

Retail Banking in India – A Catalyst



Vyanktresh Dhar Dwivedi

Research Scholar,
Deptt.of Business Administration,
A.P.S. University,
Rewa, M.P.



Atul Pandey

Professor and Head,
Deptt.of Business Administration,
A.P.S. University,
Rewa, M.P.

Abstract

Retail Banking is categorized as Mass Banking; where focus is on multiple customers, multiple products and multiple channels of banking. The products and services are presented to customer in bouquet in a bundled way. The personalized effect is also passed on it. The retail banking has proved to be profitable business options for the banks. The low – cost CASA deposit has resulted in higher profit margins and enabled banks to leverage in many asset classes. There is good scope for use of marketing tools and CRM activities to retail customers. Overall, Retail Banking has been a win-win situation for both banking industry and customers. Retail banking has been undergoing lot of changes across the globe. Many opportunities are unfolding with each passing day. This paper adds to understanding of different facets of Retail Banking and suggests ways to find the underlying opportunity in Retail Banking.

Keywords: Retail Banking, Channels of Banking, CASA, CRM, KYC, AML.

Introduction

In India, banking system has been prevalent from the early ages, Vedic periods, when “Gold” or other forms of metals were used for exchange of goods. Indians, British and Government of India have taken many efforts during pre and post-independence era to establish and improve the banking system.

After Independence, Banking in India has seen many changes, which have laid the foundation of “Banking” which we know today.

Formation of Reserve Bank of India & State Bank of India

For extending banking facility to common man with good governance & regulation.

Nationalization of Banks (in 70's & 80's)

Extending reach of banking to remote areas of country.

Birth of Regional Rural Banks (RRB)

Meeting out the gap of Rural Credit & extension of banking services to district having same type of demographic conditions.

Entry of Foreign Banks

Gave the International exposure / modern products.

Start of New Generation Private Sector Banks (in 90's)

Opened New Chapter of banking ~ “*Customer has been made*

KING”.

Birth of Retail Banking

With opening of Indian Market in 1990's & growth of young generation in India, the concept of Retail Banking came up.

Retail Banking is the need to hour to meet out the demand of multiple groups of people, each with different requirements. With LPG (Liberalization, Privatization and Globalization) and growth in numbers of younger generation population fueled with increase in disposable income in hands of people; banking industry has come under pressure in the regime of increase of competition along with decrease of net interest margins to find new ways to improve their underlines. Retail banking – today's banking, has many unexplored areas and dimensions and hence could easily turn out to be catalyst for growth. This research paper discusses different characteristics and emerging trends of Retail Banking and discusses the underlying opportunities and challenges in ways of Retail Banking.

Review of Literature

To get an overview of different areas, aspects of subject topic i.e. Retail banking and to have better understanding, insight about various issues related to study; a review of literature available on subject matter has been done. The review of literature of previous work done in areas of subject has enriched the understanding about topic. It has helped to understand the various issues, challenges coming in ways of Retail

banking and thus setting a path for research work by enabling researcher to understand the research gap in different works done.

Mr. Deepak Chawla and Mr. Himanshu Joshi (2017). in their research paper titled "Consumer perspectives about mobile banking adoption in India – a cluster analysis" have studied the latest trends in Mobile Banking and have studied the expectation level of Indian customers. This paper provides knowledge about the factors which supports the growth of mobile banking in India. The paper has covered the factors influencing the Mobile Banking growth / adaptation, which has not been investigated in past.

This study has made an attempt to study and further examine attitudes and intentions of mobile users and also studied their perception on the Mobile Banking services extended by Indian Banks. An investigation of the factors that influence mobile banking adoption shows that both attitude and intentions toward mobile banking significantly differs across banking services, payment services and value added services.

In a report published by McKinsey&Company (2016) in their journal - Retail Banking Insight, titling "*Radically Simplifying the Retail Banks*" have noted that Bank customers are found off simple and convenient ways to manage their finances. They like to work on easy to use and simple banking products and tools.

This work was done primarily focusing US banking Industry. It has been noted that Banks are working to build simpler products, tools suiting individual customer's requirements matching their life cycle at different stages. The simplification of process etc has benefited banks by mitigating / minimizing various risks like – operational risk, regulatory risk etc. Further they are building on good data mining tools which in turn are integrated from their data base. These tools are helping them to understand the changing demands of customers and making banks agile and attentive to customers' needs.

Ms. Vidhya Sivaramakrishnan, Ms. Sangeetha Kandavel and Mr. Atmadip Ray (2014) in their article titled "Bank-Rolling a Constituency, The Finance Minister Style"; published in leading business daily on 15 January 2014; have mentioned that Banks in India have to formulate strategy for growth in Rural India like their counterparts in FMCG & Auto Industry. They have to come out with viable model for growth of banking in rural area. They have highlighted the comments of Shri. Raghuraj G. Raman, the incumbent RBI Governor on use of mobile technology and solutions based on it like Mobile wallet for linking general masses to formal banking sector. The article suggested the banks to formulate effective business plans and exploit the new technology platforms like Mobile Banking to spread their reach.

The RBI Guidelines on Licensing of Payment and Small Finance Banks in the Private Sector (2014) dated 27 November 2014; highlighted the need of spreading the financial inclusion drive by providing license to setup payment banks providing small

saving services along with fast payment and remittance facility to low income groups and households, migrant workers, farmers, small business men. These banks are expected to revolutionize the remittance facilities in India. The setting up of small banks driven by modern/high class technology to cover up the financially excluded sections of society like small business units, farmers, common man and landless laborers etc. by providing them access to cheap credit facility and a place to save small money. This model is expected to keep the cost of operation at viable levels.

According to World Bank Findex Survey (2014) findings, there is huge scope for growth of retail banking in India. The major findings are –

1. Only 35% of Indian adults had access to a formal bank account,
2. Only 8% borrowed formally in the last 12 months.
3. Only 2% of adults used an account to receive money from a family member living in another area, and
4. Only 4% used an account to receive payment from the Government.

In India, most of the population lives Tier – II or III cities or villages around them. There are some 4 Lakh villages still left to be covered with basic banking facilities. Hence there lies good future for expansion of Retail Banking in Semi Urban and Rural areas of India.

