-increasing competition, less attention is usually paid towards increasing efficiency and minimizing operating risks and costs there.

Asia's banks are turning to focus on the retail operations to continuously drive profit growth. Given recent banking deregulation and the high levels of personal savings in countries such as China, it is obvious why most Asian and global commercial banks are making retail banking their focus. Bank deposits in the Asia Pacific region (Australia, China, India, Japan, South Korea and Taiwan) have now reached almost US$8 trillion with over 400 million bankable households. China's bank deposits have grown from 15% of total Asia Pacific bank deposits in 2000 to 21% of total Asia Pacific bank deposits in 2005, a growth of 83%. Retail banks across Asia-Pacific are progressively taking a similar approach to their counterparts in Europe and North America in terms of technology development : to develop their technology infrastructures in such a way as to create real value in a competitive economic environment.

The banking industry worldwide has been showing steady progress since 2002. Much of the growth in the worldwide banking industry can be attributed to the surge in the retail-banking sector in the Asia Pacific region and the countries of Latin America.

The Banking industry in the economies of Brazil, Russia, India and China has been showing exemplary growth owing to improving economic condition, liberalisation, changing consumer demographics and large segment of untapped population. These countries are witnessing steep growth in the uptake of retail loans specially housing, car, education, credit cards and other personal loans.

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. In future the retail banking industry in India is likely to reach a value of $300 billion by 2010.

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 2006 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 are briefly presented below :

- The average price of banking services increased by over 3% in the countries surveyed. However it was observed that this 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 indexes 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 counter attacking by 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 2000, 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 happened through branch in 2000, it has dropped to 42% in 2005 and likely to drop to 30% in 2010. Consequently, the transaction level has improved from 19% in 2000 to 29% in 2005 and likely to touch 28% in 2010. In 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. It 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.

The findings of the study have crystallized into important inferences for banks with regard to channel strategies. The gist of the major findings is as follows :

- Banks share a common vision of the evolution of their remote channels
  - Sales through remote channels are expected to increase dramatically in importance.
  - Services are losing the human touch.
  - Branches will focus on proactive advisory sales.
- Banks face steep obstacles to achieving this vision, which raise these important issues.
  - The profitability of proactive advisory approaches.
  - The efficiency of remote channels as launching pads to push sales.
  - The ability to meet customers' high expectations for the multi channel experience.
  - The capability to strengthen customer relationships via electronic channels.
- A new client relationship model is emerging as banks rethink their distribution models.
  - Continue to develop competitive remote sales and service offerings.
  - Craft outbound campaigns with greater precision and attention to feedback while also leveraging in bound customer contacts.
  - Adapt branches to deliver key 'account moments' and enhance relationships.

The purpose of the remote channels basically is to move the customers away from the branches for transaction oriented banking and use the branch for relationship oriented banking for HNIs. But research shows that profitable clients move more rapidly to alternative channels than their less desirable brethren, who prefer the branches. A 2004 Forrester Study found out that branch users in the five largest Western European countries are older, lower-income customers who visit branches primarily for routine transactions.

Channel strategies are part of the efforts of banks towards improving customer - facing sales and service processes. World Retail Banking Report 2005 provides empirical evidence that the quality of customer interactions is emerging as a key competitive differentiator in retail banking. The banks surveyed expect 75% of profit growth in the next three years will come from increased revenue with the remaining 25% from lower costs. Recognising the challenges of acquiring new clients in a mature market, banks are counting on more revenue from existing customers for 80% of the growth with only 20% to be derived from new customers. Increasing the share of wallet is the primary way to generate more revenue from the existing customers and cross selling assumes significance in this scenario.

Cross selling success needed to be measured, and the measure of choice became the cross-sell ratio. Firms started to report how many products customers held and bank analysts started to ask for this data - the more products per customer the better. According to an AT Kearney study, cross-sales rates are 3.3 in France, 2.6 in Germany, 2.3 in the UK and 2.1 in the US. Achieving a high rate is seen as a worthy target. AT Kearney claims that the average profit generated by a US bank customer holding two products at a bank is $150. If the customer holds nine or more products, the return is $1000 or more.

The AT Kearney statistics show that the US lags behind its rivals in the number of products held per customer household but two US banks, Wells Fargo and Washington Mutual are providing models for improving the sale of financial products. In the final quarter of 2006, the average Wells Fargo retail customer held 5.2 products, while the average wholesale customer had six products. The group goal is now to achieve eight products per customer.

According to the report, getting the right culture is vital and technology cannot make a firm better at sales unless it has the basic skills available. “Some firms viewed CRM [Customer Relationship Management] technology as a silver bullet. If you have the basic customer skills, then adding the right data is a winning formula. If you don't have those skills, it will not make you more articulate at sales and service,” the report said.

West coast rival Washington Mutual (WaMu) also managed to achieve impressive sales rates. The average customer household at the bank held 6.55 products in the third quarter of 2006, driven by its free current account product. The current account may be a loss-leading product but with cross sales at that level, attracting new households into the bank's services can translate into rapid rewards through cross-sales opportunities, especially its developing credit card business - though current problems with home equity markets in the US, especially at the sub-prime level, are subduing overall performance.

In Wells Fargo, there is an increased emphasis on price bundled packages, offering customers a set of inter-related products with discounts integrated into the package. For example, the Wells Fargo PMA package will offer a customer free current accounts and free bill payments, together with options to add a savings account, credit card, mortgage loans, and a discount brokerage account. About 63% of new current account customers are taking such a package, with an average of four products per package. Thus by attractive product and price bungling, the bank is able to improve the cross sell ratio.

To improve the cross sell ratio, Wells Fargo has developed a more advanced method of building incentives for its staff. According to Wells Fargo spokes person, “We target loyalty, not just customer satisfaction. Gallup [the market research agency] surveyed 50,000 of our customers per month. This gives us a statistically meaningful sample across our entire network. We can measure indicators of customer satisfaction and customer loyalty. We take action on these results and increasingly our incentive compensation is based on these results.”

The enormous opportunities in the retail banking space have geared up banks across the globe to continuously innovate and re-engineer their strategies basically on the key four functionalities of Product, Process, Technology and People. These four core elements decide the efficiency and efficacy of the retail banking initiatives.

The industry is undergoing a period of rapid change in market share, competition, technology and the demands of the customer, rapid consolidation as well as expansion into nontraditional products and services (Wharton Study, 1998).

Delivery Channels are the deciders of customer satisfaction in retail banking and any deficiencies in these channels will not just result into dissatisfaction but will injure the reputation of the bank itself triggering a reputation risk. Customers use multi channel format by banks and more than 35 percent of the U.S households use more than four channels. (Wharton Study, 1998).

The maturity of remote channels like ATMs, Internet Banking, Phone Banking, Mobile Banking and Call Centres, traditional retail banks now face a completely new competitive environment. The challenges in the branch lay out are addressed by focusing on the branch's unique value adding elements, with staff focused primarily on customer facing activities. In the wake of technology upgradation with migration to a single server environment, most of the banks have taken steps to remove back office and servicing activities from the branch and consolidate them elsewhere (Capgemini, 2005).

The expectations of the customers for customized products and services are imposing significant new demands for retail banks to remain competitive. It is imperative for banks to reconfigure their business processes - specifically redesigning, automating, integrating and standardizing. Developing an integrated process model for customer and business have become a necessity and just incremental improvements to end-to-end processes in business silos will be insufficient. A comprehensive transformation with a modular and standardized process model different from the traditional end-to-end product and system based model covering the entire life cycle of each product has become essential. Boston Consulting Group conducted a study “Opportunities for Action in Financial Services - Transforming Retail Banking Processes” (2003) and researched the process model of U.S banks and inferred the following :

- Retail Banks are using different approaches to modularize and standardized their processes. Four distinct process models have emerged from their study.
  i. Horizontally Organised Model where individual process platform supports one product only. The sub data in the model are not shared with other products and product platform.
  ii. Vertically Organised Model where functionality is provided across all products. In this model, customer information is centralised. Centralised customer information builds common origination and servicing processes across all its retail banking products.
  iii. In Predominantly Horizontally Organised Model with some modularization within a product oriented feedback, customer data integration is available to a certain extent for other products.
  iv. Predominantly Vertically Organised Model is a hybrid model that offers common information for most of the related services. The basic information is available across products for common services to the various products.
- All the four models achieve a certain degree of modularity and standardization but there is no one-size-fits-all solutions and has to be suitably adapted to individual bank's requirements.
- The studies have revealed that if a bank effectively transforms its processes, it can reduce its unit costs between 20% and 40%, completely changing its competitive position.

Technology plays a key role in the performance of the banks. Large Banks in the United States spend approximately 20% of non interest expense on information technology and this investment shows no signs of abating (Wharton Study, 1998). Technological innovation in the retail banking industry has been spurred on by the forces described by Kotler, particularly in terms of new distribution channel systems to provide the customers more ways to access their accounts. Banks are forced to consider new ways to drive revenue through their distribution system and to increase the customer share of the wallet. The first step is the platform automation and enables the employees to have a single view of the customers. The single view lets the employees understand how important is a customer is based on the portfolio of products, rather than on their current checking account balance.

Research has shown that organizational sub units where employee perceptions are favourable enjoy superior performance. (Garry A. Galade et al, 2005). The service profit chain model of business performance (Haskett, Sasser & Schesinger, 1997) has identified customer satisfaction as a critical intervening variable in this relationship and confirms the relationships between organizational climate, employee attitudes, customer satisfaction and sales performance in the retail banking sector. Banks have recognized this relationship and developed people (both internal and external customers) strategies for implementing a successful retail banking model.

The above discussed concepts throw light on the different tenets of global retail banking space and how global banks are addressing the different dimensions and innovate across the important elements of retail banking i.e. product, process, people and technology. The above is only the tip of the iceberg but definitely sufficient enough to understand the global paradigm. This will help us to map the Indian retail banking space vis-a-vis the global scenario and help us to understand the retail scenario in India and how banks are addressing the different issues and strategise for achieving their retail banking objectives.

3. THE INDIAN SCENARIO

Retail Banking as a business model is adopted by all the banks in India on account of multiple comfort factors for the banks viz. acquisition of a huge customer base, multiple product offerings, better pricing and profitability, scope for cross selling and up selling financial and beyond financial products for increased per customer revenue and of course better risk proposition. With the changing paradigm of technology as the driver for retail banking explosion, banks are embracing different strategies by redesigning their conventional business silos, re-engineering existing products and inventing products, services, channels, relationships to increase the share of the customers' wallet.

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 have posed a threat to the retail business of foreign banks that have by now well defined business models for retail banking. To add to the fuel, PSBs also with technology initiatives and redefined business model for retail have 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.

'Gung Ho Retail' reflects the present state of retail banking in India. 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 re-engineering 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 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. Retail Banking is expected to grow at above 30% and retail assets are expected to touch 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) in 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 strengthens the views and strategies of the retail players.

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 2010,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 $1 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.25,000 to Rs.200,000 per annum comprising nearly 32 per cent of the total households in India), penetration of credit cards is only 4 per cent 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.200,000 and Rs.500,000 per annum.).
- In case of “affluent households” (Income between Rs.500,000 and Rs.1000,000), the penetration levels for credit cards and auto loans are at 34 per cent and 14 per cent.

The above reports strengthen the tremendous opportunities available in the retail banking space in India.

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

i. Growth Rate of Retail Assets of the Banking System :

Rs. In Crores

Sr. No.	Type of Retail Asset	2004	2005	2006
1.	Housing Loans	89449	134276 (50.5)	179165 (33.4)
2.	Consumer Durables Loans	6256	3810 (-39.10)	4469 (17.3)
3.	Credit Card Receivables	6167	8405 (36.3)	12434 (47.9)
4.	Auto Loans	-	35043	61369 (75.1)
5.	Other Personal Loans	87170	85077 (37.8)	118355 (39.1)
6.	Total Retail Loans	189042	266611 (41.2)	375739 (40.9)

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

ii. Percentage of Retail Assets to Total Assets of the Banking System :				
				Rs. In Crores
Sr. No.	**Details of Advances**	**2004**	**2005**	**2006**
1.	Total Advances of the Banking System	864271	1125056 (27.9)	1473723 (31.0)
2.	Percentage Share of Retail Assets to Total Advances	21.9	23.7	25.5
Source : Reserve Bank of India - Report on Trend & Progress in Banking in India.				

iii. Ownership Pattern by Type of Deposit Accounts :			
		2004	**2005**
Household Sector as a % of total deposits of Scheduled Commercial Banks	-	58.4%	60.7%
Household Sector	**Current Deposits**	**Savings Deposits**	**Term Deposits**
2004 - Amount of Deposits Owned - (Rs. In Crores)	94452	317934	506622
2005 - Amount of Deposits Owned - (Rs. In Crores)	107836	406335	569053
2004 - Percentage	45.9	83.6	51.3
2005 - Percentage	48.2	86.1	52.2
Growth in 2005 over 2004	14.2	27.8	12.3
Contribution in Incremental Deposits	8.2	53.8	38
Source : Reserve Bank of India - Report on Trend & Progress in Banking in India			

iii. Number of ATMs of Scheduled Commercial Banks (2006) :	
ATMs	**Numbers**
Number of Onsite ATMs	10128
Number of Offsite ATMs	11019
Total Number of ATMs	21147
Percentage of Offsite ATMs to Total ATMs	52.1%
Source : Reserve Bank of India - Report on Trend & Progress in Banking in India	

iv. Computerisation in Public Sector Banks :	
Percentage of Branches covered under CBS as on 31.03.2006	
(Core Banking Solutions) :	28.9%

v. Retail Electronic and Card Based Payments :						
Year	**Retail Electronic (ECS, EFT)**		**Card Based (Credit Card, Debit Card)**		**Total**	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**
	(in 000s)	(in Rs. Crs)	(in 000s)	(in Rs. Crs)	(in 000s)	(in Rs. Crs)
2004-05	579	77702	3615	77267	4194	154969
2005-06	832	106559	10453	236994	11286	343593
Source : Reserve Bank of India - Report on Trend & Progress in Banking in India						

The growth across spheres of retail banking vindicates the confidence that banks are having about retail banking space and they are devising aggressive business plans to stay and grow in the market.

A study by CRIS - INFAC (December 2005) on retail loans revealed lot of details about the market share and disbursement patterns of banks in big ticket (ticket size of more than Rs.50,000 with average ticket size of Rs.1,23,000) and small ticket personal loans (ticket size of less than Rs.50,000 with average ticket size of Rs.23,000) of banks. In big ticket personal loans, the share of organized players in monthly disbursements (March 2005) was at 36.1% for foreign banks, 39.9% for private banks and 14.8% for nationalised banks and 9.2% for cooperative banks. Another interesting factor is that only 30% of these loans are sourced by the branches and 55% of the loans sourced by Direct Sales Agents with another 15% by Direct Sales Team. In the small ticket personal loan segment, NBFCs are posing a big threat to the banks and eroding the market share of banks. The NBFC model of foreign financial institutions Citifinancial with a market share of 54% in 2004 - 05 and GE Money with a market share of 45% have made a dent in the retail portfolio of banks reducing their market share considerably. The above observations effectively explain the efficacy of the channels involved and also the business penetration of the other players in the retail space of banks.

