Knowledge material

Retail Operations - Introduction to Retail Banking

DISSEMINARE CONSULTING

Disseminare Consulting

Tables of Content

Tables of Figures

1. Introduction:

In an economy there are three units namely Individual, Business and Government. Out of these three units, Individual provides productive services to Business and Government. In return, Individuals get income.From this income, individual purchases goods and services produced by the business. Since Individual is a risk averse entity it would not spend the entire income as they want to save certain things. So Individual saves part of their income. So funds are lying at the hand of the Individual. Business and Government require this fund for investment purpose. Funds need to be transferred from Individual to Business and Government.

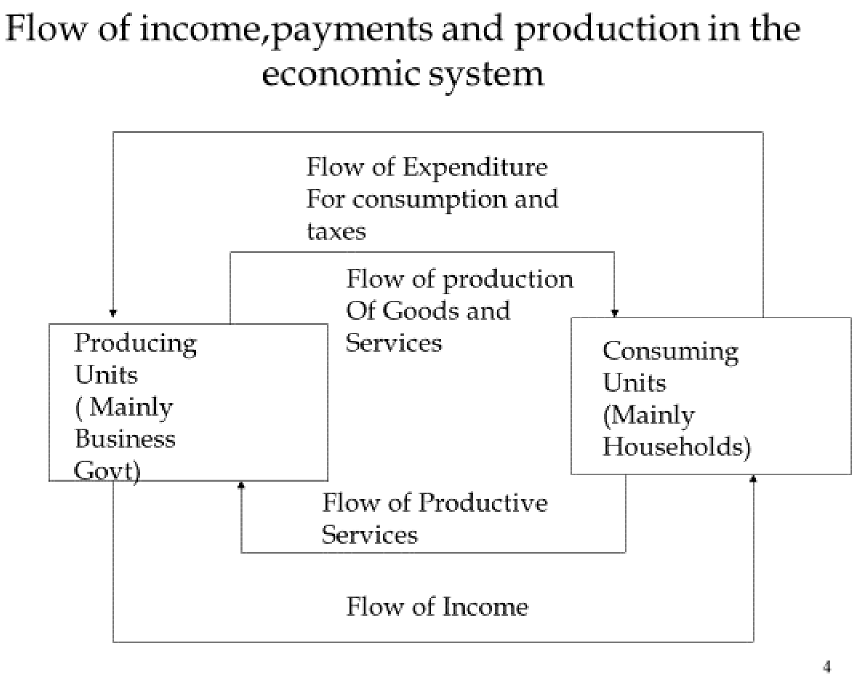

Figure 1: Financial System

From the Fig no 1, we can see that Individual serves the purpose of savings unit in an economy. The Business and Government serve the purpose of investment unit in an economy. However to meet the investment requirement of Business and Government, funds need to be transferred from the savings unit to investment unit. The formal or informal system which aids the transfer of fund from savings unit to investment unit is called financial system.

Funds get transferred from savings unit to investment units through financial systems mainly by two processes. These two processes are shown in Fig 2 below:

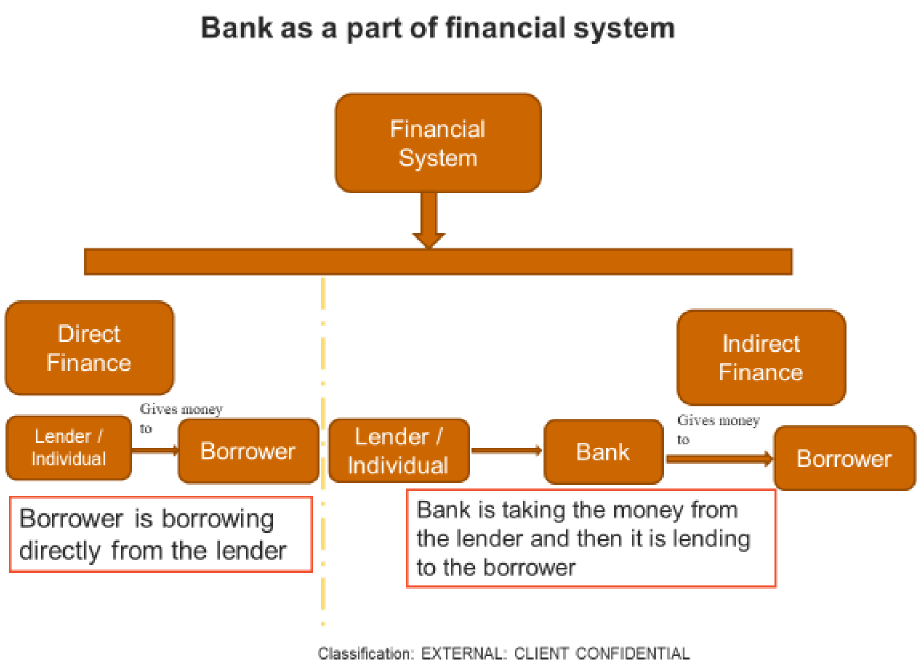

Figure 2: Bank as a part of Financial System

One is the direct finance: Under this process, the lender lends directly to borrower and the borrower issues financial security to the lender. Under this process, the following two characteristics need to be fulfilled:

- Borrower would carry out the searching operations
- Lender must have a faith on the borrower

Due to these two limitations, direct finance would not be used for financial transactions, which would either involve large amount of money or large number of transactions.

Second is the indirect finance: Under this process, the lender would give the money to a financial intermediary like banks, against which the bank would issue a deposit receipt. Now the financial intermediary would lend the money to the borrower. Two drawbacks of the direct finance i.e. searching cost and trust issues are resolved in the indirect finance. So banks are entities performing the role of indirect finance in the overall financial system.

2. Role of bank in the financial system:

If an economy has to grow on a continuous basis, this transfer of funds from the savings unit to investment unit has to happen on a continuous basis without much of intermediation cost and without much of hindrance. Accordingly, banks have to function in an efficient manner for ensuring sustainable growth of an economy.

As discussed above, banks play an important role in the transferring of funds from the savings unit to the investment unit. Besides bank there are other institutions through which funds can be transferred. One such institution is the capital market. For e.g. Reliance Industries Limited (RIL) wants to invest Rs 50,000 crores for setting up a country wide optical fibre net work to provide broad band internet to its customers. RIL can issue equity shares in the primary market and raise fund from the investors. Individuals, fund houses and other entities can invest in the equity shares of RIL. This is also another process of transferring fund from the savings unit to investment unit. This process of transferring fund is called" financial disintermediation process ". So, besides bank there are other institutions which help to transfer the fund from savings unit to investment unit. Then the question arises, among all these institutions which one is the most important ?

The relative importance of different players in the financial transfer process varies from country to country depending on the level of maturity of economic development. Fig 3 shows the relative importance of different institutions of different economy:

Figure 3: Different Institutions of Different Economy

In the case of LDC, the financial transaction would happen mainly through the banking channel as the capital market would not be developed. As the country is moving upwards in the economic development, the importance of banking would increase due to matured capital market. To move from developing economy to developed economy, robust banking system is required.Since India is migrating from developing economy to developed economy, the importance of banking system would increase in the medium term till the country moved towards the developed economy.

3. Types of banking:

Globally, banking is mainly segregated into two parts namely commercial banking and investment banking. Investment banking deals with the risky business. In the case of commercial banking, banks take the deposit and lend money to customers. In India, mostly banks are performing commercial banking.

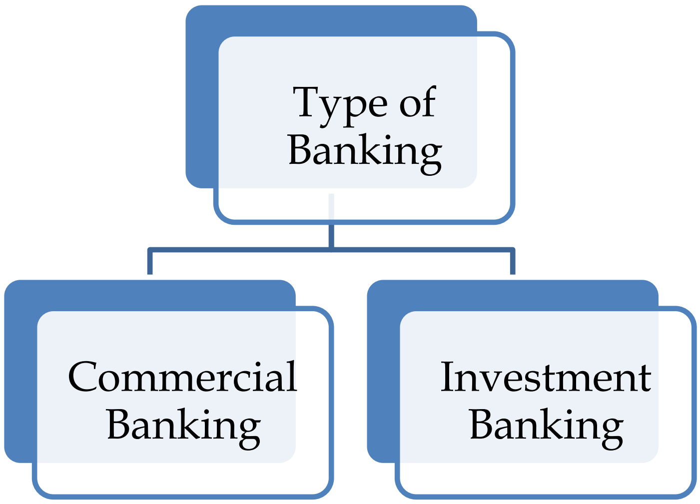

Figure 4: Types of Banking

- **Commercial Banking:** In this type of banking, banks take a deposit and lend money. In India, we are having mainly Commercial Banking.
- **Investment Banking:** In this type of banking, banks carry out riskier activities like investment in risky assets, consulting in merger and acquisition and derivative trading.