Mr. B. Parashuramulu and Mr. K Phanindra Kumar, (2013) in their research paper on "Indian Retail Banking Industry: Opportunities and Challenges"; published in Asian Journal of Multidimensional Research in Vol.2 Issue 5, May 2013; have highlighted & suggested that Indian banking industry have to formulate policies to capture opportunities lying in rural area. Banks have to tap agricultural credit for the growth. It has also highlighted the effects of demographic factor – growth of middle class and young generation; which will have a lasting effect in future course of Banking Industry in India. The research paper has discussed the future of retail banking in India; by highlighting different facets of banking, its future drivers.

In a study conducted by Capgemini Consulting Group (2013) on topic "The Future of Bank Branches- Coordinating Physical with Digital"; it was revealed that today with an ongoing chase amongst banks to become umaro-uno with use of new digital platforms & alternate channels, banking service level is changing with each day. The study found that with growth of IT and more and more use of digital technology in banking, a significant shift in preference for channels of banking in customer has been noted. The study addressed and studied question about extinction of branch banking with change in preference for Online banking medium. The study suggested that banks needs to put on strategy to rationalize various branches and manpower, in a way that they become a center for CRM (Customer Relationship Management) activities from mere processing center. Various models have been suggested in study to improve on the margins.

EFMA (2013) in the study conducted by them on behalf of M/s Infosys; titling "Retail Banks Looking to Invest in Innovation to Boost Revenues"; has found that Retail Banks across the world are increasingly investing in new technology to enhance their product and services offered to their customers. The report finding suggested that the Banks have understood the importance of using/implementing new technological platforms in banking to cut cost, to bring uniformity and synchronization in operation. The report finding established that the use of technology has helped the banks to deepen their relationship with customer by offering personalized products and services. Most of the banks are investing a lot in mobile banking platform to reach out more and more customers.

In the Inaugural address by Dr. K. C. Chakrabarty, (Deputy Governor, Reserve Bank of India) (2013) at the Bank CEOs Roundtable organized by CAFRAL (Centre for Advanced Financial Research and Learning) in Udaipur on October 2, 2013; mentioned that Indian banking industry has to shift its focus from class & wholesale banking to Mass Banking; by linking large number of unbanked sections of society to main stream of banking. He mentioned that Banking services are essential for welfare of the public. It is imperative, therefore, that the availability of banking and payment services to the entire populace without discrimination is the avowed objective of public policy. Providing access to basic banking services is the first phase of the financial inclusion process. Thus the address highlighted the importance to "Retail/Mass banking" to cover unbanked areas of country.

Objective of the Study

1. To understand various facets of Retail Banking.
2. To Study the products, channels of Retail Banking.
3. To study the steps taken by government for spread of banking in India,
4. To identify the challenges coming in ways of growth of Retail banking.
5. To identify the future scope for growth of Retail Banking in India.

Research Design

This research paper has emphasized on the study of existing work done in area of Retail banking – products, channels and its services. It covers important factors like emerging trend, existing challenges and scope and opportunities available for growth of Retail banking business in country.

Data Collection Method

The secondary data is collected through the reference made to work done in area of research till date. The secondary data obtained from different sources like published reports on retail banking and trends and reports on banking industry and statistical data released by Reserve bank of India (RBI), Indian Bank's Association (IBA), World Bank, International Monetary Fund (IMF) and Government of India has been used to make research meaningful. Various articles, books, research papers, research thesis have also been referred to supplement the understanding and to get a better insight on the research topic.

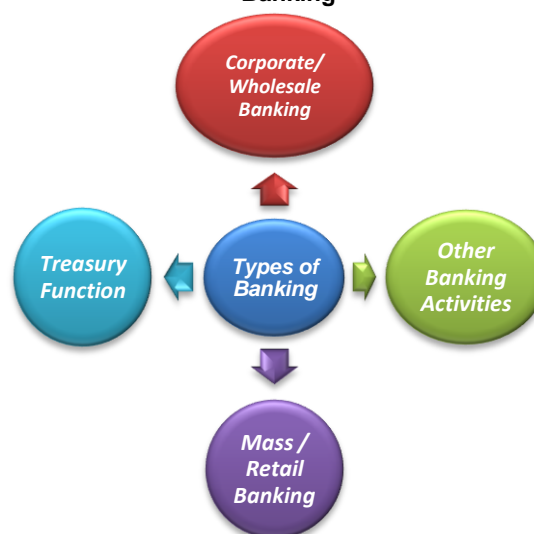
Different Types of Banking

Banking services extended by any commercial bank can be mainly categorized under four different types -

1. Corporate/Wholesale Banking
2. Mass/Retail Banking
3. Treasury Functions
4. Other Banking Activities

All banking channels have played good role in making any bank's balance sheet strong and profitable.

Figure 1.1 Diagram Exhibiting Different types of Banking



Corporate/Wholesale Banking

As name signifies, under wholesale banking; the banking services are specially extended to Corporate/Big Industry Houses. The size of average account is into hundred crore. Products like project finance, working capital loans, green field project finance and term finance, LC/BG are specially designed to meet out the corporate requirements. As the average ticket size is very large and large amount of risk is involved due to internal external factors; in every bank there is team of specially trained officers, who have acumen and expertise in any project appraisal.

Apart from being good revenue generating area, this vertical has become today cause of concern with mounting NPA's (Non-Performing Assets). With strict provisioning norms and mounting NPA's due to failure of many green field projects due to unfavorable business environment, banks are looking to other fields to improve margins and increase profits.

Mass/Retail Banking

The retail banking targeted towards masses is gaining importance. The individual customer, small businessman, agriculturist are targeted by banks. As the name signifies, the products are so designed that they fit as per the need of large section of society. Different types of asset, liability and third party products are offered under this segment. The banks are using various channels like branch banking, electronic channels like Mobile, Internet, ATM's and Telephone Banking etc.; to offer different types of

products. The average ticket size of any product (liability/deposit or asset) is very low.