To effectively capture the opportunities available in the retail space, banks have developed different business models with regard to products, process, people and technology and developed strategies built around those models for achieving the targets set for retail space. The models and strategies vary among banks and basically depend on the views and confidence level of banks about retail banking as a tool for business and revenue augmentation. The levels of commitment to the models are reflected in the performance of the banks in different dimensions of retail banking. The performances of some of the banks in the private and public space as reflected in the annual reports are discussed below :

ICICI Bank is one of the earlier banks in the private space who identified the growth potential in retail banking and developed holistic retail models and reaped the results by aggressive marketing strategies. The bank has shaken the business models of foreign and other private sector banks and made those banks run for their money and aptly became the “Badshah of Retail Banking”. The banks maintained the leadership position in retail credit with disbursements of Rs.620.00 billion in 2006 as compared to Rs.433 billion in 2005.The total retail asset portfolio has jumped from Rs.581.33 billion in 2005 to Rs.921.98 billion in 2006 constituting 63% of the total loans. The retail customer base of the bank stood at an impressive 17 million. The bank has a multi channel delivery through 614 branches and over 2200 ATMs and supplemented with call centres with about 4400 service work stations. The bank has migrated over 70% of the customer induced transactions through the electronic channels. The bank is cross selling insurance products of its group entities (third party distribution business) and in 2006 about 21% of ICICI Prudential's business was routed through the bank. A network of about 4300 rural internet kiosks provides access to a range of financial services and products at the village level. A service quality team is in place for tracking resolution and turn around times for service requests.

Another private sector player HDFC Bank also has deeply entrenched itself in the retail space. The customer base has increased from 9.6 million in 2006 to 10.01 million in 2007 and serviced these customers through 684 branches and 1605 ATMs. The retail advances grew by 33.4% in 2007 over the past year and retail advances constitute about 56.90% of the total advances. The bank has an impressive CASA deposit ratio of 57.70% of the total deposits as on March 2007.The credit card base has swelled to 2.9 million with sound merchant acquiring business with the POS terminals installed by the bank crossed 51000.The third party distribution business is a key revenue earner for the bank with income from sale of mutual funds and insurance policies contributing over 18% of the retail fees and commission. The bank has a successful multi channel strategy and about 78% of the customer initiated transactions are serviced through non branch channels (remote channels). Service Quality Initiative is in place in the bank with Lean Sigma project Management for reducing transaction turnaround times and improving business cycle efficiencies.

Yet another private player Axis Bank (erstwhile UTI Bank) is also bullish in the retail space. The bank has a customer base of 3.35million as on March 2007 and served through 508 branches, 53 Extension Counters and 2341 ATMs (4.70 ATMs per branch). Out of the customer base, 1.10 million customers are covered under mobile banking. The growth in Savings Bank accounts stood at 50.34% in 2007 over the previous year. The CASA deposit ratio of the bank stood at 39.86% of the total deposits. Retail assets grew by 38% in 2007 and constituted 24.21% of the total assets. The retail assets are handled by 67 Retail Asset Centres. Bank has launched its own credit card in 2007 and has already reached a number of 80,000. The bank has entered the merchant acquiring business in 2003 and had installed over 40,000 Electronic Data Capturing (EDC) Machines as on March 2007. In the last few years, most of the retail banking segments of the Bank have grown at more than 50% YOY.

The public sector behemoth State Bank of India is also playing its retail cards well. With a strength of about 9500 branches, their geography is unbeatable. The bank has launched a big advertisement campaign under the theme “Pure Banking, Nothing Else” highlighting their geography. The personal banking deposits of the bank grew by 17.00% in 2007 over the previous year. The personal banking advances grew by 20.57% in 2007 out of which the auto loan portfolio grew by 24%.

Another big player in the public sector space, Bank of Baroda has retail strategies well cut. Retail lending of the bank has grown by 46.42% over the previous year. Retail credit as a percentage to Gross Domestic Advances increased from 18.92% in March 2006 to 20.98% as on March 2007.This was achieved by rolling out 13 Retail Loan Factories across important centres.

Corporation Bank is another bank which is active on the retail front. Retail lending continued to be the focus area of the bank. Retail credit grew at a rate of 29% over the previous year and constitutes about 25.58 % of the total credit. CASA deposits stood at about 34% for 2007. Core Banking is introduced at all the branches (100% coverage).The bank has an ATM network of 920 and internet banking facility is available in 913 branches.

Union Bank of India also is very focused in their retail strategies with a host of liability, asset and service products. The bank is reaching the customers through 2082 Branches, 145 Extension Counters and 472 ATMs (143 Off Site ATMs). The CASA deposit ratio stood at 32.36% of the total deposits. The bank's retail lending portfolio which is one of the thrust areas of the bank grew by 35.47% in 2006 and the percentage of retail lending to total advances stood at 21%. Bank's share of Housing Loans in total advances is 39.71% as on March 2007 and the share of trade advances under retail segment is 47.05%. This shows that their retail asset portfolio is skewed more towards retail advances. The bank is active in the third party distribution space and earned an income of Rs.10.50 Crs. in 2006.

UCO Bank has initiated a number of steps to broad base the retail activities. Retail assets grew by 31% as on March 2007. To have a focused thrust, the bank has introduced the concept of 'Retail Sale Force' and about 250 strong sales team are exclusively deployed in 45 identified centres to market retail asset and liability products including third party distribution. The bank did well in bancassurance space and stood first in mobilization of insurance policies among the banking channel partners. The efficacy of these sales forces is demonstrated by the generation of about Rs.1110 Crores of business and achievement level of 142% business.

The performances of the banks discussed above throw light on the different retail initiatives of these banks with focus on different segments of retail and the success of their initiatives. In view of the above, it is worthwhile to discuss the models, strategies and performances of the selected samples to arrive at holistic view of the retail space. The analysis follows in the following chapters.

4. MODELS

4.1 BUSINESS MODELS

4.1.1 BUSINESS MODELS FOR RETAIL BANKING

The business models for retail banking shows interesting revelations across types of banks. The models adopted by banks vary among the public sector, private sector and foreign banks. Basically, Strategic Business Unit (SBU) Approach, Departmental Approach, Integrated Approach (part of the overall business plan) are the main approaches for retail banking.

- Public Sector Banks (PSBs) in the sample uniformly adopt the Departmental Approach as the retail banking business model. The above 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. Surprisingly, 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 (OGPVSBs), 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 (NGPVSBs), the business model is very clear. They have set up Strategic Business Units (SBU) to have clear focus and business objectives.
- In foreign banks also (FNBs), the business model is only SBU 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.

4.1.2 POSITIONING SPACE IN RETAIL BANKING

Retail Banking Model is structured 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, only one of the West based biggie aims to be among the top three retail players across banks including peer group banks. Other PSBs aim to among the top three among the peer group. But the strategy adopted is a part of the overall strategy based on the business mix, projections and corporate objectives of the bank.
- In case of OGPVSBs, 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, one Tamil Nadu based bank aims to achieve one of the top three slots among the peer group banks. Their technology initiatives definitely justify their positioning objective.
- The NGPVSB (Mumbai based) has clear visions about their positioning platform. They want to be in the top slot across all class of banks and justifiably so. The technology and strategy and customer and business initiatives and aggressive positioning had already taken the bank to the desired objective.

Foreign banks do not go by positioning objective but purely on business objectives. They go by customer, business and profit targets.

4.1.3 IMPLEMENTATION MODEL IN RETAIL BANKING

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 facilities. Regulatory prescriptions are one of the major determinants of outsourcing or lack of it in these banks.
- In case of OGPVSBs also, the activities are carried out through in house resources only.
- In case of NGPVSBs, 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.

4.1.4 BUSINESS PROCESS STRUCTURE IN RETAIL BANKING

Boston Consulting Group has conducted a study on the retail banking processes (Transforming Retail Banking Processes) and deduced four broadly defined 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.
- In one old private sector 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 is going forward to achieve this.
- The surprising revelation is that even in the new generation private sector bank which is very aggressive in the retail side, the model is a blend of horizontally and predominantly horizontally organised. This shows that 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.

4.1.5 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 :

i. Segmented Approach where branches were 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.

ii. Geography based approach where retail models are built based on geographies.

iii. 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 OGPVSBs 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 NGPVSBs, 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, a model not restricted to any of the above but based on the retail game plan is being adopted.

4.2 PRODUCT MODELS

4.2.1.1 DEMAND DEPOSIT PRODUCTS IN RETAIL BANKING

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 passé 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 travelling 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 OGPVSBs also, in addition to standard savings accounts, add-on life cover is offered. In current accounts also, the facilities as offered by PSBs, are offered by them also.
- In NGPVSBs, all the above products are offered by them and the same is the case with foreign banks also.

From the above, the product differentiation in demand deposit products is very thin and only value differentiation is the key factor across banks and the technology, process and delivery efficiencies separate men from boys.

4.2.1.2 TERM DEPOSIT PRODUCTS IN RETAIL BANKING

All banks offer 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 re-engineering 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 PSBs, OGPVSBs, NGPVSBs and Foreign Banks 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.

4.2.1.3 RETAIL ASSET PRODUCTS IN RETAIL BANKING

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 Card Receivables 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 viz., PSBs, OGPVSBs, NGPVSBs and Foreign 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. Some NGPVSB have devised new schemes for extending loan / overdraft facility against cars for encashing the car 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.

4.2.1.4 OTHER PRODUCTS / SERVICES IN RETAIL BANKING

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, ATM Cards are offered by almost all PSBs, Telephone Banking, Mobile Banking, Internet Banking are offered only by some banks based on their technological capabilities. Depository Services are offered by some banks but Broking Services are offered only by one West based top PSB in the sample and not by others. 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 by select 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 offered by only one bank among all PSBs. In fact, this West based mid size bank is the only bank offering all the above services showing tier seriousness, commitment and belief in the retail banking and fee-based model. Wealth Management, Portfolio Management Services are not offered by any of the PSBs.
- Other than the basic standard services, OGPVSBs 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.

- NGPVSBs offer the complete bouquet of all the above products / services.
- Foreign banks also offer all the above services.

4.2.2 & 4.2.3 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 OGPVSBs also, tough products are developed in house independently. Market dynamics and the product positioning adopted by other players are taken cognizance of. Customer segments and market potential are also other prime drivers based on the overall segmentation approach.
- In NGPVSBs, in house product development incorporating the market dynamics, segmentation, classification and customer segments, are the deciding factors in product development.
- In Foreign Banks also, the above factors play a key role in product development.

The overall product development scenario is based on more than one or all the above factors depending on the retail business positioning of the banks.

4.2.4 BASIS FOR PRODUCT DEVELOPMENT IN RETAIL BANKING

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 by passed 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 and launched based on industry practices and need expressed by customers and without any pilot run and feedback.
- In OGPVSBs also, no market surveys are attempted but product development based is done on customer feedback and industry practices without any pilot run and feedback.
- In NGPVSB, pilot survey is done through in house resources and then the process is followed.
- In foreign banks, the product development process is followed in letter and spirit.

4.3 PROCESS MODELS

4.3.1 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, the entire process for products and services are done through in-house resources. In one West based mid size PSB, process part of some products are outsourced. But no outsourcing is generally done for the process part.
- In OGPVSBs also, only in house processing is the norm and no outsourcing is done for the process part.
- In NGPVSBs, partial outsourcing is attempted and partially by in house process model.
- In foreign banks, the entire process is outsourced and normally it happens through a dedicated back office covering the entire gamut of banking services.

4. 3. 2 PROCESS MODELS FOR RETAIL ASSETS

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. In the third model, there is no centralized processing but only regional processing hubs 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.

- Out of the six public sector banks studied, only one PSB has implemented the centralized processing model for all assets. Another two PSBs have centralized / regional processing hubs for some products and only stand alone model are adopted for other products. In other banks, no centralized model but only either regional hubs and or branches perform this job. 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 one private sector bank based in Karnataka, centralized processing centre is implemented, while in another Tamilnadu based bank, only stand alone branch level model is practiced.
- NGPVSBs follow a blended model comprising of centralized processing for some products and regional hubs for some other products so that the lead time can be effectively controlled.
- In foreign banks, centralised processing is the norm for retail asset processing.

4. 3. 3 PROCESS MODELS FOR RETAIL LIABILITIES

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 stages 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 at 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 one Mumbai based (one of the top five) PSB, centralised processing is done for the whole process cycle. To add, this PSB is very bullish in their retail model.
- In one OGPVSB, centralised model is adopted while in another bank, stand alone process model is implemented though they are aggressive in the core banking model.
- In NGPVSB, 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 it is mostly done through outsourcing or dedicated back office.

4.3.4 PROCESS MODELS FOR MULTI STAGE PROCESS REQUIREMENTS

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 may be stand alone or centralized, 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 case of OGPVSBs, in one bank end to end model is adopted while in another bank, a holistic model encompassing all the models is attempted.
- In NGPVSBs, a mix of the above models is the norm.
- In foreign banks, end to end model for all products and that too outsourced model is the standard practice.

4.3.5 PROCESS TIME FOR PRODUCTS & SERVICES

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. In only one PSB out of the sample, no processing time prescriptions were developed. One south based PSB has implemented the Six Sigma Quality Implementation Model in which the process time also finds a place. In another PSB, the process time as prescribed, 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 case of OGPVSBs also the same model as prevalent in PSBs is being adopted, but process time is relatively less in one bank than the other for various retail asset products revealing their extra commitment in retail asset expansion.
- In NGPVSBs, 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.
- Foreign Banks by adopting centralised processing, clearly spell out the process time for different services including retail assets as done by NGPVSBs.

4.4 PRICING MODELS

4.4.1 PRICING OF PRODUCTS & 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 is now linked with the asset liability management practices of banks.

- Though pricing is market driven and competitive In PSBs, it is mainly driven on the basis of the asset liability management practices of almost all 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.
- In OGPVSBs also, the same model as above is adopted except that the pricing will be slightly aggressive than PSBs in order to capture business in the competitive environment.
- In NGPVSBs, 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.,
- In Foreign banks, the models are almost same as NGPVSBs and they are always aggressive in the price front with process efficiencies.

4.4.2 PRICING STRUCTURES OF PRODUCTS & SERVICES

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 adopted by only one south based PSB. Otherwise, price bundling is not the toast of PSBs.
- OGPVSBs also adopt the above model generally but one bank is adopting the stand alone pricing only and it does not normally provide price concessions.
- In NGPVSBs, effective price structuring happen by actively adopting both concessional pricing based on the above discussed factors and also aggressive bundled pricing structure to effectively cross sell.
- In foreign banks also, the structuring is on the same lines as in the case of NGPVSBs and is market driven.

4.4.3 OTHER PRICING STRUCTURES OF PRODUCTS & 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.

- All PSBs adopt this structure uniformly based on the type of products and volume of business.
- OGPVSBs which are aggressive in retail banking follow this structure but all the banks do not follow this model.
- NGPVSBs aggressively follow this price structure basically as a pricing initiative and also as a cross selling initiative.
- This structure forms part of the retail banking initiatives of foreign banks.

4.5 TECHNOLOGY MODELS

4.5.1 TYPE OF TECHNOLOGY MODEL FOR 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 certain 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 “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.
- In OGPVSBs, one bank has outsourced model for technology while the other bank has in-house model with outsourced vendor.
- In NGPVSBs, the model is predominantly outsourced with partial in house model.
- In foreign banks, outsourced model is mostly adopted.

4.5.2 TECHNOLOGY IMPLEMENTATION MODEL FOR RETAIL BANKING

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 level 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. NGPVSBs started with technology advantage of a single server environment which gave them advantage over other banks. PSBs have re-engineered their technology initiatives and started implementing core banking solutions which resulted 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.

- Only one PSB has implemented cent percent core banking solution. Two market-savvy PSBs completed the core banking covering more than 75% of their branches. Another bank covered about 50% of their branches under core banking. In some banks, there is a long road ahead in regard to the core banking implementation as it is still in the startup stage. The present technology model in most of the PSBs 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 OGPVSBs, the vertically organized process model is more predominant as one bank has implemented cent per cent core banking solution and another bank has covered more than 75% of the branches under core banking solution. This shows the clear advantage to these banks over the PSBs in their retail banking initiatives because of the customer product integration grid at its best.
- In NGPVSBs, 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 is used effectively to market a bouquet of retail products to a targeted customer base.
- In foreign banks also the model is the same as the case of NGPVSBs and totally vertically organized. This model gives clear leverage for the bank to source multiple business form an integrated data base.