Commercial banking is segregated into two parts namely: wholesale banking and retail banking;

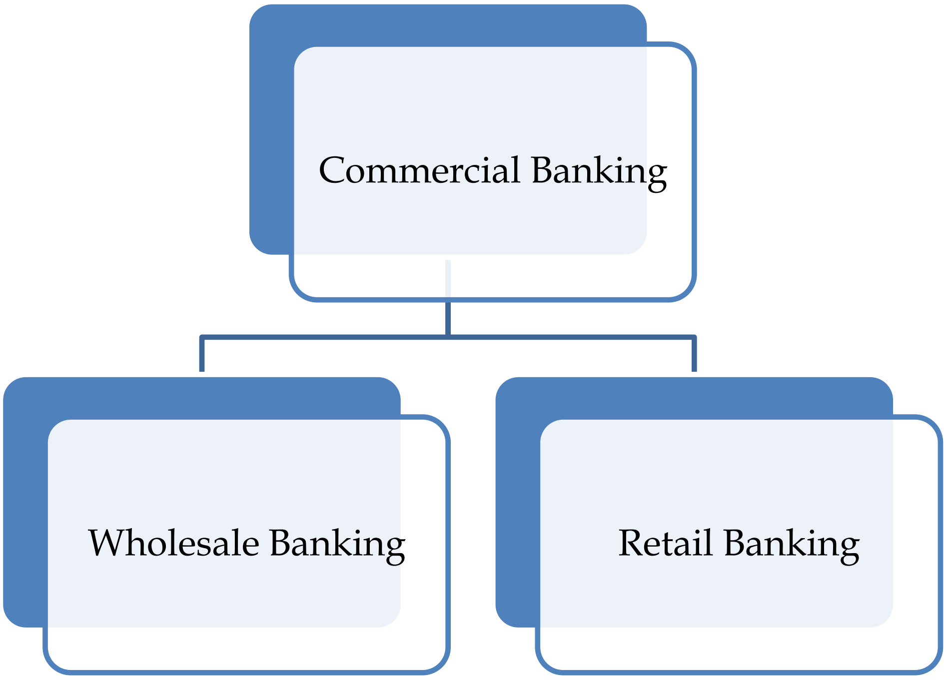

Figure 5: Types of Commercial Banking

In the case of wholesale banking banks deal with small number of customers and the average relationship with each customer is large. For example, if Reliance Industries Limited takes loan of Rs 200 crores from ABC Bank, it is coming under wholesale banking. In the case of retail banking, the number of customers is large and the average ticket size is small.

Characteristics of Whole Sale Banking:

- Enterprise solution: This department deals with meeting the needs of medium and large enterprises.
- Customised solution: Businesses have diverse needs, unlike individual and small businesses. To meet this need banks most of the time need to customise their offering.
- Requirement of specified skillsets:This customisation again requires specialised people to create, deliver and service those offering.
- Higher amount: WB transactions would be of higher amount and lesser number of borrowers

Characteristics of Retail Banking:

- Personal solution: Retail banking provides banking solutions to meet the individual customers. For e.g. saving need of a customer can be met through savings bank account.
- Standardised solution: Unlike Whole Sale Banking , most of the solutions would be standardised with uniform product features.
- Requirement of proper skill sets: Retail Banking requires proper skill sets with an aim to scale up the operation with minimum Turn Around Time (TAT). Process oriented skill sets are required for a Retail Banker.
- Lower amount and large number of accounts: Retail Banking transactions would be of lower amount and more number of borrowers.

4. Banking industry back ground:

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises of commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payments banks and small banks to be created recently, thereby adding to the types of entities operating in the sector. However, the financial sector in India is dominated by banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial system. The emergence of banking in India happened in the later half of 18th century. The oldest bank of India today is State Bank of India which started their operation in the year 1806. Today SBI is the largest commercial bank in the country. When we talk about the progress of banking in India there are three major milestones before we got to see the banks in their present form. The three major milestones are

Pre-Nationalisation Period – During this period banking was managed by individuals or private enterprise without any intervention from the Government.