With mounting NPAs' and very little option to bargain in corporate banking segment, commercial banks find good growth business prospects in retail banking segment. The efforts and directives of Government of India and RBI to spread the reach of banking to unbanked areas, growing number of middle class people and strong competition in urban and metro areas, is making banks "Think-Tanks" to come out to drawing board to design effective strategy to come out with viable, cost effective banking model to tap this untouched segment of society.

Treasury Functions

This is one of the most important areas for any banks. The surplus funds is parked or invested by a team of qualified officers to get good returns. Treasury operations consist of investing in bond market, corporate papers, trading in government securities. Investments are also made in equities, mutual funds and forex market to get income out of it. New tools like derivative, swaps options are effectively used to mitigate the inherent risk.

Modern private sector banks are using the treasury department to leverage more and generate extra income from treasury operations.

Other Banking Activities/Para Banking¹

Banks are extending their reach in other areas called para banking. Banks are forming subsidiaries like NBFC's, Asset Management companies and entering into joint ventures to float insurance companies. Some of the major para banking activities undertaken by banks are as following –

1. Insurance (Life and General)
2. Mutual Fund Business – Formation of AMCs
3. Government Securities – Sales and Marketing
4. Formation and Investment in Venture Capitals (VC's) to Promote Entrepreneurs

5. Starting Underwriting Activities
6. Merchant Banker Business
7. Distribution of Dividend and Interest of Corporate Bonds and Investments.

However, it is not the primary function of any banks; but para banking evolved as source of good commission income for any banks and come out as a tool for strengthening relationship with corporate and increases their visibility across various segments of economy and is highly regulated by RBI guidelines to mitigate the inherent risk.

Retail Banking – Growth Engine for Banks

Retail Banking is nothing but the banking services targeted towards individual customers, which include below mentioned products –

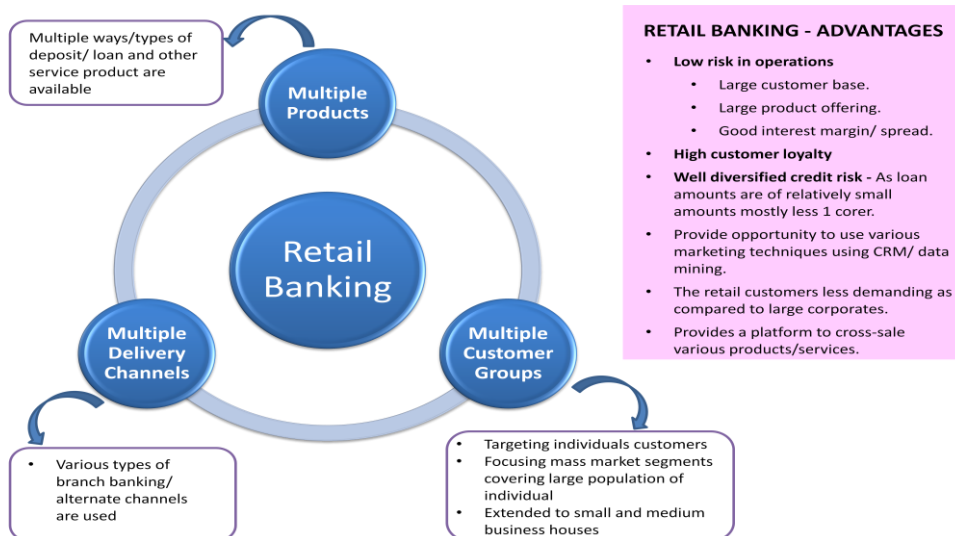
1. Liability (Deposits) Products
2. Asset (Loan) Products

The Thrust and focus of Banks is to cover maximum numbers of customers by offering them host of personal banking services through "Retail Banking". The services varies from small deposit products like Savings Account, Current Account, Fixed/Recurring Deposit Account to small retail loans like Housing Loans, Auto (car)Loan, Education Loans etc. Apart from these, Retail Banking Branches also extend host of Investment/Financial Planning Products(term used "Third Party Products") like Mutual Funds, Life Insurance, General Insurance, Bonds, Demat Account, Loan Against Securities (LAS) and Portfolio Management.

While addressing IBA conference in 2005, Ms. Shyamala Gopinath Ghose – Dy. Governor – Reserve Bank of India², has described the Retail Banking with following qualities –

1. Multiple Products (.....)
2. Multiple Delivery Channels (....)
3. Multiple Customer Groups (...)

Figure 1.2 Characteristics of Retail Banking



In her book "The Future of Retail Banking"³ Joseph A. DiVanna (2004) has described Retail Banking as "hotter than vindaloo". Considering the fact that vindaloo, the Indian-English innovative curry

available in umpteen numbers of restaurants of London, is indeed very hot and spicy, it seems that the retail banking is perceived to be the in-thing in today's world of banking.

Characteristics of Retail Banking

The basic characteristics of Retail Banking⁴ are as following –

Targeted to Single Customer

Individual customer is the focus point for all the retail banking activities. Individual customer is targeted by all banks to showcase their products and services.

Mass Banking

The banking facilities are designed to serve large number of population. Many products are designed to suit the demographic requirements of people.

Bouquet of Products and Services

Through retails banking various types of deposit and loan products are offered by banks. Many customized services are offered along with products.

Delivery Channels – Direct and Indirect

The banking services can be availed by customers by physically visiting the branch. They also have option to use electronic channels like ATM's, Internet and mobile Banking.

Customization of Products and Services

The products and service are specially customized to meet the requirements of an individual customer.

Advantages of Retail Banking

With above characteristics, Retail Banking has proven as profitable business for all banks across the globe. The main advantages are as following –

Stable Business for Banks

With large number of customers, banks get opportunity for regular and stable business. With customized solution for customers and effective CRM activities, banks have stabilized their business. The deposits are less volatile in nature.

Low Cost Deposit

Abundance of deposit products provides low cost deposit for banks. The deposits are regular in nature and hence are less volatile and high earning.

Opportunity to Use Effective Marketing Tools

Targeted to mass, banks have excellent opportunity to use marketing techniques to add good numbers of customers. It converts into business which finally adds to profitability of banks.