5. STRATEGIES

5.1 PRODUCT STRATEGIES

5.1.1 PRODUCT DEVELOPMENT STRATEGIES

Product development strategy is the first step in the product development model. The model and strategy are intertwined. It is like the chicken and the egg. Which comes first is a very difficult question to answer. Building a model and developing strategies in line with the model is adopted by some banks. Developing strategies and building a model around is followed by some other banks. But strategies and models should be in tandem with each other for a coherent implementation programme.

- Product development strategies in PSBs are mainly based on the different customer segments (existing and prospective), competitors' offerings and also based on the market research / market demand.
- OGPVSBs also follow the same line of approach.
- In NGPVSBs, the focus is more on customer segments in addition to the other factors.
- In foreign banks, an integrated approach with profit chain model in built is followed.

5.2.2 CUSTOMER ACQUISITION STRATEGIES

Customer base is the basis on which the business strategies are built in retail banking. Acquisition of customer base (1 million accounts, 2 million accounts) to achieve target volumes is one strategy. Achieving target volumes from the existing and acquired customer base is another strategy. Acquiring customer bases include acquiring target segments (HNI, Mass affluent) in line with the business strategies. Some bank work on business volumes first through customer targets. Some other banks target customer volumes first and business volumes in the process. Some banks adopt both the above in tandem.

- Most of the PSBs follow the strategy of customer segments and business volumes together though customer acquisition is given more focus to improve the business volumes. In one Kolkata based PSB, the strategy is more skewed towards achieving business volumes.
- In OGPVSBs, the above is true though in one bank, the focus is on segments and in another bank, the focus is more holistic.
- In NGPVSBs, a mix of both customer segments and also business volumes are the drivers of the strategies.
- Foreign banks also adopt the same line of strategies as in NGPVSBs.

Banks adopt different strategies to acquire customers. Different models are implemented depending on the business strategy and of course regulatory prescriptions in this regard. The primary mode of acquisition is through the banks' own branch net work or sales teams specially formed for the purpose. Sourcing customers through Direct Selling Agents (DSAs) is another strategy. Tele calling (cold calls) and follow up from an existing data base or outsourced data base and cross selling to the existing customers and prospecting for new business from the outsourced data base is yet another model.

- In PSBs, the branch format is the mostly used model for acquiring customers. Across the counter acquisition through the Branch Head / Other Staff is the primary mode through which customer acquisition happens. There are also regulatory prescriptions for outsourcing for customer acquisition. Of course to obviate this, some banks have developed special sales team / marketing officials based on their retail model to have exclusive and focussed strategies for customer acquisition and business mobilisation.
- In OGPVSBs, also the same strategies as above are implemented.
- But in the case of NGPVSBs, the strategies extend beyond branches. Branches play only a limited role in customer acquisition. DSAs play a very important role in their strategies. A strategic mix of outsourced and in house model is adopted. For sourcing customers for some products, DSA strategy is used while for others, banks' sales team is used. For example, customers for liability products, card products are acquired through DSAs, while customers for mortgage loan products are acquired through banks' sales team. This is the strategy followed by most of the private sector banks.
- Foreign banks depend almost entirely on DSAs for customer acquisition for most of their products except some specific segments like HNIs, Wealth Management Clients etc. Branch level customer acquisition is very low among these banks.

5.2.3 CHANNEL STRATEGIES FOR DELIVERY OF PRODUCTS / SERVICES

Delivery Channels make or break retail banking. The initiatives in retail banking across products and beyond products get translated into business only through efficient delivery channels. Channel is the mode through which the offerings reach the customers. Banks offer both direct channels and remote channels as a part of channel strategies and make a judicious mix of these channels as effective delivery models. The brick and mortar format still rules the roast in the direct delivery format. Technology has changed the conventional formats of delivery channels and new technology driven remote channels like ATMs, Mobile Banking, Internet Banking and Telephone Banking have emerged to enhance customer experiences for availing the products and services. The efficacy of these channels plays a vital role in the level of customer engagement to the banks' products and services.

- In no PSB, only direct branch delivery format is adopted. The question is the level and extent of implementation of remote channels across geographies. ATM is the most common remote channel adopted by almost all PSBs. Telephone Banking, Mobile Banking and Internet Banking are implemented at various levels in different PSBs. Predominantly, brick and mortar is the main delivery channels in all the PSBs sampled. A mix of direct and remote channels are offered by all the PSBs depending on the products and services and in some banks, direct channels for relationship oriented products and remote channels for transaction oriented products.
- OGPVSBs also adopt the same strategies. But the level of implementation of remote channels is lower in these banks. This is compensated by tie up arrangements with other banks so that customer expectations are met for a broader access.
- In NGPVSBs, remote channels play a more vital role than direct channels. These banks encourage use of remote channels than direct channels purely based on the cost of channel delivery. The channels are skewed more towards the remote side than the direct side. These banks also use direct channels for relationship

oriented products and remote channels for transaction oriented products.

- Foreign banks also adopt the same strategies as NGPVSBs and follow the strategy of remote channel as the main driver of customer engagement.

5.2.4 DELIVERY STRATEGIES FOR PRODUCTS / SERVICES

The delivery of physical evidence for products and services (Cheque Book, Pass Book, ATM, Debit Cards, Credit Cards, and Deposit Receipts) is a vital element in the initiation of account relationship. Effective delivery of these evidences is a pre cursor or a smooth relationship. Different strategies are adopted by banks for this. Some banks complete the delivery process at the point of sale itself (Branch), some other banks follow either a centralized delivery process or a regional level geography oriented process for all or some of the deliverables. To illustrate, for Savings Accounts some banks deliver Pass Books, Cheque Books, ATM / Debit Cards at the branch itself whereas in some other banks the whole or part of it is centralised i.e. Pass Book delivered at the Branch and Cheque Book and ATM / Debit Card are delivered through a centralised hub. Another delivery strategy is to route the entire deliverables through a centralised hub.

- In almost all PSBs uniformly, the physical evidence related to products / services are delivered at the branch level. In some PSBs, the Debit / ATM / Credit Cards are processed centrally and delivered through the branches.
- In OGPVSBs, also the same strategies as in PSBs are adopted. The standard strategy is creation of the product/service at the branch level and delivery of physical evidence is done through any or a mix of the above strategies.
- In NGPVSBs, the strategy adopted is a mix of branch level delivery for some products or part of it and or delivering the full package through a centralised hub.
- In foreign banks, mostly the delivery of physical evidence is through a centralised hub.

5.2.5 DOORSTEP BANKING FOR PRODUCTS / SERVICES

Doorstep banking is a service enhancement for customer engagement and banks are embracing this strategy to improve the customer satisfaction. Doorstep banking services are offered in a restricted way by some banks in the areas of cash deposit and withdrawals from accounts. Some foreign banks offer complete range of doorstep banking solutions including issue of drafts and collection of cheques etc. Charging fees for the services rendered is one dimension but ultimately customers don't mind for paying for conveniences. With regulatory permissions in place for doorstep banking services, public sector banks are also gearing up for offering doorstep banking services to their customers.

- In the PSB space, only some banks have started initiatives for doorstep services. One Mumbai based PSB has already started this initiative. Another Mumbai based retail savvy PSB has started offering full fledged doorstep banking services. Other PSBs from the sample has not started this initiative so far.
- Doorstep banking service has not been initiated by OGPVSBs so far. In fact, it has not been attempted even by the Tamilnadu based bank which is aggressive in the retail space and with technology integration across customer segments. With a vertically organized process model, doorstep banking should be a natural extension of customer convenience for these types of banks to improve per customer profitability.
- In NGPVSBs, initiatives are already on for extending a full fledged doorstep service to customers. The advantage is the outsourced model these banks have for other services and the same strategy can be adopted for doorstep service also.
- Foreign banks are already offering door step service for collection of cheques and issue of drafts, documentation and release of personal loans and outsourcing is the strategy through which the service is implemented.

5.2.6 TRAINING STRATEGIES FOR INTERNAL CUSTOMERS (STAFF) FOR DELIVEY OF PRODUCTS / SERVICES

Training is a very important function in the internal customer education process. Internal Customers' knowledge about the products and services is translated to the external customer and converted into sales. Research studies have established the positive correlation between the product knowledge of the internal customers and the external customers. Training elevates both the knowledge and skill sets of the internal customers. Training in most of the banks are developed and administered as an in-house mechanism. It is administered in a two stage process, both centralized and regional / zonal model depending on the type of human resources to be trained. In some private and foreign banks, outsourced training strategy is adopted for sales / marketing and the technology functions and in-house strategy for product training.

- In PSBs, the training strategies are entirely in-house. Training for sales staff is administered only through in house resources. But for third party products, training is imparted through the training system / outsourced model of the third party. The in house training is supplemented by external training of specialized national level specialized training institutions / management institutions based on the domain related training needs.
- The same strategies as adopted by PSBs are adopted by OGPVSBs also. The only difference is that the level of outsourced training and external training will be less naturally because of the less human resources numbers in these banks as compared to PSBs.
- In NGPVSBs, the training strategy is a mix of in house training supplemented by external training from specialized training institutions (instead of total outsourcing) for specific domain related training needs. But the sales training will be skewed more towards outsourcing strategy.
- Foreign banks mostly follow outsourcing as the training strategy. The scale and size necessitates outsourcing and done through specialized training institutions by structuring in company programs exclusively.

5.2.7 PERFORMANCE INCENTIVE STRATEGIES FOR PRODUCTS / SERVICES

Performance and reward goes together and rewards in turn become motivators for further performance. Incentives for performances are most common forms of rewards and it includes monetary as well as non monetary. Incentivisation strategies are adopted by banks in different forms. It includes direct incentivisation (both monetary as well as non monetary) by the bank and indirect incentivisation by third party partners in the fee-based business segment (Insurance, Mutual Funds). Monetary Incentives are directly given as cash awards for performances / achievements, whereas non monetary awards are in the form of nominations to overseas educational trips, domestic trips to hill stations , attending conferences etc.

- In PSBs, in almost all the banks, non monetary incentivisation by the banks is the standard norm adopted. In most of the banks, performance linked non monetary incentivisation by the partners in the third party distribution, is also additionally adopted. Almost no PSB is allowing direct monetary incentivisation by any partner in third party distribution. Some banks incentivise Staff directly with monetary rewards during special campaigns for top performers and also supplement with overseas educational tours.
- In case of OGPVSBs, though direct incentivisation by the bank is in a limited way, they allow direct monetary as well as indirect non monetary incentivisation by the partners in third party distribution. This is done perhaps due to limited human resources and the need for focused motivation to augment fee-based business and income.
- In case of NGPVSBs also in addition to direct monetary and non monetary incentives by the bank, incentivisation by the partners in third party distribution is adopted as a strategy. This is mainly done to boost third party distribution and fee-based income from that segment.
- Foreign banks also follow the same strategies as adopted by NGPVSBs. The strategy is extended as an additional incentivisation tool to motivate the Staff over and above the internal incentivisation programmes.

5.2.8 CUSTOMER RELATIONSHIP MANAGEMENT (CRM) STRATEGIES FOR RETAIL BANKING

Customer Relationship Management (CRM) is the backbone of retail banking. A vertically organized model with availability of customer information across products will be a sound base for building an effective customer relationship management programme. Integration of customer data base in a single platform will facilitate a smooth CRM programme. It helps the banks not only to implement various CRM initiatives but also to develop cross selling and up selling strategies to mobilize additional business and increasing the per customer profitability. But all these depend on the strength and spread of customer data base available in banks. The data base structure varies across banks. In banks with a single server environment, centralized data base will be available. Depending on the level of technology integration, banks will have multiple layers of customer data base and the CRM strategies are built around those layers.

- In almost all PSBs, stand alone branch level data base is the norm for all retail banking activities and CRM initiatives. Centralised data base does not exist as core banking solutions are not implemented covering all branches and the implementation level is in various stages across banks. In some banks, regional level data base is built up for localised CRM initiatives.
- In OGPVSBs also, standalone data base is the format available for CRM initiatives at present.
- The technology advantage over PSBs and OGPVSBs clearly put the NGPVSBs ahead in terms of centralized data base for CRM initiatives. The centralized data base through a single server environment is available in private sector banks to develop multi pronged CRM initiatives.
- In foreign banks also, the situation with regard to customer data base is the same as in NGPVSBs.

5.2.9 STRATEGIES FOR CUSTOMER ENQUIRIES FOR PRODUCTS / SERVICES

Response mechanism for customer enquiries is one of the determining factors for the reputation of the banks. Customer Response Management is the first step for a successful customer relationship management. Banks follow different strategies for customer enquiries. Some banks set up a Call Centre for a centralized customer response mechanism. Customer enquiries are handled through a centralized toll free number and actions initiated through that set up. Another strategy adopted by banks is setting up regional call hubs specific for regions and responses effected through specially designated customer service executives. Additionally, touch screen information kiosks based on centralized / regional data bases are offered as enquiry tools. In a stand alone data base scenario, branch level enquiry response model is the standard strategy uniformly adopted by all banks.

- In almost all PSBs, the stand alone approach at the branch level is the standard strategy adopted for customer enquiries. In some banks, regional level customer enquiry management is adopted through customer service officers. The information kiosk is also attempted by one of the PSBs based in Mumbai. Two PSBs in the sample, one from Chennai and another from Mumbai, have set up Call Centers for customer enquiries showing their additional commitment to CRM initiatives.
- In OGPVSBs also, the same strategies as in PSBs are adopted. Call Center concept is not there but regional level customer enquiry management is adopted by one bank and information kiosks are in place for customer enquiries in another bank.
- In NGPVSBs, Call Center for centralized customer enquiry is the standard strategy adopted by these banks.
- In foreign banks, the same strategies as adopted by NGPVSBs are followed.

5.2.10 PROMOTION STRATEGIES FOR MARKETING PRODUCTS / SERVICES

Promotion strategies constitute an important element in the success of any retail banking initiative and are mainly focused as brand promotion and product promotion. The product and value propositions have to reach the customers / prospects in the right perspective and promotion is the means to achieve that goal. A proper and pragmatic promotion strategy alone will translate the opportunities into business. The promotion strategies normally adopted by banks are basically in two ways. One way is to address the customer universe in general and another way is to address the specific targeted customer segments with customized promotional measures including the promotional media for the target segments.

- The promotional strategies adopted by PSBs are generally targeted on the customer universe. But different promotion strategies are adopted for different target groups across different product lines and promotion models.
- In OGPVSBs also the same strategies as above are followed.
- The situation in NGPVSBs is different. It is more customer focused. Different promotion strategies are adopted for different target groups across different product lines and promotion models. Promotional effectiveness is more in this strategy as it results in a better customer reach.
- Foreign banks also follow almost the same promotion strategies as adopted by the NGPVSBs.

5.2.11 STRATEGIES FOR CUSTOMER RETENTION

Customer retention is one of the key words for the success of retail banking. In these days of cut throat competition in the retail banking space, retaining a customer is more important than acquiring a new customer. To add, the cost of acquiring a new customer is more than retaining an existing customer. Customer retention creates opportunities for product and price bundling, cross selling and up selling. Banks also structure Customer Loyalty Enhancements Programmes for specific customer segments like NRIs, HNIs, Private Banking & Wealth Management Clients. The programmes range from simple customer meetings to arranging for social, cultural meets and also include special musical concerts. All these are implemented as a part of the total customer relationship management initiatives. Customer retention is also adopted by customer discrimination or differentiation by specialized value, service and delivery and price prescriptions for different customer segments.

- In PSBs, most of the above discussed strategies are implemented for customer retention and enhancement in almost all the banks. The degree of implementation of these strategies differs across banks depending on the type of customer segments. A mix of all these strategies is designed by the banks.
- In OGPVSBs also, the above customer retention strategies are adopted. But size matters and due to smaller customer base as compared to PSBs, these banks implement strategies more on the general customer universe than on specific segments as mentioned above.
- In NGPVSBs, though all the above strategies are implemented, the focus is more on segment specific retention strategies. The predominantly vertically organized customer information helps these banks to arrive at gross customer value across segments and design specific retention strategies for these segments.
- In foreign banks also, the same retention strategies as followed by the NGPVSBs are implemented.