Nationalisation Period – During this period government took over all the private players and barred individuals or business entities from owning a bank other than the government.

Post Liberalisation Period – During this period once again bank allowed ownership of Banks by entities other than government. But under the supervision of Reserve Bank of India thesupreme regulator of banking services in India.

5. Characteristics of Retail Banking:

The following issues are important to understand the landscape of retail banking:

Ticket size, number of customers, stability of business, use of technology, branding and **risks involved in retail banking**. Understanding of each of these issues is absolutely necessary to build up a proper retail banking knowledge.

Ticket Size: The lower average ticket size would result in diversified customer base. Since the customers are large, it would result in the increased loyalty as the individual customer is having less bargaining power. Besides, retail customer being small, does not have thorough knowledge about the product and banker can generate better margin from such customer due to information symmetry. The cost associated with large ticket size is the increased operational cost and increased customer complaints. Since retail banking deals with small ticket size, the number of transactions is more and accordingly the operational cost is on the higher side.

Large number of customers: Large number of customers means different types of customers and this would result in the more diversified customer profile. The large number of customers would be located in different geographical location and providing them with proper banking service is a key challenge to the retail banking. It is not possible to satisfy all customers and accordingly there are chances of higher dissatisfaction among customers. The retail banker must understand these important issues while dealing with retail banking products and services.

Stability of business: Retail customers use banking services mainly for their transaction and precautionary requirement. Since human being is a risk averse entity, retail customers would be less interest sensitive; The main concern of the retail customer is the safety and ease of doing banking. Stronger retail banks can generate business from customers who are less interest sensitive. Retail customers are small and accordingly they would have less knowledge about banking product and services. Based on this, retail customers would not be as demanding in terms of interest rate as corporate customer. So banks earn higher profit from the retail banking transaction.

Branding: Previously branding was not required in the case of banking as there were very few competitions. Now with the increase in competition, branding is one of the major differentiating factors for retail banking. Retail banking with proper branding would result in higher customer loyalty and increased business. Proper branding increases the recall factor for retail banking products and services. Branding should communicate the core message i.e. stability and trust.

Information Technology: Technology is the most important differentiating factor of retail banking. Only with the help of using technology a bank can increase the business by way of better customer services and improving profitability of the banking operations. There is no denying fact that without use of proper technology, retail banking would never be successful. Use of proper technology would result in the improved customer engagement and providing proper product and services to a customer.

Risk: The Risk is an integral part of banking. Banks can not avoid risk but must manage risk. In banking, we have four types of risks namely credit, market, operational and liquidity. Among these four types of risks, credit risk and operational risk are maximum for retail banking. Retail bankers must be aware of these two types of risks and they must be aware of impact of suck risks in the retail banking business.

6. Players of Retail Banking:

In India, we have mainly two categories of commercial banks namely scheduled commercial banks and non scheduled commercial banks. In the case of scheduled commercial bank, banks are registered under the second schedule of RBI. Scheduled commercial banks can participate in the clearing mechanism and also issue non fund based products and services. Since scheduled commercial banks can provide most of the services and customers require almost all services, to become successful at the regional level, schedule commercial banks are must.

Within the scheduled commercial banks, there are banks which are called cooperative banks. These banks are governed by the cooperative society act. The other category of scheduled commercial banks can be segregated into different categories based on the ownership criteria. In India about 72% market share is captured by State Bank of India (SBI) and Nationalised Bank together. These two categories of banks are called Public Sector Undertaking (PSU) banks due to the ownership structure. The remaining market share is captured by Private Banks and Foreign Banks