Good Opportunity to Deploy Funds

The banks have large base of customers to offer their asset products. The Retail asset provides good yields.

Risk Mitigation

The large customer base with different products to offer provides good risk diversification for banks. The risk is well spread in different segment.

Source of Good Income

With low cost deposit from CASA (saving and current deposits) generate enough avenues to deploy fund through retail lending product like home, auto loans etc.; providing good interest income for banks.

Strong and Loyal Customer Bank

The customers can be easily retained. With proper follow-up and CRM activities, banks can have strong and loyal customer bank.

Low Level of NPA/Bad Loans

The retails banking with good spread have bad loan accounts in less number and value. The quantum of NPA is very low in Retail Banking.

Employment of Technology

The retail banking is thriving on effective use of technology. Banks are in race with each other to employ best in class technology to attract customers.

Reduction in Operational Cost

With diversified range of products and use of state of art technology help banks to reduce operational cost to large extent.

Retail Banking Products

Retail Banking signifies rich bouquets of products. The products are redesigned by banks on regular interval to attract large number of customers and take on the competition from peer banks. The products in retail banking can be categorized in Five (05) different categories.

Liability or Deposit Products

Various Liability products offered by Banks are –

1. Saving Account for attracting savings
2. Current Account for business transaction
3. Term Deposit Account for parking long term funds

Banks offered various products under each of above category. Products are designed to suit customer's requirement based on age, gender and business. Banks create niche amongst other to attract good number of customers. There is strong competition amongst banks to offer modern facilities based on E-banking platform like Internet/mobile banking, offers on card (debit/credit), door step facility, offers on ATM usage to attract customers and enhance the service experience for customers. The banks from private and foreign sector have taken lead in rolling out new facilities on regular basis and attracting good number of deposit accounts. It has made, till date lackluster public sector banks to become active and agile.

Asset or Loan Products

Prominent Loan products offered by Banks under this segment are - Home Loan and its variants, Auto/Car Loans, Mortgage Loans, Personal Loans, Education Loans and Consumer durable Loans etc.

The products here are bundled with many offers and discounts like on processing fee, documentation fee, waivers on pre-payment charges etc. The rates quoted by banks are very attractive to suit customers. Retail asset products needs continue working and up gradations. Banks have come up with product teams/cells; which continue research for product development by seeking suggestions from bank staff and customers, to make changes in various guidelines and offering under segment. Many banks have come up with special cells (some common terminology used "Retail Asset Centers (RAC)", "Retail Loan Factory"⁵) to have devoted team to have structured scientific process to bring down the TAT in this segment.

Third Party Products

To establish them as "Complete Banking Solution" for esteemed customers, banks are investing heavily to promote themselves as "A One

Stop Financial Super Bazaar”; this is resulting in attraction of large number of customers to bank. They are aggressively marketing and distributing the third party products along with standard deposit or asset products. Products offered under this segment are Life Insurance (LI), General Insurance (GI), Mutual Funds (MF) and Depository and Broking Services (Demat).

Banks are making tie-up with various life, General Insurance Company to market insurance products. Many banks have gone one more step ahead by forming Asset Management Company (AMC's) to enter into Mutual Fund business.⁶ Banks are providing in-house Demat services for the customers having flavor for Stock markets. The distribution of above products provides a win-win situation for banks. It helps in -

1. Meeting the demand for investment products of customers, leading to overall satisfaction of customers.
2. Augmenting the fee based income of banks.
3. Retention of large number of customers.

Portfolio Management and Investment Advisory

New generation private sector banks along with foreign sector banks offer Portfolio Management, Private Banking and Investment Advisory scheme to tap the HNI and NRI segment and create a niche for them. It encompasses financial planning, portfolio management of all investment made and many other types of financial advisory services. Now – a – days, public sector banks have also become sensitive towards this segment and started devising and upgrading their products to attract large number of HNI and NRI customers. Few years back, State Bank of India has taken lead by opening “*Crone ++ Branches*” in metros, to tap HNI and NRI business. The minimum balance requirement is 1(one) crore.⁷

Other Innovative Products and Services

Banks are investing on product development to enhance their service level for customers. Banks are aggressively marketing alternative tools for banking like TAB Banking, Mobile and Phone Banking and Internet Banking. One of the most admired products in banking is “Credit Card”. “Plastic Money”; the synonym coined is best suited for it.

Retail Banking Channels

Traditionally, branches are important channels for any bank. With growth of IT industry, many electronic channels are being used by bank to enhance the service experience by increasing the speed and efficiency of transactions by promoting channels like ATM's, Internet Banking, Mobile Banking, Phone Banking etc. This has helped in reduction of cost and increased the ease of operation for both banks and customers. In India, the credit for introduction of modern channels goes to private and foreign sector banks. Even public sector banks have realized the value and importance of these channels to remain competitive in segment by providing *24x7 banking (Anytime, Anywhere and Any Way banking)* to customers.

The Channels can be broadly classified as -

1. Direct and Indirect Channels – Based on extent of ownership and management

2. Physical and Electronic/Digital Channels – Based on extent of interface

Direct Channels constitute like branches, ATM, other electronic channels and Indirect Channels constitute like Banking Correspondents (BC), Banking Facilitators (BF), DSA, outsource agencies, brokers and agents.

Brick – and – Mortar Branches/Special Processing Centers/Bank Van's/ BC/BF/DSA signify “Physical” channel in banking parlance. The Electronic/Digital Channel constitute *ATMs, Internet Banking, Mobile Banking, Phone Banking, Video Banking, Call Centers, E-mails etc.*

Figure 1.3 Diagram for better understanding of Channels of Banking



Branches

A Branch is the most important delivery channel of services and products for any bank. Branch has been vital for growth of any bank's business because any branch provides first hand physical experience of banking to any customer.

With time, bank branches have gained importance and undergone many changes. Apart from being physical mode of banking, branches have become a place for customers to have experience of digital channels to do self-banking. Each bank staff has taken role of Relationship Manager. Branch has become hub for CRM activities. Banks have taken back all processing activities in back office and made branches as a point for attending customer query and providing proper solution and advice.