5.2.12 SERVICE QUALITY POLICY FOR RETAIL BANKING OPERATIONS

Service quality and brand loyalty goes together. If the customer is served with the expected quality and the services are delivered as per the promises, then satisfaction level increases and loyalty levels are intact. If there is a gap in this area, then loyalty factor is put under strain. Service Quality encompasses the service prescriptions, setting service standards, benchmarks and promises across products / services and strives to achieve delivery of promises with zero deviations. Though some statutory service standards are adopted by banks like Banking Standards and Codes, a stand alone service quality policy will be a real differentiator for retail banking effectiveness. For banks with separate Strategic Business Unit (SBU) focus on retail banking space, a separate quality policy covering all the retail banking products and services is a must for business governance.

- No separate service quality policy is adopted by any of the PSBs. Even a Mumbai based PSB which has implemented a number of focused retail banking strategies and positioning spaces, have not thought of it. Perhaps the bank has found the other statutory service standards sufficient for retail banking also.
- In OGPVSBs also, no such policy is in vogue. Perhaps the depth of the retail banking business has not warranted the necessity for such a policy.
- The surprising aspect is that even in case of NGPVSBs which are recognized leaders in retail banking and also aggressive innovators in that space, no such policy is in place. In these banks, the process model is vertically organized, customer information available across product lines, delivery prescriptions are clear and channels are multiple in nature. But there is no policy to measure the efficacy of these.
- In foreign banks also, the situation is the same as that of the NGPVSBs.

5.2.13 SERVICE QUALITY AUDIT FOR RETAIL BANKING OPERATIONS

Confirmation of delivery of promise as against prescriptions is ascertained only through the feed back from the customers. Service Quality Audit help the banks to take stock of the delivery promises and ascertain their performance for initiating necessary service and process re-engineering measures towards achieving zero gap. Serious retail players should necessarily have quality audit in place for retail banking efficacy. But for an effective service quality audit, a policy should be in place.

- Service quality audit is not there in any of the PSBs as there is no service quality policy specifically for retail banking except adoption of only common statutory standards for general service levels.

  In OGPVSBs and NGPVSBs also there is no quality audit in place.
- Though no specific quality audit is in place in foreign banks, in some banks there is a mechanism to check service compliance levels for some products through a call centre mechanism and to ensure satisfaction levels.

5.2.14 *REPUTATION RISK MEASUREMENT STRATEGIES FOR RETAIL BANKING OPERATIONS*

Reputation Risk is the risk of risks and will shake the foundation of the bank's business. Other risks like credit risk, capital risk and operational risk affect one particular dimension of business but reputation risk affects the brand image of the banks and will shake the entire business model of the banks. Reputation Risk arises from the deficiencies of the service provider (bank) due to gap in service promises and delivery and also other negative triggers. The negative triggers may be frequent breakdown in ATMs, process bottlenecks / delay in sanctioning / releasing retail assets, delayed receipt of credit card statements, delay in credits in accounts ,wrong return of cheques etc., It is not just customer dissatisfaction but extends beyond that. Customers' belief about the bank's service level will be shaken and this disbelief extends to not just withdrawal of existing relationship or rejection of future business proposals but will result into negative brand equity. Risk to reputation will impact business both present and future and also existing and potential / prospective customers. Recognising the risk to reputation is the first step to arrest any loss of business. Measuring reputation risk is primarily collecting feed back from customers about the service quality and the gap if any between promise and performance through internal mechanisms. Another way is by doing a reputation risk audit by an external agency for a balanced approach focusing the potential triggers and to check up whether the relevant systems are in place to address the risk. The third way is to conduct a survey internally from the customer universe focusing on the potential triggers of reputation risk in retail banking, eliciting responses and initiating corrective measures to address the threats.

- None of the PSBs have any mechanism in place to measure the potential risk to reputation arising from the present level of retail banking operations. Banks have not taken cognizance of reputation risk as a potential threat to retail banking.
- In OGPVSBs also, there is no mechanism for measuring the reputation risk. It is restricted to the existing customer service complaints and redressal mechanism.
- In NGPVSBs, some attempt is made to measure the risk to reputation by feedback mechanism from customers on potential reputation risk triggers as mentioned above.
- In foreign banks also the same strategy as in NGPVSBs are attempted.

5.2.15 *REPUTATION RISK MEASUREMENT FOLLOW UP STRATEGIES*

The buck doesn't stop with just recognizing and measuring reputation risk but to follow up effectively with risk mitigation strategies. The starting point of the mitigation stems from customers' feedback about the service deficiencies and initiating suitable follow up strategies. Follow up strategies include acknowledging the individual customers and taking immediate corrective responses. Another way is to respond to general and specific gaps and initiate responses for specific business lines. The third way is not to just respond but to adopt a process re-engineering on areas that have become prone to reputation risk.

- As there are no reputation risk measurement strategies in PSBs, the question of measurement and follow up does not find a place in their agenda for retail banking. Even in banks with aggressive retail banking focus, no attempt is made on this important dimension.
- In OGPVSBs also, the same situation as above is prevailing.
- In NGPVSBs, feed back is collectively compiled across business segments, the grey areas are identified and immediately steps are taken for corrective measures across business lines. Additionally, process re-engineering is also attempted whenever the feedback from the customers necessitate that.
- In foreign banks, dynamic corrective strategies are always on and continuous customer feedback obtained on a regular basis to dilute the reputation risk triggers.

5.2.16 *BRANDING STRATEGIES FOR RETAIL BANKING OPERATIONS*

Branding has become an absolute necessity for retail banking operations. Gone are the days when products / services are offered on a generic approach and now branding has become a compulsion than an option. Branding in retail banking is approached in two ways. Corporate Branding exercise is attempted to generate positive responses to the bank itself to the branding stimuli. Product branding boils down to branding exercise specific to target products and marketing initiatives needed. In product branding, specific brand names were structured product wise and reflects either the characteristics of the product on a stand alone feature or reflects both corporate and product characteristics. Branding enhances the visibility and recognition of the service offerings and results in better tangibilisation of the products / services. Branding also enhances customer acceptance of the products and business potential.

- Almost all the PSBs have adopted both corporate branding and product branding. Some functional retail liability products are offered with generic names in some public sector banks but most of the retail products are offered with distinct brand names. The brand names for individual products were structured to reflect the brand characteristics.
- In OGPVSBs, most of the products were offered with specific brand names reflecting the product and corporate characteristics though some of the products are offered with generic names.
- In NGPVSBs, branding has become a basic norm for products / services. Branding strategies includes plain vanilla product oriented brand names as well as hybrid brand names gelling and highlighting corporate and product characteristics.
- In foreign banks also, the same branding strategies as followed by NGPVSBs are practiced.

5.2.17 BRAND REINFORCEMENT STRATEGIES IN RETAIL BANKING

Branding strategies are basically adopted to improve the visibility of the products / services and to have an effective recall value for the customers / prospects. The idea is to make the customers identify / associate themselves with the brand and initiate a positive purchase decision. Celebrity Endorsements are part of the corporate brand building enhancement exercises. Celebrities acting as brand ambassadors identify themselves with the brand propose and vouch the corporate / product characteristics and release stimuli for positive responses. Brand ambassadors play a crucial role in influencing the prospects to buy the product. The success of the brand ambassador depends on how well the personality of the ambassador reflects the personality of the brand or product. It is gauged by how the prospects identify and accept the matching of brand ambassador 'traits and the products' traits and the acceptance have to be translated into business improvement.

- In most of the PSBs, the concept of brand ambassador is not in vogue generally. Only very few banks have initiated the concept. Only one Mumbai based, retail focused PSB in the sample has appointed a Brand Ambassador as a part of brand building exercise.
- In OGPVSBs also, the concept of brand ambassador for brand building is not there.
- In NGPVSBs, brand ambassador is a part of brand communication exercise. The brand ambassador is used for corporate branding as well as product branding. The basic objective of this activity in these banks is to encash the brand equity and reputation of the ambassador and converts the same into additional sales. Some banks are dynamic in changing the brand ambassador if there is personality - product mismatch due to various factors. They hire a new ambassador whose personality reflects the product characteristics.
- In foreign banks also, the same strategies as adopted by NGPVSBs are followed.

5.2.18 IMPACT OF BRAND AMBASSADORS IN RETAIL BANKING

The ultimate objective of appointing a brand ambassador is to increase the sales volumes by encashing the personality of the brand ambassador. The increase in sales will directly reflect the effectiveness and efficacy of the brand ambassador. There is a direct correlation to the cost of brand ambassador and the positive impact on sales. If the sales volumes are not on targeted lines, then it will be a losing proposition for the bank. If the impact is less, it shows that the customers are not convinced about the brand ambassador's propositions and there is personality-product mismatch resulting in discounting of the sales pitch by the ambassador. The level of improvement in business reflects the level of effectiveness of the ambassador. Corporate expectation from a Brand Ambassador is that there should be a quantum jump in the business to justify the costs.

- In case of PSBs, only one bank in the sample has appointed a Brand Ambassador. In the said bank, there is a positive impact resulting in improvement of sales of above 50%.The results look quite impressive and reflects the acceptance of the ambassador as an influential factor by the customers / prospects and the conviction of the customers to turn the acceptance into new business for the bank.
- In case of OGPVSBs, the situation does not arise as there is no brand ambassador.

- In NGPVSBs, surprisingly, no quantification is reported even though it is stated that there is improvement in business. The exact level of improvement in business is either not measured or not made available. If there is no structured attempt to do an impact analysis, then it will give rise to a situation where the ambassador is appointed to give a general fillip to the brand and not focused on targeted business improvements.
- In foreign banks also there is no data made available regarding impact of brand ambassador on improvement in business volumes.

5.2.19 CO-BRANDING STRATEGIES IN RETAIL BANKING

- In today's competitive and aggressive retail banking scenario, banks are moving from the conventional business models to new business lines. The objective is to offer total financial services solutions. In the process, banks enter into business tie ups with other financial services providers like insurance companies, mutual fund houses, broking houses and offer co-branded and relevant value added products / services to their customer universe. The co-branded products / services offerings have the features of both the bank and co-branding partner but offered only through the banking platform. The strategic issue lies in the positioning platform given to the co-branded partner. Normally, the strategy will be to give more importance to the parent brand and relatively less importance to the partner brand as the platform is through the parent brand. In some product, the strategy will be to have an equal standing to the parent brand and co-brand. In some cases, the co-brand is projected more than the parent brand. In some other cases, the co-brand is allowed to create their own sub brand propositions within the co-branding activity thus creating a brand straining of the parent brand. The classic example is the bancassurance strategies of LIC of India (LIC) in direct sale of policies through banks. LIC of India's brand pundits devised a novel branding exercise where they pollinated their brand into the parent brand by awarding the 'Bima Bank' status for branches which have done the prescribed level of business for LIC and linked certain incentives for achieving the status. Thus by incentivisation strategies, they have successfully strengthened their brand proposition by creating a hybrid cross pollinated brand into the parent brand and diluting the parent brand for this business initiative. All the above strategies depend on the co-branding objectives and the strength of the co-brands.
- In most of the PSBs, co-branding with partners for value additions is structured with main focus on the parent brand (bank brand).In some cases, equal footing is given to both brands. In one bank, partner brand is given more mileage due to business positioning. Classic examples are insurance linked products where the insurance features are given importance but the insurance company providing the service is given lesser mileage with just a mention about the service provider. In case of direct sale of mutual fund schemes and life / non-life policies, the co brand is projected more and the parent brand takes a subdued role. Additionally in some of the banks, allowing the partner brands to create new sub brand propositions as above is also practiced.
- In OGPVSBs, this exercise is not attempted in a big way and little co- branding activity is happening.
- In NGPVSBs, co-branding with partners for value offerings is structured with equal focus on co-brands also, allowing the co-brand to gain equal mileage on brand promotion. Other co-branding propositions as above are also in their co-branding strategy book.
- Foreign banks also follow the same co-branding strategies as in NGPVSBs.

5.2.20 THIRD PARTY DISTRIBUTION STRATEGIES IN RETAIL BANKING

Retail Banking is all about handling a huge volume of customer base and effectively deriving business and profit from them. Maximising per customer profitability is the basic objective and this is best achieved by offering a slew of products to match the entire need spectrum of the customer across financial solutions. To take the product range beyond banking solutions, banks have to look into other financial services providers like insurance, mutual funds, capital market players and bundle the offerings along with the banking products by entering into distribution tie ups. The concept of these Third Party Distribution (TPD) strategies augurs well for the banks in a number of ways. It effectively satisfies multifarious customer needs across financial spaces, enhances the scope for banks for cross selling and up selling and thus improving brand loyalty, generate new revenue models for the bank by means of fee income for the third party products sold and also expansion of customer base through referrals. TPD has become a highly attractive fee based revenue augmentation strategy across the globe and some banks are deriving more than 50% of their retail banking income through fee based strategies. In the Indian banks also, TPD is emerging as an attractive business strategy for players with retail focus.

- Almost all PSBs in the sample have in place aggressive third party distribution strategies. These banks have tie ups for distribution of life insurance, non-life insurance policies and also for distribution of mutual fund schemes.
- OGPVSBs also have distribution tie ups for life, non-life and insurance space.
- NGPVSBs have focused third party distribution strategies for augmenting fee based income. They have their own group companies in the life, non-life and mutual fund spaces and are their natural allies in third party distribution. But in the mutual fund space, the tie ups have extended beyond to distribution of other mutual funds to maximize their fee-based income.
- Foreign banks also follow the same strategies in third party distribution as adopted by NGPVSBs.

5.2.21 DISTRIBUTION STRATEGIES - LIFE AND NON LIFE INSURANCE

Distribution strategies for life and non life insurance spaces are two dimensional. One is to develop insurance-linked products and market it as co-branded products. The second is plain vanilla distribution of their products across the banks' counters to their customers. Banks adopt any of these or both of the above as distribution strategies. The idea is to derive maximum mileage from the distribution paradigm.

- Almost all PSBs are distributing direct policies as well as marketing insurance-linked products.
- Some OGPVSBs just distribute direct policies only and are not indulging in developing and selling of insurance-linked products while other banks just offer linked products and not in direct sales.
- NGPVSBs are distributing direct policies generally and some banks offer insurance linked products also.
- Foreign banks also follow the same distribution strategies as in NGPVSBs.

5.2.22 SALES STRATEGIES - LIFE AND NON-LIFE INSURANCE

The effectiveness of the distribution strategies lies in identifying the right sales model. Developing the right sales mix which includes channel, people, customer data base, identified target customer base and style of distribution will be determinants of a successful distribution paradigm. Some banks have a general approach while some other banks have a focused approach. The sales are effected by the banks' staff only for both proprietary products as well as third party products. In some banks, there is joint sales pitch by the banks' and insurers' staff together. In some banks, sales are done through some selected branches only while in other banks, sales are effected through all the branches. In some banks, sales pitch is initiated using a centralized data base while in some other banks, stand alone data base at the branch level is the norm for the sales pitch. In some banks, customer data base is shared with the insurer for a common sales pitch whereas in some other banks, the data base is not shared and the sales leads are generated only through the branch staff.

- In most of the PSBs, the sale of third party products is done through all the branches. In most of the banks, the sales pitch is generated by the banks' staff only, though in some banks, the support from the insurers is sought. The sales pitch is based on the stand alone data base at the branch level. The data base is not normally shared with the insurers.
- In OGPVSBs also, the strategies are almost on the same lines as PSBs.
- In NGPVSBs, the strategy is different from the one adopted by PSBs and OGPVSBs. In these banks, the sales are effected jointly by the banks' staff and the insurance sales advisors. To add, sales are not happening through all branches and are effected through selected branches only. Since the insurance are group companies in some of the big banks, sharing of data base or joint lead generation are not issues at all.
- In foreign banks, selective sales approach through measured tools is the distribution norm.