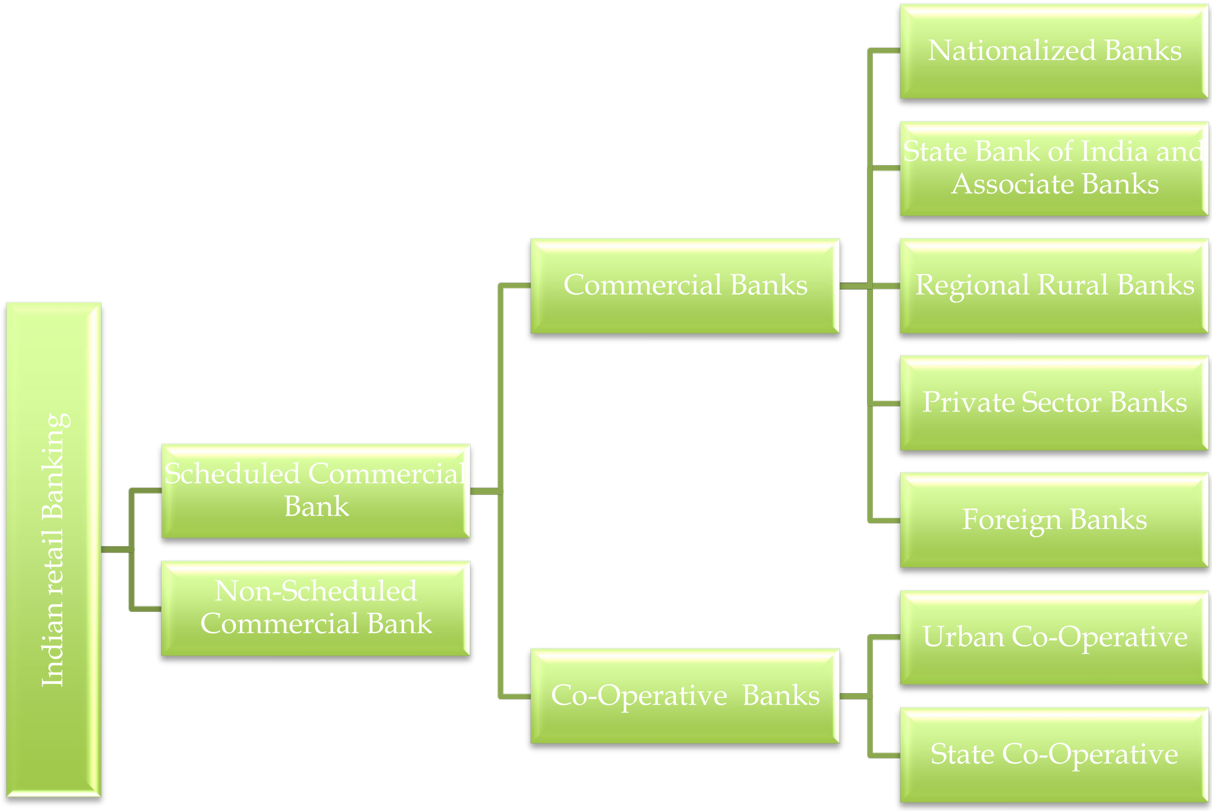

Figure 6: Players of Retail Banking

Characteristics of PSU Retail Banks:

PSU banks are mainly owned by Government of India (GOI).PSU banks are in existence for longer period of time and have build up large number of branch network across country. Feeling of safety is very high in the case of PSU banks. PSU banks hold more than 70% of market share. PSU banks also suffer from certain drawback due to government interventions. Government pushes them to open "Jan Dhan Account" which is not remunerative. Besides, Government has been pushing PSU banks to reduce the interest rate even when there is not much scope to do so. The most adverse impact of Government interference on the function of PSU banks comes when Government forces PSU bank to lend many unviable projects. These projects subsequently turned into a bad loan. Today NPL is highest in the PSU banks. Due to Government restrictions of payment of salaries and benefits to employees, PSU banks can not offer market driven salaries. This led to recruitment of inadequately skilled man power and thus resulting in the business loss.

Lack of proper branding resulting in the loss of lucrative customer of the market . Due to easy availability of capital by the Government, PSU banks, as an organisation, do not treat the importance of capital. Biggest shareholder of PSU bank i.e. Government was not focussing on profitability to the extent the share holders of other category of banks are focussing. Lack of proper HR planning resulted in the huge shortage of skilled manpower.

Characteristics of Private Retail Banks:

In the space of Private Bank, we have two categories namely old and new. In the case of old private sector banks, these banks were existing prior to 1994, when the first set of new private banks started operation. New private banks tried to create a market in between existing PSU banks and existing foreign banks.

Private banks like Federal Bank, Karur Vysya Bank, South Indian Bank, Lakshmi Vilas Bank etc. belong to these categories. Some banks have tried to change themselves like Lakshmi Vilas Bank, Dhana Lakshmi Bank but experiment was not successful. Ratnakar Bank Limited story is interesting and we have to wait and watch to find out the result. Problems with these banks are the legacy problems in terms of HR, Technology and Asset Quality.