ATMs (Automated Teller Machines)

Foreign Banks have credit of bringing ATMs to existence and prevalent. *The first ATM was installed in India in year 1987 by HSBC Bank in Mumbai.*⁸ ATM's first brought the idea of round the clock banking (24x7). It has changed the transaction habits of customers. Banks are modifying the overall interface of ATM. Apart from cash withdrawal many other types of functions/transaction like Cash and Cheque Deposit, ATM PIN Change, Payment of Tax/Bills, fund Transfer and placing request for various deliverables etc. are being enabled in ATMs.

Based on its location, ATM's are categorized as – Onsite ATM's (One located with branch) and Offsite ATM's (One located at a distance of branch). Many banks are coming up with concept of "Mobile ATM - an ATM installed on van"; visiting different areas on redefined times. It provides banks an opportunity to extend their reach.

E-Lobby

Today, ATM Counters with large rush are being transformed to "E-Lobby". An "E-Lobby" has become a Self Service banking place.⁹ Apart from an ATM, an "E-Lobby" has Cash/Cheque depositors, Passbook/statement printer, phone banking facility and Kiosk to provide information about various products and to perform internet banking transactions. Based on scope, Coin Dispensers are also placed inside a lobby.

Many banks are coming up with E-Lobby at prominent place or just outside the big branches to save on cost and add new experience for customers. It's empowering of customers by providing liberty to do all major types of transactions as per their convenience. E-lobby is becoming a substitute of physical branch banking. All major banking services are provided virtually under a roof around the clock in a very small area of 100 to 500 square feet.

Internet Banking

With advance of Internet and increase in number of desktops, it has become possible to avail most of banking services with a click of button. It's virtual banking. Internet banking has broken the barriers of geography and increased the reach of banking services. It has fuelled the competition amongst banks to add new dimensions, new services and provide new service experience to customers. **ICICI Bank, a leading private sector bank has the credit of first launching Internet Banking in India.**¹⁰

Today customer can do all sorts of transactions through internet banking except physically withdrawing cash. Many banks are using platform of social sites like Facebook, twitter to allow transaction related facility for net savvy people.

Mobile Banking

With increase of tele-density, mobile phones are in every Indian's hand. Thanks to cost effective android phones manufactured in Asian countries; mobiles have become convenient way of banking.

It's like rooming with bank in your pocket. All major transaction are possible on mobile banking platform. Mobile banking service is primarily available over SMS (Short Messaging Service) or through GPRS (General Packet Radio Service) or sometimes through USSD (Unstructured Supplementary Service Data). With tariff and charges going southwards, mobiles have become necessity. Being simple in operation and having flexibility of time and reach; banks are now riding on this wave to spread banking at nook and corner of country.

Telephone Banking

With advance of mobile network, Telephone banking is now actively used. It is one of the important modes of the virtual banking. Under this mode, the transactions are performed by a customer by calling

on Telephone banking number. With the use of IVRS (Interactive Voice Recognition System) technology, a customer can place various type of request like information about particular type of transactions, fund transfer, request for cheque books and raise queries about various bank's products and services.

Video/TV Banking

This mode is gaining popularity in Metro city branches. Here, with a use of video link/connection, video conferencing is established through banks' officers. This channel has virtually brought banks to door step of customer and is available round the clock.

In India, private sector player "IndusInd Bank"; has been pioneer in launching "Video Branch" concept on this platform.¹¹ Now bank is available anytime, anywhere to customer with virtual face-to-face experience. Video Banking is going to revolutionize the banking to next level in major metro centers. It is coming out as tool of customer retention and toll for reduction in cost and increase in operational efficiencies of nay branch.

Use of Third Party Channels like DSA, BCs/ BFs and Broking Firms

Banks are using the services of third party channels like DSA, BCs/ BFs¹² and broking Firms to extend their reach and as a tool to capture new business.

Banks are now actively appointing DSA/broking firms on commission basis to bring new business like big ticket asset accounts, to do third party products business, to source new deposit relationship and to take over running asset facility from peer banks in any city. Banks are also using the facilities of BCs/ BFs¹³ to spread banking in even remote centers of country. BCs/BF's use hand held devises to perform banking function. At promising places banks are opening "Kiosk" to augment the banking business. The services are also utilizes to source asset cases / products and meet out the PSL (Priority Sector Lending) Targets.

Figure 1.4 Two Technology Platforms of the Business Correspondents

- a) A Handheld POS Machine
- b) Kiosk Banking



Social Media Sites

With advance of Internet and more and more number of people getting online now-a-days, banks are now adding new dimension to banking by extending banking through social sites .Almost all banks are having page accounts on "Face-Book, Twitter"; to promote their product and services. It has helped them to attract all tech savvy people and enhance their brand image.

ICICI bank launched its services and branded it "Pockets" to attract a lot of youth. Other players like Axis launched "Ping Pay", Kotak Mahindra bank launched "Kay Pay", products on this platform. It is sure that future lies for those bank which keeps on investing in new technology and come out with innovative solutions with all the checks to control online thefts and use modern platform like social media sites.

Bank Vans / Bank on Wheel

It is one of the rare modes of banking used across the world. Bank reaches to customer place, his colony, his hangout place, his mega mart campus. Bank is available on wheel, fitted with ATM, Note counting machine, Internet Banking and Information kiosk. Few officers are posted on van to ensure that all things work as expected. Officers also interact with the customers to address their queries.

In India, leading private sector bank ICICI bank has launched Mobile branch – Branch on wheel to cover up unbanked villages areas in Orissa, Maharashtra and Chhattisgarh.¹⁴ It is one of the great initiatives by bank towards their commitment for "Financial Inclusion", by providing basic banking services in unbanked corners. Many government

banks like IDBI Bank, OBC, Canara Bank, Allahabad bank and Bank of Baroda have experimented with this delivery channel to extend their banking services.