5.2.23 TRAINED SALES FORCE - LIFE AND NON LIFE INSURANCE

Trained sales force is a pre requisite for effective distribution strategies. It is a regulatory requirement and mandatory also. Developing the right numbers of trained people is a must for spreading the distribution across geographies and maximise sales. The numbers depend on the business strategies for the distribution model.

- In PSBs, the trained people for life and non life business are about 100 to 200 though in most of the banks, it is in the region of 100 to 150.This indicated the business focus of these banks in third party distribution. Banks have prepared themselves with a full fledged trained force to encash this business model.

- In OGPVSBs, the numbers are in the region of 50-100 for one bank and above 200 for another bank in the life space and about 25 in the non life space. The numbers indicate the serious approach of these banks in the distribution of direct life polices (as these banks are not in the insurance-linked products) and the preparedness to take the strategy forward for fee-based business augmentation. The non-life numbers are in line with the branch numbers and comparable to PSBs.
- In NGPVSBs, the figures are not available but since the initiatives are jointly carried out along with the insurers (who are group companies), the number doesn't really matter and the focused initiative with clear business objectives only matter.
- In foreign banks also, the numbers are not available but their distribution strategies are in line with the business objectives.

5.2.24 DISTRIBUTION TIE UPS - MUTUAL FUND DISTRIBUTION

Distribution of mutual fund schemes of different fund houses has emerged as a strong third party distribution strategy for the banks to augment fee- based income in addition to life and non-life insurance products. The strategy is to complete the financial spread to the customers by offering mutual fund products. The more the mutual funds under tie ups, more will be the choices for the customers at the first instance and secondly more business mobilisation for the banks and fee-based ncome. Different banks adopt different strategies for tie ups. While some banks have only a few tie ups and concentrate on more business volumes from the restricted numbers, some banks go for more tie ups and use the numbers to increase the customer choices and more business.

- Most of the PSBs have distribution tie ups with only upto 5 mutual funds. But two PSBs, one from Chennai and another from Mumbai have aggressively tied up with more than 10 mutual funds for distribution of these schemes. The idea is to tie up with all the top mutual funds and offer holistic mutual fund solutions to the customer base and in the process to improve business volumes and fee-based income.
- In OGPVSBs, one bank in the sample does not have any tie up while the other has about 5 mutual funds for distribution.
- NGPVSBs are also aggressive in mutual fund distribution. They are not restricting themselves to distributing their own group's mutual fund but distributing more than 10 mutual funds as in the case of two PSBs and offer the entire range of schemes of these funds to capture maximum business and enhance fee based income.
- Foreign banks also follow the same strategies as that of NGPVSBs.

5.2.25 DISTRIBUTION STRATEGIES - MUTUAL FUND DISTRIBUTION

Tie ups are only one dimension to distribution but the mechanics and logistics of distribution decides the efficacy of the strategies. Banks adopt different distribution strategies and most of the banks distribute the schemes through all their branches and this is very particular to public sector banks. Some banks distribute the schemes only through select branches. Some banks follow a hybrid model of distributing new fund offers through all the branches and regular schemes through select branches to comply process requirements of applications mobilised.

- In almost all the PSBs, the distribution is effected through all the branches. PSBs mainly do the new fund offer mobilisation and this strategy helps them to mobilise applications across geographies.
- In OGPVSBs, the mobilisation is done only through select branches, perhaps due to limitations in geography of the branches.
- In NGPVSBs, a hybrid model is adopted for mobilisation. The distribution is effected through all the branches in case of New Fund offers and regular schemes are marketed only through geography specific branches for each mutual fund based on their brand equity in that geography.
- In case of foreign banks, the distribution is effected at all the branches as their geography is limited and restricted to main centres only.

5.2.26 TRAINING STRATEGIES - MUTUAL FUND DISTRIBUTION

Training and certification are regulatory requirements and banks gear themselves up with trained human resource to market mutual fund schemes. With more trained manpower, banks can broad base their distribution strategies. The trained manpower has a direct correlation about the faith of the banks in the business strategy of mutual fund distribution.

- In some PSBs, the trained manpower is limited (about 25) and reflects that the distribution strategy is in a nascent stage. In some other banks, the trained resources are in the region of 50 indicating the seriousness of the bank in the distribution model. In some other banks, the numbers are around 100 -150 implying that these banks have strong faith in the model and prepared themselves for a full blooded distribution strategy. Surprisingly, in one South based bank, the number of trained and certified resources is more than 300 reflecting not only the aggressive posture of the bank in mutual fund distribution but also their strong conviction about this model to generate business mobilisation and fee- based income.
- In OGPVSBs, in the bank which has adopted the model, the numbers are in the region of 50, indicating the serious approach of the bank.
- In NGPVSBs, the numbers are not available. But the distribution model derives maximum business from the group company and thus numbers does not matter. Mobilisation figures indicate the efficacy of the model.
- In foreign banks also the numbers are not available.

5.2.27 SALES STRATEGIES - MUTUAL FUND DISTRIBUTION

The tie ups, training and certification should culminate into developing sales strategies for mobilisation. Trained people are supposed to sell the schemes to the customers / prospects. In some banks, sales are effected by dedicated staff and in some other banks sales are effected by all the Staff. In some other banks, in addition to the above, joint marketing along with the mutual fund sales team is also attempted.

- In some PSBs, sales effected only by trained staff. In some other banks, sales are effected by all the Staff at the branch level in addition to the trained staff.
- In OGPVSBs, sales are effected only by dedicated trained staff at the branch level.
- In NGPVSBs, sales pitch is done by all the staff in the branch in addition to dedicated trained staff.
- In foreign banks, there is a total sales pitch at the branch level.

5.2.28 MOBILISTION STRATEGIES - MUTUAL FUND DISTRIBUTION

Mutual fund distribution has two strategic approaches. Banks distributing mutual fund schemes have to register with the self regulatory body of mutual funds (Association of Mutual Funds of India - AMFI) and obtain a broker code number (AMFI Registration Code - ARN) .Banks can act as distributor selling the schemes under their own code number as well as act as collecting agents for applications mobilized by other distributors. If banks collect through their own ARN Code, banks get the commission only for mobilisation as distributor. The commission component consists of multiple revenue streams like upfront commission, per application incentive based on applications mobilized and trail commission depending on the period the investors stay with the schemes. If banks act as collecting agents, though they are not entitled for any commission as distributor, they are eligible for handling charges for applications mobilized and also enjoy float funds during the collection period. The second model complements the first model and results in additional revenue streams. Banks adopt any or both of the above distribution strategies for their mutual fund mobilisation. Collection of applications basically is for new fund offers.

- Most of the PSBs distribute schemes only under their own ARN Code Number only. Only a very few banks act as collecting agents in addition to distribution.
- In OGPVSBs also, only distributor role is played by the banks and not indulge in collecting banker's role.
- NGPVSBs do both the roles - distributor and also collecting banker. The process capabilities of private banks are the decider for the additional role and the resultant revenue augmentation.
- Foreign banks also do only the distributor role.

5.2.29 INCENTIVISATION STRATEGIES - MUTUAL FUND DISTRIBUTION

Incentivisation is a motivational tool for improving business mobilisation. In third party distribution, incentivisation strategies are adopted by both banks and the partners offering their products for distribution. The incentivsation models are in the form of monetary incentives as well as non monetary incentives and both are target linked. Some banks offer incentives for individual staff while some banks offer incentives for the top performing or benchmarked performance of branches. Generally, mutual funds also offer reward schemes both to individual staff as well as branches and the performance is linked to mobilisation of minimum applications and amounts.

- In most of the PSBs, no individual incentivisation for staff for mutual fund mobilisation is in place. Incentives are offered only for branches by the mutual funds generally and rarely any bank accepts direct staff incentivisation by mutual funds.
- No incentivisation of any form is being practiced in OGPVSBs for mutual fund distribution.
- In NGPVSBs, incentivisation strategies are slightly different from the above. The incentivisation is more individual based and purely based on individual performance and across business spaces.
- In foreign banks, the incentivisation strategies are not spelt out specifically.

5.2.30 INCENTIVISATION MODELS - MUTUAL FUND DISTRIBUTION

Though incentivisation strategies of banks generally do not support direct monetary incentives to Staff, alternate models are in place as motivational tools. The extent of monetary rewards by the banks is almost nil but incentives in the form of mementos, articles, trips to domestic / foreign trips are always adopted by banks. Banks adopt any one of the above tools or jointly more than one as part of the motivational exercise in the mutual fund distribution strategies.

- Most of the PSBs adopt one or more of the above incentivisation strategies for third party distribution.
- In OGPVSBs, none of the above strategies are practiced as there is no incentivisation model for mutual fund distribution.
- In NGPVSBs, as discussed earlier, these incentivisations are more individual oriented and built in the goal sheets for the year and set as performance prescriptions.
- In case of foreign banks, no incentivisation strategy is spelt out.

6. PERFORMANCES

6. CUSTOMER BASE

Customer base is the basis on which the retail banking operations are centered. It definitely depends on the size of the bank and the objective of the banks will be always to systematically expand the customer base so that the retail banking opportunities get manifold. The advantage is that a retail banking opportunity is available from every customer in the customer universe of the bank.

- Mid size PSBs work on a customer base of around 15 million and improve on an average by a million a year. Small PSBs work on a base of about 10 million. In large PSBs, it is above 20 million and around 30 million.
- OGPVSBs work on a customer base of about 3 million on an average.
- NGPVSBs work on a base of around 20 million on an average.
- There is no data available for customer base of foreign banks.

6.1 LIABILITY PRODUCTS

6.1.1 CURRENT DEPOSITS

Current Deposits offer huge scope for reducing the cost of retail banking operations as resources from this segment do not carry any cost. But the most challenging part in retail banking is the mobilization of resources from the personal segment through current deposits. The percentage of current deposits from the retail segment (individuals) on an average can be assumed as 10% of the total current deposits as the break up is not available in banks.

- The percentage of Current Deposits of PSBs is around 5% to 10% and the rate of growth over the years is only marginal. In some banks, it is less than 5%. In one Mumbai based large PSB, it is just above 10% whereas its business is more than double if compared with other banks.
- In OGPVSBs also it is around 5% only.
- In NGPVSBs also it is less than 5%.

6.1.2 SAVINGS DEPOSITS

Savings Deposits constitutes another low cost resource for banks and CASA resources (Current Account and Savings Accounts) is the starting point of any business and pricing initiative in banking including retail banking. Banks always look for increasing their CASA component as it directly brings down the cost of resources and improves the profitability. The share of house hold sector can be assumed at 90% of the Total Savings Deposits Accounts of the banks as same is not available from the banks.

- In PSBs, some mid size banks are having savings component of around 23% and some other banks are having around 28%.One Maharashtra based PSB has spectacularly increased this component from around 24% in the past two years to about 33%

in 2006. This will put them in a very attractive position with regard to product and pricing initiatives because of the better cost of resources. In other banks, the growth in savings component is only around 2% year over year.

- In OGPVSBs, the percentage is around 15% in one bank. In another Tamilnadu based bank, it was less than 5 % in 2004 but has improved to around 10% 2005 and to around 15% in 2006 reflecting the tremendous and successful initiatives by the bank to shore up this important resource base and improve the CASA component.
- In NGPVSBs, it is around 12% and is almost static over the past three years. It indicates that in NGPVSBs, the CASA percentage is low as compared to PSBs due to historical reasons and the inherent strengths of the PSBs in these segments.

6.1.3 TERM DEPOSITS

Term Deposits constitutes the major chunk of resources. It is a major component of the resources management of banks and pricing is always dynamic based on the potential to use the resources in different retail and other assets. Banks look for term deposits as the most important component in asset liability management and use this as the tool for balancing their asset liability mismatches. The retail component of the term deposits can be assumed at 50% of the term deposit base of the banks. As per RBI data, the share of household sector as a percentage of total deposits of scheduled commercial banks is around 61% in 2005. Out of the 61%, we can assume that 50% constitutes Term Deposits, 10% Savings Accounts and 1% Current Deposits.

- In most of the PSBs, the term deposit component to total deposits is above 55%.In most of the banks it is hovering around 60% and over the years, it has not come down much. One Mumbai based large PSB effectively reduced their term deposit component from about 67% in 2004 to 56% in 2006, thus effectively reduced the cost of deposits.
- In OGPVSBs, the term deposit component is higher than PSBs and hovering around 80%. Another interesting point is that it is almost stable for the past three years. It reflects the limitations of these banks in reducing the dependence of term deposits and also raising the CASA component. This will get reflected in the pricing of assets in these banks.
- In NGPVSBs, the term deposit component is very high at around 75%.In one bank, it was 77% in 2004 but came down to 68% in 2005 but has moved up to 77% again in 2006.The high percentage will have a direct impact on the cost of resources.

6. ASSET PRODUCTS

6.2 PERCENTAGE OF RETAIL TO TOTAL ASSETS

Retail Assets constitutes the core revenue earner in retail banking and all banks focus in this space mainly to improve their retail banking business. The margins available in this space are very attractive but volume driven. Banks always strategise to achieve high percentages in this segment and indulge in innovative product development for best acceptance from the customer segment. Retail Banking models and strategies are built around retail assets. More the component of retail assets as a percentage of total assets, more the margins and profits.

- The percentage of retail to total assets is less than 30% in most of the PSBs. In one Tamilnadu based PSB it is only around 15% and far below the industry average. It is also static over the years showing their lack of focus and aggression in this space .In one PSB based in Kolkata, the percentage is better at around 25% in line with the industry average. In another PSB based in Maharashtra, the percentage is very low at around 10% only consistently over the years indicating that they are not very serious about their retail asset space in their asset portfolio. But more surprising is the case of a large PSB based in Mumbai where the retail component is only around 19% and well below the industry average of 25%.The large asset base may be reason for the lower percentage but the bank is sprucing up by improving the retail component from13.50% in 2004 to 16.96% in 2005 and 18.92 in 2006 with an aggressive retail strategy.
- In OGPVSBs, the percentage is low at around 15%, but one bank has made efforts in improving the percentage from 10% in 2004 to 14% in 2006. In another bank it is almost static over the years.
- In NGPVSBs, their retail focus is reflected in the retail assets component. It is around 60% of the total assets in 2005 and has jumped from 50% in 2004 and spread across products. But the product bouquet is almost same in all classes of banks and the higher percentage in these banks only show the aggressive strategies for asset expansion in the retail segment.

6.2.1 HOUSING LOANS

Housing Loans are one of the major components of retail asset base of banks. In fact in some of the banks it constitutes more than 50% of the retail assets. All banks were very aggressive in the housing loan space to encash the explosive opportunities available for lending on account of the boom in the housing sector, attractive tax incentives / exemptions, emergence of new customer segments in the mass affluent category and also large group housing projects. But the over enthusiasm of banks resulted in problems like double financing, dubious / fraudulent title deeds, rising delinquency levels above the tolerance level etc., This has prompted the banks to have a relook into the housing loan portfolio and banks started building up defense mechanisms like rise in interest rates, adequate risk management firewalls covering the above issues and also improved monitoring mechanisms. But housing loans continue to be in the priority list of retail asset albeit in a more selective way.

- In some of the PSBs, housing loans constituted about 60% in 2004 but it has been brought down very consciously and cautiously to about 50% in 2006 mainly due to the above discussed reasons. In one Maharashtra based PSB, it is consistently high at around 65%. In another Mumbai based large PSB, the housing loan portfolio has been systematically brought down from around 60% in 2004 to 53% in 2005 and to 43% in 2006.
- In one OGPVSB, the exposure is around 35% of the retail assets while in another bank, the exposure is very conservative at less than 10%. Both indicates that these banks have a very guarded approach with regard to housing loans.
- NGPVSBs are very aggressive in their housing loan portfolio. Their main focus is addressing the upper end of the customer pyramid and work on quantum than on volumes. The percentage is about 50% of the total assets.

6.2.2 CONSUMER DURABLE LOANS

Consumer Durable Loans which was once touted as the mainstay of retail assets in banks has been hijacked by Non Banking Financial Companies and dealers. Banks have lost out in the competition due to hefty dealer discounts and friendlier interest and repayment norms. Banks have also started reducing their focus in consumer loans.