New generation private banks have created a niche market. Quite a few of these banks have been able to show stellar growth due to proper differentiation strategies.

In all the success cases, we have seen a very focussed approach. In some case there comes ups and downs in the business mainly due to change in business strategies from time to time. For all the new private sector banks which are present today Technology, Branding and Human Resources are three most important factors. If we analyse the trend within these banks we find that banks which have done consistently well were retail focussed.

New private sector banks have been able to create a new customer base. These banks have been able to connect to the Generation X customers much better than the PSU banks and at the same time, these banks have been able to take some market share from the foreign banks. The focus of these banks was always technology enabled alternate channel driven strategies to generate the proper business model. Besides, these banks have developed a robust process driven approach to provide customer service to a large number of retail customers.

Characteristics of Foreign Retail Banks:

Foreign banks are facing problems in Indian market due to:

- Capital constraints on their own country
- Loss suffered in the past in the Indian market

Some foreign banks are slowing down their operations where as some new foreign banks are entering in the market. Two main traditional players: Standard Chartered Bank and HSBC are facing some problem due to capital constraint; Other players like Citi is maintaining status quo. New player like DBS entered in the fray to increase the retail business. There are chances that retail customers of foreign banks can be reallocated within foreign banks or within new private sector retail banks.

7. Recent changes of Retail Banking:

Recent changes in Retail Banking are mainly driven by three factors:

- Entry of new players
- Improvement of payment system
- Launch of massive financial inclusion effort

Entry of new players:

RBI has given licences to new players. This has resulted in the increase in the competition.New players can be categorised into three segments:

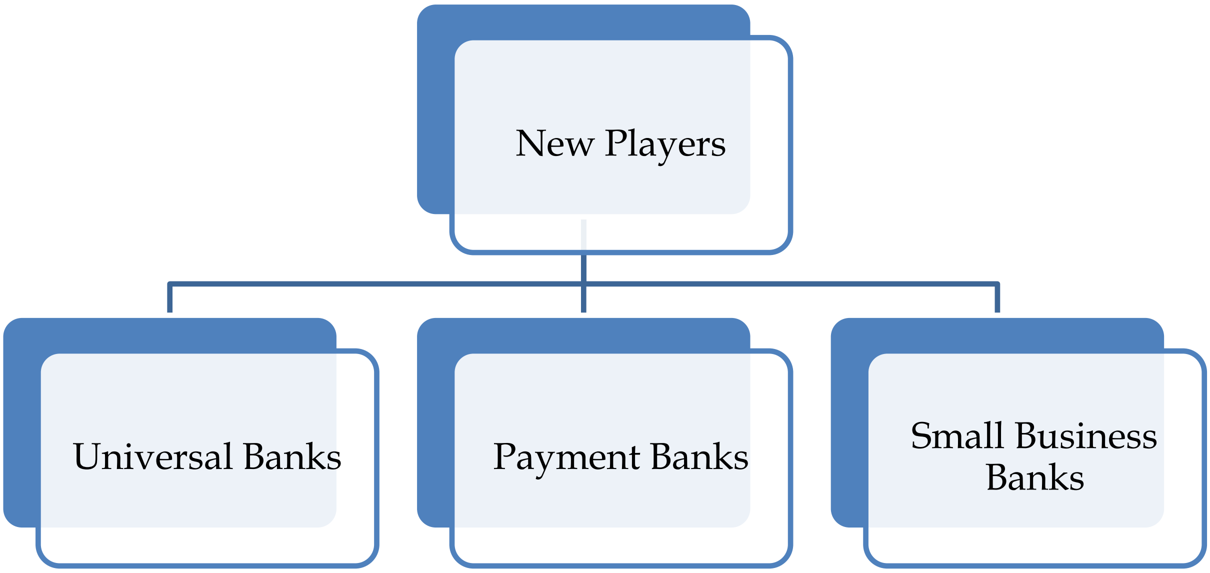

Figure 7: Entry of New Player

Universal Banks: Universal banks would offer the same products and services of the existing bank. New universal banks may target the same category of customers. Business growth from this strategy would be daunting as customers do not change the banking transaction so easily. New universal banks may target a new full fledged banking customers: For example people getting employment: new private banks can tie up with the graduating colleges to open their bank account. Besides banks can provide educational loan (after doing proper due diligence) to capture the customer at the time of starting the courses and this would increase the loyalty.