Retail Banking in India

In India, banks are broadly categorized in two categories - Scheduled Banks and Non-Scheduled Banks. Banks included in 2nd schedule of RBI Act 1934 are known as "Scheduled Banks". Based on ownership of banks or nature or area of operations, scheduled banks are further categorized in following main categories –¹⁵

Public Sector Banks

- 1.1 State Bank of India and its associates
- 1.2 Nationalized Banks
- 1.3 Other Public Sector Banks

Private Sector Banks

Foreign Banks

- 1.4 Foreign Banks with branches in India
- 1.5 Foreign Banks with representative offices in India

Regional Rural Banks (RRBs)

Co-operative Banks

- 1.6 State Co-operative Banks (SCBs)
- 1.7 Urban Co-operative Banks (UCBs)

The current position of banks in India is given below–

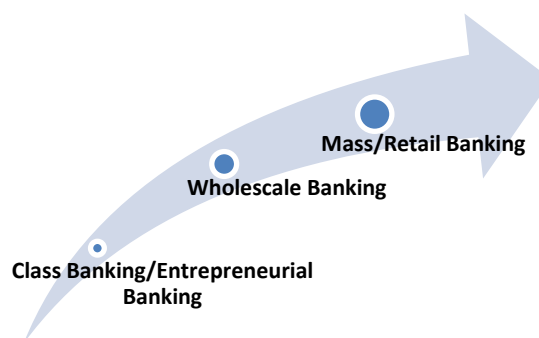
Table: 1.1 –Current position of Commercial Banks in India¹⁶

Particular		March 2015	
No. of Commercial Banks		152	
1. Schedule Commercial Bank		148	
of which: Regional Rural Bank(RRB)		56	
2. Non-Schedule Commercial Bank		4	
No of Offices of Schedule Commercial Banks in India		130482	
As per Bank Group		As per population Group	
1. SBI & Associates	23947	1. Rural	48536
2. Nationalized Bank	65764	2. Semi-Urban	34131
3. Foreign Bank	332	3. Urban	25149
4. Regional Rural Bank (RRB)	20005	4. Metro	22666
5. Private Sector Bank	20434		
Deposit (Rupees in Billion)		88989.01	
Advance (Rupees in Billion)		64998.29	

Indian Banks are making regular change in their products, service and approach to remain competitive. The use of technology to spread their reach through innovations, has not only helped the banks to attract lot of customers, but also helped them in bringing down cost of operations.

Today's banks are putting extra efforts in meeting burgeoning demand of Indian society for various banking solutions. This has paved the way for lot of investment in mass/retail banking segments. They are finding solace in "Retail Banking". Apart from Wholesale/Corporate banking, banks are getting ready to harness all their resources and spread their wings and fly high with the help of "Retail/Mass Banking".

Figure 1.5 Future Scopes for Indian Banks – Change in Orientation



Let's understand various factors/parameters which act as catalyst in growth of retail banking in India, current scenario/trend in retail banking, challenges and opportunity in front of Indian banking industry for in-depth understanding of Indian Banking Industry.

Catalyst for Growth - Retail Banking in India

The change in socio economic paradigm across the globe has created a large impact on Indian

economy and society. The era of liberalization (1990's) has brought many new experiences for Indian economy. This has led to growth of banking and retail banking in particular achieved new heights during this time. Few main driving reasons are as following -

Economic Boom

This era witnessed a good growth for Indian economy. The growth was around 7% and it was highest amongst comparable economies across world. It has led an economic boom, bringing prosperity in Indian household. The rise of Middle Income Class has led the growth of lending activities by bank; to meet out the want for investment in properties, cars, consumer goods and amenities for meeting family requirements.

Growth of Burgeoning Young People

The average age of population was below 35 during the 1990s. While other economies were growing old, India became an economy with young educated minds. This has started the want for world class facilities in India, providing a good growth for all Industries.

Technological Boom

The growth of Indian Silicon Valley and its IT Industry has brought many technological up gradation in various banking products. Many new digital channels were launched to enhance and to take overall banking experience to new levels.

Mounting NPA's and Limited Scope for Growth in Traditional Banking

Till date favorites like corporate banking and treasury operation are losing their shine on account of deregulation in financial industry and mounting NPA's in corporate. Thus banks saw the silver lining in universal banking targeted towards masses; thus increasing their Net Interest Margins (NIM) and well diversification of risk across varied customer segments.

Deregulation of Interest Rate

Interest rates witnessed huge decline after its deregulation during 1990 by RBI. The income from traditional lending products got diminished. Hence banks have to look for retail lending products providing better interest margins and good spread.

Increase of Competition in Banking

The entry of private players in banking has heated up the competition. Banks started investing in product development to grow deposit base by attracting new clients. This competition has proven as "Oasis" for banks and it revolutionized the banking, thus creating a set path for growth of retail banking.

Current Trends in Retail Banking

Today all segments of economy, industries; let it be consumer goods, services and hospitality, food chains, mega marts, telecom, television, medical and hospitals; *all are singing the songs of Retail!* "Retail" word has been music to their ears and has been the mantra for growth. Banking is not aloof from it.

Innovations in Different Spheres of Banking

Across the globe, banking is undergoing many changes, witnessing many innovations in terms of products, customer services, adaptation of new

technology to improve various process and interfaces and sincere efforts are being taken for risk management and its mitigations. Banks across the world are investing time, money and resources for making themselves visible amongst customers through various channels and are giving good fight to peer banks in the arena.

Digitalization of Banking

The use of Digital technology has transformed banking industry. It has added value and ease of operation to banking. With regular technology up gradation and innovations; a question has arisen in front of banking industry. *"Does physical Brick – and – Mortar branches have future in banking with advent of Digital/Electronic channels?"*¹⁷. The answer lies in *Transformation!* Physical branches have to transform into Customer Relationship Banking Centers, requiring direct face to face interaction with customers. The presence of branches will provide reassurance to customers of safety of funds and investment made; much needed in era of financial instability where many economies are falling apart.

Banks – Spreading Their Wings to "B" Class Cities

With the growing of competition in higher income groups, metro cities, all have diverted their efforts to so called "B" class cities, semi urban and rural areas. The sudden spurt of population with high level of disposable income along with opening of global market thus making access to international trends, has improved the overall income level. The increase of literacy level culminating with income level has created a need for good standard of living and generated a lot of aspirations in middle class people.