- In most of the PSBs, the percentage of consumer loans is very less at below 10%. In some banks it is abysmally low at sub 5%. It reflects the strength of the competition from other players and also the importance by banks to this asset class.
- In one OGPVSB, it is around 20% and in another OGPVSB, there is nothing to speak about. In general, in OGPVSBs also, this segment is not attacked much.
- In NGPVSBs, it receives better attention than the above banks and in one bank it is around 6% only, the reason being cannibalization of the product by personal loans and dealer financing.

6.2.3 CREDIT CARD RECEIVABLES

Credit Card business is one of the big attractions for retail banking and basically a high volume driven business. The major players have already skimmed the market but there is huge potential to be tapped. Foreign banks, new generation private sector banks and State Bank of India are the major players in this space. Though one or two PSBs are in this space, because of the relative low volumes, the impact is very low. Even some PSBs are having a rethinking on their credit card business. The efficacy of card business is best reflected in card usage and resultant card receivables and the delinquencies ratio.

- Only a very view PSBs are in the credit card business and the receivables are very low at less than 5%.This is basically because of the relative low volumes and poor usage of the cards.
- OGPVSBs are not operating in this space.
- In NGPVSBs, it is around 3.5% and reflects not the card usage but the outstanding on account of card usage.

6.2.4 AUTO LOANS

Auto Loans form another important segment in retail assets. But it is a volatile business model and always a multi player space with manufacturers, dealers and financiers together deciding the price and volumes. Hence, banks on a stand- alone basis find the terrain very tough to play with special reference to PSBs. But new generation private sector banks have become active players and effectively achieve the required scales in this segment.

- In mid-sized PSBs, the percentages are very low at less than 5% and it is stagnant over the years.

Surprisingly in a small PSB based in Maharashtra, it is relatively high at about 8.5% but it is slowly tapering down to 7% over the past three years. In a Mumbai based retail focused PSB, the percentage has drastically come down from 4.5% in 2004 to 2.45% in 2006.Generally, the share of auto loans in the retail assets of PSBs are very low and coming down over the past three years.

- In one OGPVSB, it was around 15% in 2004 but has come down to 10% in 2005 and 7% in 2006.In another bank, it is less than 10%.Both the figures indicate that like PSBs, OGPVSBs also are not able to make any impact in this space.
- In NGPVSBs, this segment constitutes about 20% of the retail assets showing their effectiveness in this segment. They have achieved this by attractive tie ups and delivery mechanisms with manufacturers and dealers and dealer financing.

6.2.5 OTHER PERSONAL LOANS

Other Personal Loans mainly consists of clean loans to different customer segments like salaried, professional, individual loans to businessmen and broadly defined. These loans are priced higher than other retail loans and the margins are attractive. All banks want to have good share of this pie of retail asset. In fact, new generation private sector banks and foreign banks concentrate on this segment to derive good volumes. The default risk is relatively higher in this asset class and hence the higher pricing is fixed.

- In some PSBs, it constitutes about 10% of the retail asset portfolio and in other two banks it is about 5%. In one Kolkata based PSB, it is surprisingly high at about 50% in 2004 but has been brought down to 30% in 2006, perhaps due to a systemic strategy adopted by the bank to bring down this exposure. In a Mumbai based big ticket PSB, surprisingly the percentage has improved over the years from about 6% in 2004 to 8.5% in 2006 reflecting their aggressive approach in this segment. This should be seen in tandem with the bigger asset size of the bank.
- In one OGPVSB, from the risk perception dimension, though the percentage is alarmingly high at 25%, this has been brought down to 18% in 2005 and 12% in 2006.This corrective measure should be seen as a risk reduction strategy in the retail asset space in that bank. In another NGPVSB, they have an exposure of less than 5% in that segment and the same is cautiously pegged at the same level over the past three years.
- NGPVSBs follow an aggressive strategy in this space. The plain vanilla personal component is around 4.5% in 2005 for one bank. The higher risk is managed by an extra alert and vigil recovery management.

6.2.6 OTHER RETAIL LOANS

Other Retail Loans is a broad classification and covers all retail loans not covered under any of the above. Individual mortgage based loans, loans against rental receivables, clean loans to individuals, specific target groups are covered in this. Need based customised loans for individual segments form part of this asset class. The pricing for these loans are normally higher by 100 to 200 basis points which augur well for the profitability of retail lending operations.

- In PSBs, this segment varies between 15% and 25%.The percentages remain almost the same over the years. In one Mumbai based retail focused PSB, this has jumped over the years from 25% in 2004 to 34% in 2005 and to 44% in 2006, indicating their systematic thrust in this high yielding asset class.
- In OGPVSBs also, the percentage is around 25% in 2004 but has moved up steadily to 33% in 2005 and 40% in 2006.
- In NGPVSBs, it constitutes around 7% to 10% of the total retail asset base indicating that they are not as aggressive in this asset class as compared to other asset classes.

6.3 OTHER FINANCIAL PRODUCTS / SERVICES

6.3.1 CREDIT CARD BASE

Credit Card is one of the most attractive retail financial product which results in multiple revenue streams for the banks. Card Usage, late fee charges, interest on credit roll over and interest income on card dues converted as loans are the revenue streams to the bank at attractive pricing. But attendant default risk is also factored in this model. Volumes and frequency of card usage are the determinants of the effectiveness of this model.

- Only a few PSBs are in this space and the volume is less than 1 lac. In some banks, it is done through the subsidiary route. In some banks, the volumes are very low and this has prompted some players to rethink about the business model. Without volumes, the business will not be viable.
- OGPVSBs are not in this space.

- NGPVSBs are very aggressive in this space with above 5 million cards. They have focused mobilisation, marketing and card management initiatives to generate volumes and business.

6.3.2 DEBIT CARD BASE

Debit Cards offer another opportunity for retail baking. In most of the banks, it has become a generic element in the new account opening process. It is offered as a hybrid card with ATM provision and thus positioned as an effective substitute for cheques. It is an enabler in providing an effective remote delivery channel and the explosive usage of debit cards reduces the impact of credit cards. The numbers are increasing year over year along with the credit card base.

- In PSBs, from a base of less than one lac in 2004 it has moved up to more than 5 lacs in individual banks depending on their customer base and coverage.
- In one OGPVSB, it has moved up from 1 lac in 2004 to 3 lacs in 2006 and in another bank, it has moved up from 3 lacs in 2004 to 5 lacs in 2006.
- In NGPVSBs, debit cards have become a generic element and part of physical evidence in any new account opening. The coverage is almost 90% of their account base.

6.3.3a NUMBER OF ATMs - ON SITE

In addition to brick and mortar format, remote channels play a very effective role in retail banking delivery models. ATM is the most effective and user friendly remote channel used across banks as a delivery tool. On site ATMs are used to migrate the customers away from the counters / tellers in branches and off site ATMs are designed as customer convenience tools away from the branches and strategically located in important user demand points.

- In PSBs, the expansion of ATMs is on a measured basis. In most of the PSBs, the number of ATMs has improved from less than 100 in 2004 to about 250 in 2005. In some mid sized and large PSBs, it has moved from 250 to about 500 indicating the importance attached to this delivery channel.
- In OGPVSBs, number of ATMs hover around 100 and in one bank it is about 150.
- In NGPVSBs aggressive ATM strategies are implemented for total customer convenience. In one bank, the number of ATMs stands around 2200 in 2006 as against 1900 in 2005.The results of these strategies are commendable with more than 70% of customer transactions are routed through these electronic channels.

6.3.3b NUMBER OF ATMs - OFF SITE

Off site ATMs offer additional convenience to customers serving to their needs at their points of demand. More dispersed the off site ATMs away from the branches, more will be the convenience factors. Banks are giving increased importance to improve the numbers in the off site strategy.

- Most of the PSBs are in the evolution stage in this model. Almost all are in the sub 100 category in the off site space. Two Mumbai based PSBs are aggressive with more than 100 numbers and the ratio of on to off site is comparatively high in these banks.
- The number of off site ATMs is sub 100 only in OGPVSBs also and considering the number of total ATMs, it is very low.
- NGPVSBs follow aggressive strategies in the off site format also though exact figures are not available.

6.3.4 TELEPONE BANKING COVERAGE

Telephone Banking is offered as an additional channel for delivery efficiency but in tech savvy banks the implementation level is high and the coverage volumes justify the model. In some banks, the implementation level has assumed critical volumes while in other banks the model is still evolving.

- In some PSBs, the telephone banking facility is available, but the customer coverage is less than 50000 and in some banks it is not yet implemented. Surprisingly, in a retail savvy Mumbai based PSB, the facility is not yet implemented.
- In most of the OGPVSBs this facility is not available.
- IN NGPVSBs, telephone banking is implemented aggressively and the coverage is also high at above 5 lakhs.

6.3.5 MOBILE BANKING COVERAGE

Mobile Banking is another remote delivery channel aggressively pursued by banks. Mobile Channel reaches the customers at their finger tips and a real customer service enhancement tool offered by banks. But this model was also implemented by tech savvy banks and the volumes are in the growth stage of the curve. But this facility is not yet implemented in most of the banks.

- Mobile Banking is not yet implemented in a big way by most of the PSBs. In one Tamilnadu based PSB, the model is implemented and the volumes are also decent at around 50,000 and growing. The same is the case in another PSB and the volumes have surged to more than 2,00,000 in the past two years reflecting the effectiveness of the implementation.

- In OGPVSBs, this facility has not taken off but in one Tamilnadu based bank, it was implemented last year and the volumes are in the region of 1,00,000.
- In NGPVSBs, mobile banking is one of the attractive channels and the volumes have stabilised at around 1,00,000 in the past three years.

6.3.6 INTERNET BANKING COVERAGE

Internet Banking has become an absolutely necessary element in the channel platform of banks. Internet Banking in different depths is being implemented by banks based on their technology preparedness. The coverage depends on the customer segments of the banks. In banks, where customer segments are skewed towards technology based on their income and professional profile, the penetration is higher.

- In most of the PSBs, internet banking is there with volumes of around 50,000 and growing over the years. In one Kolkata based bank, though they have aggressive other retail strategies, this does not find a place. In another Maharashtra based PSB, this facility is not offered. Perhaps both the above reflect the level of technology preparedness for this facility.
- In OGPVSBs also, internet banking is there and in one bank the volume is growing at around 50,000 over the years. In another bank, though it was implemented last year, the volumes have picked up to above one lac.
- In NGPVSBs, the customer segments have become the drivers of internet banking and these banks follow an aggressive net banking strategy with volumes of around 2 lacs and above.

6.3.7 DEPOSITORY SERVICES - DEMAT ACCOUNTS

Depository services is one of the elements in the package of offering holistic financial services. Most of the banks extend this facility as a cross selling initiative to their customers for satisfying their requirement of beyond banking financial service like capital market transactions.

- Some PSBs offer this facility to the customers directly while some other banks offer through subsidiary route. But the volumes are in the region of around 50,000.
- OGPVSBs are not in this space.
- NGPVSBs operate this space through the subsidiary route.

6.3.8 BROKING SERVICES - ON LINE TRADING

Broking services are also offered by banks as the third leg for holistic capital market solutions, the other two legs being depository accounts and bank accounts. This facilitates the customers for a single point delivery of multiple financial services requirements for on line trading. Not all banks are in this space as integration of the three legs is a prime requirement for this service.

- None of the PSBs in the sample are in this space except a Mumbai based PSB. The bank has started this facility only in the recent past and the model is evolving.
- In OGPVSBs also this facility is not available.
- NGPVSBs offer this through subsidiary route and only the bank account facility is linked.

6.3.9 BILL PAYMENT SERVICES - UTILITIES

On line Bill Payment Services for utility payments is another tool actively used by banks for customer convenience as well as a fee based income source. It is driven by volumes and also requires an integration of a payment gateway for operationalising this model. Not all banks are in this space and only foreign banks and new generation private sector banks are doing it.

- Though some PSBs are doing this in a limited way without any payment gateway, most of the PSBs are not offering this facility. Only two Mumbai based PSBs are in this space with payment gateway.
- OGPVSBs are not in this space.
- NGPVSBs are aggressively in this space and skimming revenues through this model in a big way though the volumes are not available.

6.3.10 PRIVATE BANKING, WEALTH & PORTFOIO MANAGEMENT

Private Banking, Wealth Management and Portfolio Management Services are some of the highly attractive models for revenue augmentation with very stiff service and performance requirements. Special expertise and systems should be in place for success of this model.

Foreign banks and new generation private banks dominate this space.

- None of the PSBs are involved in this business model.
- OGPVSBs also are not involved in this space.

- Foreign banks and select big ticket NGPVSBs where the customer segments provide huge opportunities with availability of expertise, are in this model. The details about the volumes are not available.

6.3.11a RETAIL SALE OF GOLD - BUSINESS DONE

Sale of gold coins with hall marking for purity is a new retail strategy adopted by banks to encash the penchant for buying gold among the customers / prospects and derive profit out of it. A few private banks are in this business for the past few years but the market is alive now with more players including PSBs.

- Only a few PSBs have entered this space in 2006 and made some good business but soon the market got crowded and the sales were under strain. Most of the PSBs in the sample are not in this space.
- OGPVSBS are not in this space.
- NGPVSBs are making good impact in retail sale of gold for the past few years and one bank is very aggressive in this space during the festive seasons and their sales cross above 5 tons.

6.3.11b RETAIL SALE OF GOLD - INCOME EARNED

The margins on sale of retail gold are quite attractive. But the entry of more players has put pressure on pricing and margins and has turned the business into a volume game. Those who were early birds derived the benefits by the price skimming.

- Only very few PSBs are in this space from late 2006 and income figures are not available.
- OGPVSBs are not in this space.
- The income figures for NGPVSBs are not available.

6.3.12a1 CORPORATE AGENCY-LIFE INSURANCE - PREMIUM MOBILISATION

The bancassurance model for marketing of life insurance products is implemented by banks and the performances vary across banks. Though almost all banks are in this space, the performance level depends on the type of strategies adopted and the brand equity of the bancassurance partners.

- The premium mobilization by some PSBs banks in 2004 was only about 10 Crores but it has moved to 25 Crores in 2006.Those banks which made serious strides in 2005 also mobilized about Rs.25 Crores in 2006. One Kolkata based PSB has shown impressive mobilization of about Rs.25 Crores in 2004 but has improved to more than Rs.50 Crores in 2006.One Mumbai based PSB has clocked a figure of about Rs.60 Crores in 2006 reflecting their faith in the business model and adopting suitable strategies for mobilisation.
- In one OGPVSB, the premium mobilisation was about 10 Crores in 2004 but has moved to Rs.25 Crores in 2006.The same is the case with the other bank also. The performances of OGPVSBs also reflect their serious approach to this model.
- NGPVSBs have in built strategies through their group companies. Because of the in built synergies, they have clocked more than Rs.100 Crores of mobilisation over the years.

6.3.12a2 CORPORATE AGENCY-LIFE INSURANCE - COMMISSION INCOME

The commission incomes through direct policies are continuous over years. It varies across banks depending on the premium mobilized and increases over the years with higher premium mobilisations.

- Among PSBs the income varies between Rs.2 to 5 Crores in 2004 to about Rs.10 Crores in 2006. In a Mumbai based PSB which has mobilized more than Rs.60 Crores in 2006 has resulted in a commission of more than Rs.10 Crores in 2006.
- In case of OGPVSBs, the commission has moved from below Rs.2 Crores in 2004 to more than Rs.2 Crores in 2006.
- NGPVSBs have an enviable figure of above Rs.25 Crores over the years and this is basically because of the proprietary model of business through subsidiary.

6.3.12b1 SALE OF INSURANCE LINKED PRODUCTS - LIFE - PREMIUM

In addition to direct policies, performance under insurance linked products also boosts revenues and depends on the type of products developed and marketed.