Payment Banks: Payment bank can take away some part of retail deposits from the existing banks due to:

- Tech savvy approach
- Nimble structure
- Faster turn around time

Payment bank can create a collaborative model with existing banks to offer the lending services or other products selling services by which it can increase in business. As of now, the impact would be limited for the next 3 to 5 years but existing players have to be cautious about the continuous development

Small Business Banks: Small business banks would be able to take deposits and lend money. Small business bank may take over some business from existing universal players in the Micro and Small Business segments, mainly on the retail asset side and partly on the retail liability side. Collaboration of new universal bank with small business bank can be possible with the help of priority sector loan tie-up facilities in the retail loan side.

Improvement of payment system:

Over last 5 years, the entire payment space has undergone complete change. National Payment Corporation of India (NPCI) has created the best payment infrastructure of the world. This has changed the entire land scape of the retail banking. Gone are the days when physical presence of branches is the strengths of the banks. Now customer engagement can be carried out without the physical branches and delivery of services can be provided by using the NPCI infrastructure. Impact is easily visible in the retail banking space. The following improvements have taken place in the space of payment bank:

- Any where ATM withdrawal: Customers can withdraw fund from any ATM any where. This has resulted in reduction on dependence on physical net work of branches
- Improvement in the mobile payment system: Now funds can be transferred from any location at any time through IMPS, NEFT, RTGS and UPI. Aadhar Based Payment Systems has also generated huge retail payment volumes .

All these payment systems have changed the retail banking space altogether

Launch of massive financial inclusion effort:

“Jhan Dhan Yogana”: World’s largest financial inclusion project. Under this programme, 16 crores accounts opened mostly in the PSU banks.

“Mudra Loan”: one of the fundamental game changers in which loans are provided to Micro Industries under three categories namely

- “ Sishu”: Loan is given up to Rs 50,000/-
- “ Kishore “: Loan is given above Rs 50,000/- and up to Rs 500,000/-
- “ Tarun “: Loan is given above Rs 500,000/- and up to Rs 10,00,000/-

Rs 1,25,000 crores loan sanctioned to Micro and Small industries for the FY 2015-16.

Both the above initiatives have improved the financial inclusion activities of the country. Both these activities have brought unbanked population to banking. Both the financial inclusion schemes have resulted in the opening up of large number of accounts, which would have tapped by payment banks. Payment banks may try to poach the lucrative retail banking customers of the universal banks to overcome the shortfall created due to Jan Dhan accounts. Floats can be enjoyed by the PSU banks due to Direct Benefit Transfer to these accounts.

8. Products of Retail Banking:

Under retail banking, banks provide three categories of product and services. The first category is the liability product of its own for e.g. when ABC is offering Term Deposit product to its customer, it is offering liability products.

The second category is asset product of its own. When ABC bank is providing personal loan, it is providing its own asset product.

The third category is the third party liability product. When ABC bank is selling ABC mutual fund, it is selling third party liability product.