Use of Scientific Models for Risk Assessment

With deregulation of interest rates and finding new ways to rate the credit worthiness of retail customers, banks have diversified their portfolio and mitigated the risk. Many new banks are investing on technology to build *simple algorithm based programs* to access the credit needs of people living in semi urban and rural areas. They are investing on developing cost effective models of banking by engaging counter parts from the local area to achieve quick break even in overall branch operations and getting profitable.

Competition in Banking Industry

Just one or two decades back, the banking was a "Seller's Market". Banks have been very choosy to do the business. But now the retail customer has become more educated and active and has started demanding. They have become choosy in opening an account, making a deposit, availing any loan like housing, mortgage, auto and others like personal loans. They have converted it from *"Seller's Market" to "Buyer's Market"*.

Government Sector Banks Have Become Agile

With good innovation of products and their prompt services, private and foreign banks have captured good amount of business pie. But government sector commercial banks have sensed the danger of becoming obsolete in banking and have started improving overall environment in their branches. With their good reach in every nook and

corner of country, they are back in race and have heated the competition. The customer has benefited a lot from the growing competition.

Use of New Business Development Models

During 2001-02, State Bank of India; India's biggest government bank has taken a special project to transform and reshape its retail banking division with the help of world renowned consultancy firm "Mckinsey & Co". They have moved from the scattered format of retail banking and made it a specialized activity across the board. They used one of the best models in reengineering of the time, i.e. the model of "Hub and Spokes"¹⁸. The efforts were to bring all "Nuts and Bolts" in place and let the process run. They centralized the process of retail lending, its processing and distribution. At first place, they adopted the idea of identifying the "Hubs" (big branches/special processing centers) possibly more than two in a region, based on potential to generate good number of proposal of retail loans and efforts were making them self-sufficient in generating, processing and disbursement of retails loans like housing, auto, mortgage and various other loans like personal or consumer loans. Secondly, These "Hubs" were entrusted with the task of activating adjoining branches the "Spokes"; to start the retail lending business. With this model, the bank management expected a growth of around 50% in retail lending segment and withstand the fierce competition from private sector or other nationalized or foreign banks. After successful implementations in SBI, many other banks in public sector have tried to ignite their growth by following this model.

Increase in Role of Personal Advisors

The role of advisors, commission agents in suggesting the best financial deals in terms of accounts, loans, third party products and investment/portfolio management to customers has made people to ask for customized products and services.

CRM (Customer Relationship Management)

The investment in CRM (Customer Relationship Management) activities will only make them to retain customers. The customer focused approach can improve on margins and profits by adding good amount of new accounts/customers every year and increasing the wallet share of revenue from existing clients by making existing relation more strong and deep in terms of offering new products etc. With most of commercial banks facing financial crisis in terms of increase of NPA's, low growth, low margin and intense competitive environment; the key to success lies in shifting the focus from traditional products to be more client centric. It is noted that almost all banks have one way or another have same type of financial products or services. It is their "Customers"; who differentiate them. Hence, banks that develop various model to identify the requirement of their customers and develop a niche amongst them, offer them a customized solution with tailor made changes and choices; thus building a good, deep level of understanding, knowledge about customers, their financial choices, preferences along various economic demographics; can only succeed.

Many established surveys and reports have validated this fact. *It has been established that a mere increase of 5 – 10% in retention value of customer; can cause increase of margins by 35- 40%.* "What a great ratio to work on!"

Challenges and Opportunities for Banks in India

The growth of banking across economies has brought many changes at foundation level. Banks are undergoing many changes. This has put a pressure on banking industry to sustain and survive the unending competition and meet out the ever growing demand and service expectation of its customers. How they are going to survive this fierce battle is a matter of time. The growths come with a price and banking industry have to bear it anyhow. It has posed many questions for banks.

Few important challenges in front of Indian Banking industry –

Adherence to Laid Down KYC and AML Guidelines

RBI laid down the KYC guidelines in 2004 and made modification and up gradation on regular intervals. Banks are targeting customers to start banking relation with them. Sometimes it has been noted by regulators and various agencies that banks waive off KYC requirement in certain cases without considering all the inherent risk. Many banks have not in place in-house KYC parameters to address the fraudulent and money laundering transactions. This has put a lot of reputational and operational risk on banks and they are being penalized by RBI and other agencies. These risks may lead to systemic failure of any bank. Hence the management of above risk is utmost priority these days in front of banks.

Use of Technology

Banking has been totally impacted by the technology. The launch of "Core Banking Solution" followed by the advent of digital/virtual channels of banking like ATM's, Internet, Mobile, Telephone etc has been proved both "boon and bane" for banks. It has created platform for exponential growth but side by side pose challenge for continuity of operation, i.e. make available these platform round the clock for customers; to remain agile and competitive. The challenge is to manage complex network, ensuring application running properly and contain any disruption with minimal breakdown time.

With burgeoning cases of internet related frauds, banks are entrusted with additional task to have good fire well protection for its database and core operating system form hackers, virus and malwares. They also have a task to keep their customer educated with any future threats.

Continuous Research and Development of Products and Services

With growing demand from the customers and raising competition, banks have to regularly invest on research and development of products and services; to remain visible and competitive. Banks have to provide customized solution to address all the requirements to retain any customer. Banks are required to use various analytical tools to access future trends and expected demand and align their products and services with minor to major changes.

This has put extra burden on banking industry as a whole.

Customer Retention

From mere having a customer care desk and grievance officer; banks have to put in place a system for quick and realistic response to address any customer query and complain.

The protection of any customer's interest and to save him from getting penalized, by having transparent system and avoiding exorbitant charges in all segment will be key to success in coming days. This leads to customer satisfaction and retention. Retention realizes in term of good growth and higher profits.

There is thin line of difference in various products and services across banking industry. It is what service separates them. Hence all banks need to develop advanced CRM techniques to attract lot of customers and provide them unique world class services.

Developing Inbuilt Repository and Sharing of Information amongst Banks

With economic boom, many individuals and families are shifting quite frequently from one location to another to meet out the employment, education and family wellbeing requirement. With economic and technological boom, young generation is spearheading the experimentation in all walks of life. People are trying new things daily; hence their preferences, taste, style and requirement are undergoing fast changes. Hence to manage such growing demand for different types of banking products, various delivery channels; banks are required to build a repository of information from internal and external sources. This information will form base for making any change in product, services level. This will also give confidence to bank to build a more efficient customer relationship management tools to strengthen the bonding between bank its customer.