- Sale of insurance linked products is normally in the range Rs.5 to Rs.10 Crores of premium .Some banks have crossed Rs.10 Crores. Some banks do not have any insurance linked products with them.
- OGPVSBs do not have any such products.
- The figures are not available for NGPVSBs

6.3.12b2 SALE OF INSURANCE LINKED PRODUCTS - LIFE - COMMISSION

Commission income commensurate with the premium mobilisation and in this case the sale of insurance linked products is the basis of the commission.

- Insurance linked products are offered only by a few PSBs, commission income varies between Rs.2 Crores and Rs.5 Crores.
- Not relevant as OGPVSBs are not marketing any insurance linked products.
- The figures are not available for NGPVSBs.

6.3.13a1 CORPORATE AGENCY - NON LIFE - PREMIUM

Performance on coverage of non life business also improves fee based income. But unlike life, non life business has to be followed up on a yearly basis for renewals. The performance varies across banks depending on the strategies of the banks to convert the potential available in the bank like asset insurance andother insurance.

- The performance by PSBs in this segment is quite interesting. The performance spreads cross a broad spectrum vindicating the above discussed concept. In one Tamilnadu based bank the premium mobilisation is above Rs.25 Crores in 2006 , but in another bank of almost same asset size, the mobilisation is about Rs.10 Crores only indicating the efficiency of conversion of potential existing within. In two other banks, the coverage is increasing over the years reflecting their sincere attempts for conversion. It has increased from the level of above Rs.15 Crores in 2005 to above Rs.25 Crores in 2006.
- In OGPVSBs, the coverage is steady at about Rs.15 Crores in the past two years.
- No figures are available for NGPVSBs.

6.3.13a2 CORPORATE AGENCY - NON LIFE - COMMISSION

Commission is directly correlated to performance. Commission income also varies across banks.

- In PSBs, the commission income varies from below Rs.2 Crores to Rs.5 Crores. Surprisingly in one of the large PSBs, it was below Rs.2 Crores in 2005 and moved to above Rs.2 Crores indicating the low conversion potential and the initiatives for improving the conversion rate.
- In OGPVSBs, the income from this segment is stable at around Rs.2 Crores.
- No figures available for NGPVSBs.

6.3.13b1 SALE OF INSURANCE LINKED PRODUCTS - NON LIFE - PREMIUM

Performance under insurance linked products in the non life space also boosts revenues and depends on the type of products developed and marketed.

- Most of the PSBs are not in this space. Only two banks in the sample market these products and they did a business of less than Rs.10 Crores for the past two years.
- OGPVSBs are not in this space.
- NGPVSBs are also not in the race.

6.3.13b2 SALE OF INSURANCE LINKED PRODUCTS -NON LIFE-COMMISSION

Commission as said earlier commensurate with the premium mobilisation and in this case the sale of insurance linked products is the basis of the commission.

- In PSBs where the model is in vogue, the commission is less than Rs.2 Crores and indicating that the tremendous scope available in this model has to be converted in a better way.
- OGPVSBs are not in this space.
- NGPVSBs are not in this space.

6.3.14.1 MUTUAL FUND DISTRIBUTION - BUSINESS MOBILISED

Mutual fund mobilisation is another tool for improving the performance in fee based mobilisation and almost all banks are in the game and mobilization levels varies across banks.

- Only some PSBs in the sample are in this game and the mobilisation level is around Rs.25 Crores and has moved upto Rs.50 Crores in 2006.But banks are making a serious pitch in mutual fund distribution. In 2007, one bank has mobilized about 400 Crores and the retail mobilisation is around 35 Crores.
- OGPVSBs are not in this space.
- NGPVSBs are very focused in this segment and are clocking above Rs.500 Crores. To improve the business volumes, these banks are tying up with a number of mutual funds to cater to different customer choices.

6.3.14.2 MUTUAL FUND DISTRIBUTION - COMMISSION EARNED

The commission income generated by mutual fund mobilisation directly reflects the performance.

- PSBs who are in this business of mutual fund mobilisations are earning upto Rs.1 Crore from this model over the years .One Mumbai based PSB who has entered into this space only in 2006,has made an income of about Rs. 1 Crore in the first year itself.
- OGPVSBs are not in this space.
- NGPVSBs are really making a killing out of this model. By adopting the above discussed strategies, they are making more than Rs.15 Crores through mutual fund mobilsations over the fast three years. The figure shows stable income over the past three years.

7. FUTURE

7.1 FUTURE BUSINESS MODELS

Looking forward to new business models will be an essential approach to increase the revenues from retail banking. Developing new products around the core banking products that includes new fee based products will be one of the future strategies of banks. To add, fee based products are going to be important components and only the level of fee based products to core products will vary among banks depending on the customer base and the confidence of the banks on fee based models in retail banking as a business strategy.

- Most of the PSBs opine that core business supplemented by fee based business and third party distribution will be the drivers of retail banking in future. But no bank is of the view that third party business will override core business.
- OGPVSBs also have the view that fee based and third party distribution business will ride along with core business in the future scenario.
- NGPVSBs also concur with the above views and fee based third party distribution will receive attention in their retail model.

7.2 PRODUCT MODELS

The changing paradigm in retail banking will bring about drastic changes in the product models of banks. Product re-engineering will be a dynamic concept that will happen frequently and will take into account not only various financial needs of the customer segments but also their non financial needs. The concept of 'Retailing in Retail Banking' will gain strength as banks will try to retail non financial products also as a part of the retail banking strategy to effectively use the reach and the infrastructure to augment their fee-based income.

- Almost all the PSBs are uniform in their opinion that the future product scenario will comprise of non financial products also. Retailing in retail banking will be an essential strategy than an option to survive in the retail race. Only one bank is of the opinion that only financial products will influence future retail banking.
- But OGPVSBs are more conservative in their views and according to them, the future product scenario will revolve around banking and other financial products only.
- NGPVSBs are of the view that non financial products will also form part of future product strategies in addition to financial products which include banking and other financial products.

7.3 SALES MODELS

The changing business models will necessitate changing sales model and selling through in-house sales forces will undergo a change with supplementary outsourced sales models. The emerging volumes and segments will bring out this change. The proprietary brick and mortar sales model (selling through the branches and existing human resources) will continue to exist but due to surge in volumes of business supplementary, outsourced sales models (Direct Selling Associates, Self Help Groups, Specialised Micro Institutions etc.,) will gain strength and will form an important element in the sales delivery process of banks.

- Most of the PSBs opine that the future sales models will be a balanced approach with both the proprietary format (through branches) and outsourced formats being the propellers of retail banking. One PSB is of the opinion that the model will be skewed more towards outsourced format than traditional format due to emerging human resources constraints.
- OGPVSBs also toe in line with the views of PSBs and opine that both the proprietary format and outsourced format will coexist and one bank is of the view that outsourced format will over ride proprietary format.
- NGPVSBs are also of the view that both the proprietary and outsourced format will coexist.

7.4 CHANNEL MODELS

In the competitive retail banking scenario, delivery channel is the decider for service efficacy and channel strategy is going to be big challenge in the future. Right channel mix will be the enabler for customer satisfaction across segments. From the present scenario of a predominantly direct channel models supplemented by remote channel models, the focus will shift to predominantly remote channels for transactional banking with a tinge of traditional channels for relationship banking. The idea is to reduce customers' visits to branches and make the services available at his convenience through remote channels like ATMs, Internet Banking, Telephone Banking, Mobile Banking etc.,

- Most of the PSBs view that the future focus will shift to expand the remote channels and reduce direct channels with the basic objective to reduce foot falls at the branches. Some banks opine that a blend of remote channels for transactional banking and remote channels for relationship banking will be the future norm.
- OGPVSBs also have the same view as above.
- NGPVSBs also toe in line with PSBs regarding future channel strategies.

7.5 TECHNOLOGY MODELS

Technology will continue to be the fulcrum of retail banking business. Technology will be the enabler for all retail banking activities and the integration of customer information through technology will be the top most priority of most of the banks especially in public sector banks. This will be best achieved by core banking solutions and future retail banking will hinge on a single server environment.

- All PSBs uniformly have a view that mainly core banking solutions will emerge as a key factor in retail banking. Of course there will be secondary solutions in areas of irrelevance or where there will not be much of business for an integrated customer approach.
- OGPVSBs also opine that core banking solutions will be the backbone and driver of retail banking operations and will also be supplemented by other formats.
- NGPVSBs also concur with the above views that core banking solutions will the main driver of retail banking.

7.5 HUMAN RESOURCES MODELS

People strategies will undergo a paradigm change in retail banking. The different future models will basically involve carving out of separate sales staff from the existing strength, engaging fresh talent exclusively for retail banking by lateral placements and also outsourcing resources for different retail banking activities.

- Some PSBs have opined that the sales staff for retail banking will be carved out of the existing resources. Most of the PSBs opine that in addition to above, separate marketing / sales people from management institutes will be appointed with a target oriented approach. Outsourcing is not talked about.
- OGPVSBs also toe in line with the public PSBs.
- NGPVSBs are also of the same opinion. But they are bullish about appointing from management institutes for sales jobs.

8. SUMMARY OF FINDINGS

8.1 MODELS

- Business models for retail banking shows interesting revelations across types of banks. The models adopted by banks vary among the public sector, private sector and foreign banks. In most of the PSBs, it is coming in the 'also ran' category. Surprisingly in the annual reports of some of the large PSBs, retail banking performances are not detailed under a separate head and are loosely sprayed reflecting the approach towards retail. There is no SBU concept in PSBs except one or two. In most of the PSBs and OGPVSBs, it is carried out more as a departmental activity than as a focused business activity. In NGPVSBs and foreign banks, the business model is very clear. They have set up Strategic Business Units (SBU) to have clear focus and business objectives and adopt a modular strategy. Most of the banks in the PSB and OGPVSB space do not have any positioning objective either among the peer group or in the larger group. But NGPVSBs have clear positioning objectives not only among their peers but across industry.
- The implementation model for retail banking is only through in-house resources in PSBs and OGPVSBs and a judicious mixture of in-house and outsourced models in NGPVSBs and foreign banks.
- In the retail banking processes front (BCG Study), in most of the PSBs and OGPVSBs, horizontally

organised model is the standard norm with a rare exception of one or two banks, where to some extent common customer information is available for some products, thereby impacting the scope for structured cross selling and up selling. But in case of technology intensive NGPVSBs also which are very aggressive in the retail side, the surprising revelation is that the process model is predominantly a vertically organised one indicating that customer data is not fully integrated across products unlike foreign banks where customer data is integrated across products.

- The business strategies with regard to the domains targeted are approached in different ways by different banks. In most of the PSBs only a general model based on the corporate objectives for retail is adopted and there is no specific segmentation by customer, geography or type and profile of branch. In NGPVSBs, 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, a model not restricted to any of the above but based on the retail game plan is being adopted.
- In the product space, differentiation in product features is very thin across products (asset, liability and other service products) across all types of banks and only value differentiation to a certain extent exists. Only process and delivery efficiencies through technology separate men from boys. Some banks in the private space offer some additional products due to their technology advantages.
- Product development is another area where the approaches across banks are different. 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. Same is the case of OGPVSBs. In NGPVSBs and foreign banks, in-house product development incorporating the market dynamics, segmentation, classification and customer segments are the deciding factors in product development.
- The fundamental approach to product development (conducting a market survey, identifying the needs and gaps among target groups, 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) is not followed in most of the PSBs. In the case of OGPVSBs, it is loosely followed in some banks. In NGPVSBs, pilot survey is done through in-house resources and then the process is followed. In foreign banks, the product development process is followed in letter and spirit.
- The approach for processing of products and services in retail banking (through in house resources, partially in house and partially outsourced, entire process outsourced) vary across banks. In PSBs and OGPVBs, the entire process for products and services are done through in-house resources except in very few banks where it is done in a very limited way. In NGPVSBs, partial outsourcing is attempted and partially by in-house process model. In foreign banks, the entire process is outsourced and normally happens through a dedicated back office covering the entire gamut of banking services.
- In the retail asset space which is 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. Only very few PSBs follow the centralized processing route while some PSBs follow the regional hub model. In Most of the PSBs, stand alone processing is the norm. NGPVSBs follow a blended model comprising of centralized processing for some products and regional hubs for some other products so that the lead time can be effectively controlled. In foreign banks, centralised processing is the norm.
- In case of liability and other products and services also, the situation is the same as that of assets except in a few PSBs where centralised model for processing liability products is followed. But the general norm followed in PSBs and OGPVSBs is stand alone processing. In NGPVSB, 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 it is mostly done through outsourcing or dedicated back office.
- Process time which is a major differentiator in the efficacy of retail banking operations is very loosely followed by most of the PSBs. For some retail assets,

some of the PSBs and OGPVSBs have prescribed process times and the general trend noticed in PSBs is that the process time is almost uniform across products but relatively less in OGPVSBs revealing their extra commitment in retail asset expansion. In NGPVSBs, 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. In foreign Banks process time is clearly spelt out for different services including retail assets as done by NGPVSBs.

- Pricing which is another sensitive element in the retail space is approached differently by banks. In PSBs, pricing is based on asset liability management practices and regulatory advices, though in line with the market. OGPVSBs are slightly aggressive than PSBs. In NGPVSBs, 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 on all fronts. In foreign banks, the models are almost same as NGPVSBs and they are always aggressive in the price front with process efficiencies.
- The background of pricing is price structuring and the same is attempted by banks in many ways. In addition to stand alone pricing structure, most of the PSBs have price concessions as well as rebates based on volumes, quantum and relationship and also alternate pricing propositions. But price bundling is not the toast of PSBs. OGPVSBs adopt the stand alone pricing generally. In NGPVSBs and foreign banks, effective price structuring happen by actively adopting both concessional pricing based on the above discussed factors and also aggressive bundled pricing structure to effectively cross sell.
- Technology platforms adopted by banks vary in format and design. Most of the PSBs have primarily in-house models with partial outsourcing also. In some banks, there is total in-house development and implementation and in some other banks, the development is done by some vendor and implementation is taken care of by the bank. Some other banks have totally outsourced and maintained packages. In OGPVSB, vendor (outsourced) is the norm. In NGPVSBs, the model is predominantly outsourced with partial in-house model. In foreign banks, outsourced model is mostly adopted.
- The level of implementation of core banking solutions in PSBs needs a push up. Only one PSB has implemented cent percent core banking solution. Only two market savvy PSBs completed the core banking covering more than 75% of their branches. Another bank covered about 50% of their branches under core banking. In some banks, there is a long road ahead for them as the core banking implementation is only in the start up stage. The present technology model in most of the PSBs 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 OGPVSBs, the integration is happening fast basically because of the size, scale and geography. In NGPVSBs 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.

8.2 STRATEGIES

- Customer acquisition strategies by most PSBs and OGPVSBs are built more on customer segments and business segments and volumes than on pure play numbers (1 million accounts, 2 million accounts) .In NGPVSBs and foreign banks, a mix of both customer segments and also business volumes are the drivers of the strategies. The mode of customer acquisition in PSBs and OGPVSBs are mostly through the branch format. Exclusive sales teams are slowly evolving in some banks and yet to take roots. In NGPVSBs, a strategic mix of outsourced (DSA) and in-house model (through branch and sales teams) is adopted. Foreign banks depend almost entirely on DSAs for customer acquisition for most of their products. Branch level customer acquisition is very low in foreign banks and in some specific segments like HNIs, Wealth Management Clients etc., exclusive in-house sales teams are used.
- Delivery Channel initiatives which make or break retail banking are approached through different formats by banks .Though mix of direct and remote channels is used by banks, in case of PSBs and OGPVSBs, brick

and mortar still rules the roast. Remote channels are slowly gaining strength with ATMS as the lead remote channel. Other remote channels (Net Banking, Mobile Banking, and Telephone Banking) have not gained strength in PSBs. In NGPVSBs, remote channels play a more vital role than direct channels and one bank has moved more than 70% of their customer transactions through remote channels and use direct channels for relationship and advisory oriented products. Foreign banks also follow the strategy of remote channel as the main driver of customer engagement.

- The delivery of physical evidence for products and services (Cheque Book, Pass Book, ATM, Debit Cards, Credit Cards, and Deposit Receipts) is mainly done through the branches in PSBs and OGPVSBs. In NGPVSBs, the strategy adopted is a mix of branch level delivery for some products or part of it and or delivering the full package through a centralised hub. In foreign banks, mostly the delivery happens through a centralised hub.
- Doorstep banking, a service enhancement for customer engagement is yet to get a head-start in PSBs and OGPVSBs. In NGPVSBs, initiatives are already on for extending a full fledged doorstep service to customers. The advantage is that the outsourced model in these banks for other services, can be adopted for doorstep services also. In foreign banks, it is already in vogue.
- The training strategies for internal customer education are mostly in- house for PSBs and OGPVSBs and it is only supplemented by external mode. In NGPVSBs, the training strategy is a mix of in-house training supplemented by external training from specialized training institutions (instead of total outsourcing) for specific domain related training needs. But the sales training is skewed more towards outsourcing strategy. Foreign banks mostly follow outsourcing as the training strategy.
- Incentives to Staff for performance are mostly through the non monetary route in PSBs. In PSBs, in almost all the banks, non monetary incentivisation by the banks is the standard norm adopted. In OGPVSBs, NGPVSBs and foreign banks, a mix of monetary and non monetary incentivisation is followed.
- Customer Relationship Management (CRM) initiatives are adopted by PSBs mainly from a standalone data base at the branch level. Centralised data base does not exist as core banking solutions are not implemented covering all branches and the implementation level is in various stages across banks. In some banks, regional level data bases are used for localised CRM initiatives. In OGPVSBs also, standalone data base is the basic format available for CRM initiatives. But NGPVSBs and foreign banks are better placed in CRM than PSBs on account of centralised data base of most of the customers.
- The customer response mechanism is mainly through branch mode in PSBs and OGPVSBs, but NGPVSBs and foreign banks have centralised response mechanisms (call center).
- The promotional strategies adopted by PSBs and OGPVSBs are generally targeted on the customer universe. But different promotion strategies are adopted for different target groups across different product lines and promotion models. In NGPVSBs and foreign banks, it is more specific customer segment oriented.
- Almost all banks follow the same type of customer retention strategies though the degree and depth may differ.
- No separate service quality policy for retail banking is adopted by any of the PSBs and OGPVSBs. Even NGPVSBs and foreign banks do not have such a policy.
- None of the banks have any focused mechanism in place to measure the reputation risk. But in NGPVSBs and foreign banks, alternative feedback mechanisms are in place.
- Almost all PSBs and OGPVSBs have adopted product branding but corporate branding is not in place for most of the banks except perhaps one or two. NGPVSBs and foreign banks have gone all out for product branding as well as corporate branding. Brand Ambassador for brand enhancement is not in vogue in PSBs except one bank. In NGPVSBs, brand ambassador concept is in vogue. The impact of brand ambassador was demonstrated only by one PSB with over 50% sales improvement.
- Co-branding is being adopted by all the banks, but in PSB space, the parent brand (bank) is projected than the co-brand normally. In NGPVSBs, both the brands have equal mileage.
- Third Party Distribution (insurance, mutual funds) as a business strategy has started gaining strength in PSBs. Almost all the PSBs have entered this space

and some banks have become very aggressive. OGPVSBs are also in this space though in a limited way. NGPVSBs are very aggressive in this space and are deriving more than 50% of their revenues from this fee based model. Foreign banks also are very active in this space.

- The sales strategies of all banks in the third party distribution model are primarily through the branch network and branch staff. But while PSBs are using standalone data based at the branch level, NGPVSBs and foreign banks are using centralised database.
- Some PSBs have developed a huge number of trained manpower to sell third party products across branches. But NGPVSBs are using the third party partners also for joint marketing.
- Mutual fund distribution tie ups for augmenting fee based income are aggressively followed by PSBs with some banks having more than 10 tie ups and NGPVSBs are also following the same line. While PSBs market it through all their branches, NGPVSBs do it only through selected branches. PSBs that are active in this space have gone for a massive training and certification programme and sales is effected by all the Staff. In the NGPVSBs, they see volumes through their group entity. The sales model includes selling as a distributor as well as a collecting banker for other distributors but not all PSBs are in this. OGPVSBs play the role of distributor and that too in select branches through trained staff only. Only non monetary incentivisation is prevalent in mutual fund sales through PSBs normally but in some banks, branch level incentivisation by mutual funds is administered as motivational tool.

8.3 PERFORMANCES

- Customer base on which the retail banking edifice is built is the most attractive feature available for PSBs. Mid size PSBs work on a customer base of around 15 million and improve on an average by a million a year. Small PSBs work on a base of about 10 million. In large PSBs, it is above 20 million and around 30 million. OGPVSBs work on a customer base of about 3 million on an average. NGPVSBs work on a base of around 20 million on an average.
- CASA (Current Account Savings Account) deposits which drastically brings down the cost of resources and an important element in pricing of retail assets is always a thrust area for retail banking for banks. Here PSBs have a clear lead over their other counterparts basically because of the large customer base and geography. The percentage of Current Deposits of PSBs is around 5% to 10% whereas in OGPVSBs and NGPVSBs it is less than 5%. The percentages of Savings Account in PSBs are around 30% on an average. Few PSBs have aggressive and successful CASA strategies with one bank having around 40% and another small PSB spectacularly improving its CASA from around 24% in 2004 to around 33% in 2006. In OGPVSBs, it is around 10 to15% and In NGPVSBs, it is around 12% and is almost static over the past three years. The figures reflect the inherent strengths of the PSBs in these segments.
- In most of the PSBs, the term deposit component to total deposits is above 55%. In most of the banks it is hovering around 60% and over the years, it has not come down much. In OGPVSBs, the term deposit component is higher than PSBs and hovering around 80%. Another interesting point is that it is almost stable for the past three years. It reflects the limitations of these banks in reducing the dependence on term deposits and also raising the CASA component. This will get reflected in the pricing of assets in these banks. In NGPVSBs, the term deposit component is very high at around 75%.In one bank, it was 77% in 2004 but came down to 68% in 2005, but has moved up to 77% again in 2006. The high percentage will have a direct impact on the cost of resources for retail asset pricing.
- The percentage of retail to total assets is less than 30% in most of the PSBs. In some PSBs, it is only around 15% and far below the industry average showing their lack of focus and aggression in this space .In another bank, the percentage is better at around 25% in line with the industry average. Surprisingly in a large PSB with a 20 million customer base and aggressive retail strategies, the retail asset component is only around 19% and well below the industry average of 25%. The large asset base may be reason for the lower percentage. In OGPVSBs, the percentage is low at around 15%. In NGPVSBs, their retail focus is reflected in the retail assets component which is more than 50% and in one bank it is around 60%.
- All banks are aggressive in the home loan portfolio of retail assets. In most of the PSBs and NGPVSBs, housing loans constituted about 50% of the retail assets.

In OGPVSB, it is around 35%. But the percentage is coming down over the past two years.

- In the consumer durables loans and credit card receivables, banks do not have any considerable share and the percentages are less than 5% across all banks.
- In auto loan space, the share of PSBs and OGPVSBs are almost negligible with sub 5%. NGPVSBs are active players in this space with about 20% of the retail assets achieved through attractive tie ups and pricing mechanisms integrating manufacturers and dealers and dealer financing.
- The percentage of other retail loans, a high yielding asset is attractive across banks. It varies from 15 to 25% in PSBs & OGPVSBs and in NGPVSBs, it is around 10%.
- In credit card space, PSBs do not have any significant base. There are only few players and most of them have a base of sub 1 lakh which is not a sustainable base from revenue perspective. NGPVSBs have a strong presence with about 5 million cards and attractive revenue models.
- In debit cards, PSBs have started moving up in the number game with base of around 5 lakhs and it vary among banks depending on the customer base. OGPVSBs are also showing decent numbers of about 3 lacs and expansion of card base will depend on the expansion of remote channels for card use.
- Proprietary ATMs in PSBs have not grown much due to regulatory prescriptions (around 500 to 1000 in numbers) but this has been balanced by shared ATMs through different common sharing networks. In NGPVSBs, the numbers are attractive with above 2000 ATMs in one bank making the remote channel highly effective for transaction banking.
- Other remote channels like mobile banking, internet banking and telephone banking have not made much headway in PSBs. The numbers are less than 1 lakh in most of the banks. But in NGPVSBs, the implementation of these remote channel strategies are aggressive with telephone banking coverage of around 5 lakhs and other remote channels at around 2 lakhs.
- Another fee based model of depository and broking facility has not been attempted by PSBs. Only one or two players have recently entered into this space and the model is evolving. The same is the case with utility bill payment services. But NGPVSBs are aggressive in bill payment services and also in depository and broking service through group entity route though volumes were not made available.
- In another new retail initiative - retail sale of gold, PSBs have started making their presence along with the NGPVSBs and the volumes are not made available. In the same way, some NGPVSBs are actively in wealth management and private banking solutions but PSBs are yet to enter this high yielding avenue.
- Third party distribution has emerged as a major business segment across banks. In bancassurance models covering both life and non life space and mutual fund distribution, NGPVSBs are making huge mobilisations and commission incomes. They follow the group entity route for insurance mobilisations and clocked more than Rs.100 Crores in mobilisation with attractive average commission of around 15%. In the mutual fund model also the mobilisations are above Rs.500 Crores with average commission earnings of about 2.5%. PSBs are also alive to these models and have made impressive opening scores ranging from Rs.25 to Rs.100 Crores in the bancassurance front and are aggressively positioning themselves to benefit from these models. In addition to this, some PSBs have developed and marketed insurance linked products with life and health cover and derived additional income in the range of about Rs.5 to 10 Crores. In mutual funds mobilisations also, PSBs are actively involved and some banks have mobilised around Rs.400 crores last year with a retail component of about Rs.50 Crores targeting mainly their captive customer base.

8.4 FUTURE

- The future looks exotic for retail banking in India and the retail banking business silos will undergo a metamorphic transformation. The emerging customer scenario and technology scenario provides opportunities for all players in the banking and financial space. Some of the influencing elements in retail banking revenues will be third party distribution and wealth management and private banking solutions for the burgeoning mass affluent. Retailing in retail banking will be an emerging area where banks will be extending not only beyond banking solutions to cover the total financial planning of customers but also beyond banking solutions to cover the life style planning of the customers. Integrating banks' data bases with third party financial providers will become the order of the day in the changed scenario and outsourcing will be a natural sales and process model in the changing human resources paradigms in PSBs. Remote channels will rule the transaction banking process and branch format will be mainly used for relationship and advisory banking. Core Banking Solutions will be total and customer data integration will be the base in which retail initiatives will be addressed. Customer Data Mining and CRM will exist as generic features of retail banking.

- The following are some of the interesting findings that have emanated from this research study about the PSBs
  - Most of the PSBs do not have a focused model for retail banking either in the structure or business objectives.
  - Generation of a retail banking business (either a retail asset or other retail product / service) from the existing customer base is not fully attempted.
  - In almost all the PSBs, there is no centralized customer data base for customer life cycle focused retail initiatives.
  - Core Banking Solutions implementation is not fully achieved to target the different segments of customers.
  - Process models are not fully centralised for a professional and standardised approach.
  - Cross selling is attempted on a standalone basis at the branch level due to lack of centralised data base.
  - Remote Channels are only evolving and has not matured for migration of customers from the direct channels to remote channels.
  - Customer segmentation has not happened on the desired lines for effective retail banking.
  - New business lines like wealth management and private banking has not been initiated so far.
  - The enormous scope for third party distribution has not been fully tapped to reap the benefits. The existing situation and the potential available across PSBs as seen from Exhibits I and II are explained as follows :

a. The average customer base as seen from the sample is around 15 to 20 million. For a 15 to 17.5 million customer base, some banks have mobilised premium of about Rs.25 Crs. in the life space and some other banks have mobilised about Rs.50 Crs. and the coverage vary across banks of same size reflecting the focus of their bancassurance initiatives. To add, some banks have made a commission income of about Rs.2 Crs. and some other banks about Rs.3.5 Crs. for a mobilisation of premium of Rs.25 Crs. In the same way, one bank has made an income of about Rs.5 Crs. and another bank has made a commission of Rs.10.5 Crs. for a mobilisation of about Rs.50 Crs. Another bank which has mobilised a premium of Rs.60 Crs. has made an income of Rs.10 Crs. This shows the approaches of the banks in mobilising different types of policies by banks. For almost the same quantum of mobilisation, higher commission income indicates that those banks are concentrating on high commission yielding policies and also the relevant customer segments, a lesson to be learnt by other banks.

b. The same is the case with non life space also. The mobilisation across banks of almost same size differs. One bank has mobilised a premium of about Rs.25 Crs. and a commission income of about Rs.2 Crs. while another bank of the same size has mobilised a premium of about Rs.50 Crs. and a Commission income of about Rs.5 Crs. reflecting the second bank's ability of covering the asset insurance requirements of their borrowers through their corporate agency arrangement.

c. In mutual fund distribution also, banks have mobilised from Rs.25 Crs. to Rs.50 Crs. though they are almost of the same size and made a commission income of about Rs.1 Cr.

d. The potential for generating revenue through third party distribution (mainly life, non-life and mutual fund distribution) is demonstrated with Exhibit-II. For a coverage of just 1 percent of the customer base of about 15 million (which is the average customer base for mid size banks), banks can earn a revenue of about Rs.31 Crores from mobilization of 1,50,000 each of life policies, non life coverage and mutual fund mobilisation with ticket sizes of Rs.10,000, Rs.5,000 and Rs.10,000 respectively. The above is only an illustration to highlight the potential available in third party distribution and PSBs have to approach it based on the composition of their customer base and remodel the numbers in each of the above segment of bancasurance.

But with all these constraints, most of the PSBs are dynamically retuning their retail strategies and creating ripples in the retail space. The PSBs are learning the retail lessons fast and very soon, the PSBs will create tsunami in the retail space and threaten the private players with their sheer size, geography and the changed business stance.

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COMPARITIVE ANALYSIS OF PUBLIC SECTOR BANKS							
Exhibit - I							
Sr. No.	Parameters	PSB 1	PSB 2	PSB 3	PSB 4	PSB 5	PSB 6
1	Customer Base (Rs. in millions)	15.5	15	16.5	17.5	10.5	29
2	Retail Assets (as a % of Total Assets)	15.61	20	23	20	13.4	18.92
3	Third Party Distribution						
3.1	Bancassurance - Life Space						
3.1.a	Premium Mobilisation (Rs. in Crores)	25	25	50	50	N.A	60
3.1.b	Income (Rs. in Crores)	2	3.5	5	10.5	N.A	10
3.2	Bancassurance - Non - Life Space						
3.2.a	Premium Mobilisation (Rs. in Crores)	25	15	50	50	N.A	40
3.2.b	Income (Rs. in Crores)	2	2	5	5	N.A	5
3.3	Mutual Fund Distribution						
3.3.a	Mobilisation (Rs. in Crores)	50	37.5	50	50	N.A	25
3.3.b	Income (Rs. in Crores)	1	1	1	1	N.A	1

BUSINESS POTENTIAL IN THIRD PARTY DISTRIBUTION					
Exhibit - II					
Sr. No.	Parameters	Life	Non - Life	Mutual Funds	Total
1.	Average Premium (in Rs.) per mobilisation	10000	5000	10000	
2.	Average First Premium Commission Rate / Average NFO Commission (in %)	15	7.5	2.5	
3.	Average Commission Amount (in Rs.)	1500	375	250	
4.	For mobilisation of 10000 applications - Commission	15000000	3750000	2500000	2.125 Crs.
5.	Average Customer Base of PSBs - 15 to 20 Million				
6.	For 1 % Customer Coverage - 150000 Customers	22.5 Crs	5.625 Crs	3.75 Crs	31.875 Crs.