Till date banks were quite shy in sharing information about a client even amongst banking fraternity. But with growth of lending activities and regulatory changes; banks need to share information about clients not only with banking industry; but across the economy and various financial players. This has helped to contain risk involved in various lending activities. It has also helped banks across geography to develop such analytical tool to access any fraudulent entity well before and weed out during initial screening of any loan applications.

Risk Management

The growth of business poses many types of risk. Banking sector riding on growth wagon has to face different types of risks like Credit Risk, Operation Risk, Forex Risk, Reputation Risk and Interest Rate Risk etc. Banks need to developed models to contain these risks. Banks need to invest to come out with efficient business techniques and business models where risk could be identified in advance. This will help them to limit the scope of damage or losses at the very start. With good internal MIS system and regular up gradation of system, risk could be better managed.

RBI and other regulatory bodies come out with specific guidelines from time to time to build an environment to contain the risk and banks have to be proactive in adopting these guidelines as soon as possible. A bank with smart risk management department and internal practices could survive in today's environment full of financial insecurity and imbalance.

Rising Competition and Growth Prospects

The competition is heating up with each day in banking arena. Each bank is involved in fierce battle with others to showcase their product and services to add new customers and retain old ones too.

With advance of technology and more and more use of digital delivery channels by customers, various demographic boundaries have been broken. Now customers have become more demanding and sensitive towards their basic rights. A bank with good customer interface, customized solutions is expected to survive the competition and keep on growing balance sheet number.

Consolidations and Mergers

The banking has seen entry of many new players from private sector and foreign fields. This has increased the competition. Interest rates and profit margins are falling. The use of technology has put immense pressure on banks to make all banking facilities/channels of banking available round the clock. Banks need to follow the regulatory guidelines of achieving the priority sector lending targets (PSL) and in case of shortfall in achievement of targets, have to invest in low return RIDF (Rural Infrastructure Development Fund) bonds to cover up the gap. Many small banks have lost in this competition and failed. They were compulsorily amalgamated by RBI and merged with another bank or closed.

With acceptance of Basel-III norms by different central banks of large economies around the globe; RBI has advised banks to have enough capital by 2018. The capital requirement is huge and very little time left to comply with the norms. More particularly government banks (PSBs) require more than 1 Lakh crore rupees of capital; and government of India being the largest stakeholder, finding it difficult to fund them. Now banks are going to foreign market and doing road shows to attract FDI in form of bonds. But these efforts are not yielding full results. Hence it may be said that those days are not far when banks would be compelled voluntarily to seek merger with some bigger bank to avoid the extinction. Hence all banks have put in their all resources, to work in full throttle to garner new business and become big in terms of business and balance sheet size; so as to retain their identity in case of consolidation in near future.

Raising Cost of Funds

With deregulation of interest rates by RBI, the cost of funds for banks is rising with each day. Cost of funds is the difference between the rates of interest paid by banks to their deposit holder from what they earn by lending the money to borrowers.

With deregulations of saving banks interest rates by RBI, many new banks are offering higher rate

on SB deposits from the normal rate of 4%. With lending rates going southward, the margins on interest rate income from lending is coming down. Banks are also in pressure from government to keep the lending rates on lower side to fuel the economic growth. It is believed that low lending rates will fillip the retail lending activity and the investment in housing segment by middle class, which in-turn will provide breather to dying real estate industry. The overall effect in economy will be on positive side.

Thus the increase of competition in CASA segment and drawing of net interest margins from lending activity has posed a challenge for banks to keep themselves profitable year-on-year basis with a growth in it.

Adherence to Various Regulatory Bodies

The Reserve bank of India has become proactive and regulating banking sector aggressively. Various types of restriction have been put on to arrest the unethical activities of banks. The regulations on basic/optimum level of service to be provided by any bank has put in pressure on banks.

Banks are advised to keep a check on unruly, exorbitant charges and desist from levying penalties on common account holders. The adherence to KYC and AML guidelines is given top priority by RBI and any deviation from it is not only severely penalized but several strictures are being passed by RBI and many controls are put on banks.

Department like IT, Economic Offence wing, Commercial Tax and Central Excise are putting pressures on banks to provide many types of information and a check on them. Watchdogs like IRDA and SEBI have put in extra control on banks business. Sometimes it even gets difficult for bank or its customers to comply with norms. This has made people to desist from depositing huge funds in their banks accounts. Thus banks have to be develop products and policies in compliance with the various rules framed by regulators and regularly educate customers to comply with them.

Conclusions

Hence, it is evident that today there exist large scope for expansion in banking and Banks are investing heavily and relaying on Retail Banking. Commercial banks are investing in technology, using modern platform like social media to make themselves visible and attract more number of customers. The competition in retail banking segment is getting hot with each passing day. New generation private banks, government banks and foreign banks are busy in attracting new clients by providing new level of service standards along with traditional banking products.

With strict provisioning norms and mounting NPA's due to failure of many green field projects due to unfavorable business environment, banks are looking to other fields to improve margins and increase profits. With mounting NPAs' and very little option to bargain in corporate banking segment, commercial banks find good growth business prospects in retail banking segment. The efforts and directives of Government of India and RBI to spread the reach of banking to unbanked area, growing

number of middle class people and strong competition in urban and metro areas is making banks "Think-Tanks" to come to drawing board to design effective strategy to come out with viable, cost effective banking model to tap this untouched segment of society.

Banking with regular monitoring by the RBI and increase of competition by entry of private players in banking arena, has moved to "Universal Banking" platform. The confidence in the banking sector increased, which was reflected in the sharp increase in the share of bank deposits in household savings and financial savings of households in their total saving. This time period saw start of many different dimensions of banking, catering to needs of special sector of country.

With strong mandate and directive from government of India, "Retail Banking" is future of Indian Banking Industry and one having to be ready for unfolding of many new facets, surprises in banking.

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