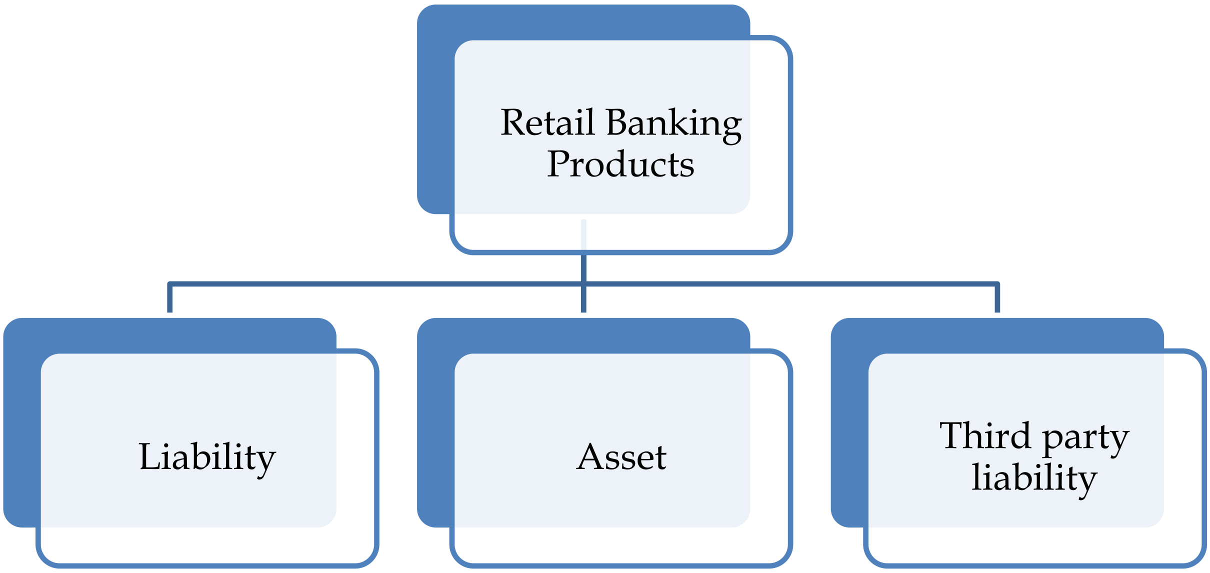

Figure 8: Retail Banking Product

Retail liability product is segregated into two categories namely demand deposit and term deposit .

Demand Deposit:

Demand deposit is a kind of deposit which is payable on demand. There are mainly two types of demand deposit namely savings bank account and current account. In the case of current account, no interest is paid while in the case of savings bank account interest is paid. Current Account and Savings Account deposits are called as CASA. CASA is the sources of cheap deposit. Besides the low cost, SA is also a stable deposit.

Savings Bank Account:

Savings bank account is maintained by a customer to meet her precautionary and transaction demand. Even though the deposit can be withdrawn on demand, this deposit is a stable deposit due to the fact that the customer would maintain sufficient balance to overcome the sudden requirement of fund. If a bank is having higher SA, then the bank is having more low cost of stable fund.

Savings bank capture the transactions of the customer and from the savings bank account transaction, a banker can determine the requirement of other banking products. Accordingly, the savings bank account customer can be pitched for other products. Savings bank is a low cost fund for a bank. However, banks can provide better return by using proper technology. Specially the customers which are interest sensitive, banks can provide a facility by which the extra amount above anamount would be transferred to FD. This would help a customer to earn higher interest. One is from savings bank and another is from the term deposit. In case of requirement of fund, the term deposit can be prematurely closed and amount can be credited to the savings account. Since almost all banks are having this product, proper methods of communication would be the key differentiating factor for this product.

SB account provides important data about the profile of the customer. With the help of modern techniques of data analysis, banks can profile its customer and then sale multiple products to the same customers. This would increase the engagement of the customer with the bank.

Current Account:

- Current Account is another lucrative product for the retail bank. Current Account is opened by customers, which are doing business. Business requires Current Account to manage their transactions. In Current Account, there is no restriction on deposit and advances as it is mainly for the business purpose. Current account is opened mainly for business purpose. Current account is used by the customer to improve the collection process. Current account is a low cost account. Current account is treated as the cheapest source of fund. Current Account is a low-cost deposit resources for bank.

In Current Account no interest is provided and accordingly the cost is lowest. In Current Account, transaction volume would be more and banking transaction charges would be levied to recover the operational cost. Banking transaction charges can be waived depending on the amount of minimum balances the customer is maintaining.

Improvement in payment system would reduce the requirement of current account maintenance. Core Banking Solutions provide the following facilities:

- The entire banking system can be accessed from any where
- Single account number can be used across the country
- Proper MIS can be generated as per customers requirement

Since payment systems are getting improved day by day, going forward current account balance per account may come down. Banks have to design a proper strategy to increase the current account balance.

Rather than targeting large amount of balance in a single account, more current account should be opened. Banks must open current accounts from the suppliers and customers of the existing account holders and linking these customers account through net banking. In this process, the stickiness of the customer can be increased .

Term Deposit:

When a bank is offering a deposit in which customer would keep the deposit for a particular period, it is called term deposit. In the case of term deposit, if the customer is withdrawing the fund before the maturity date, depending on the contract, penal interest would be charged. Term deposit can be segregated into two parts namely reinvestment scheme and regular income. In the case of reinvestment scheme, the interest is reinvested in the deposit and the deposit balance is increasing.

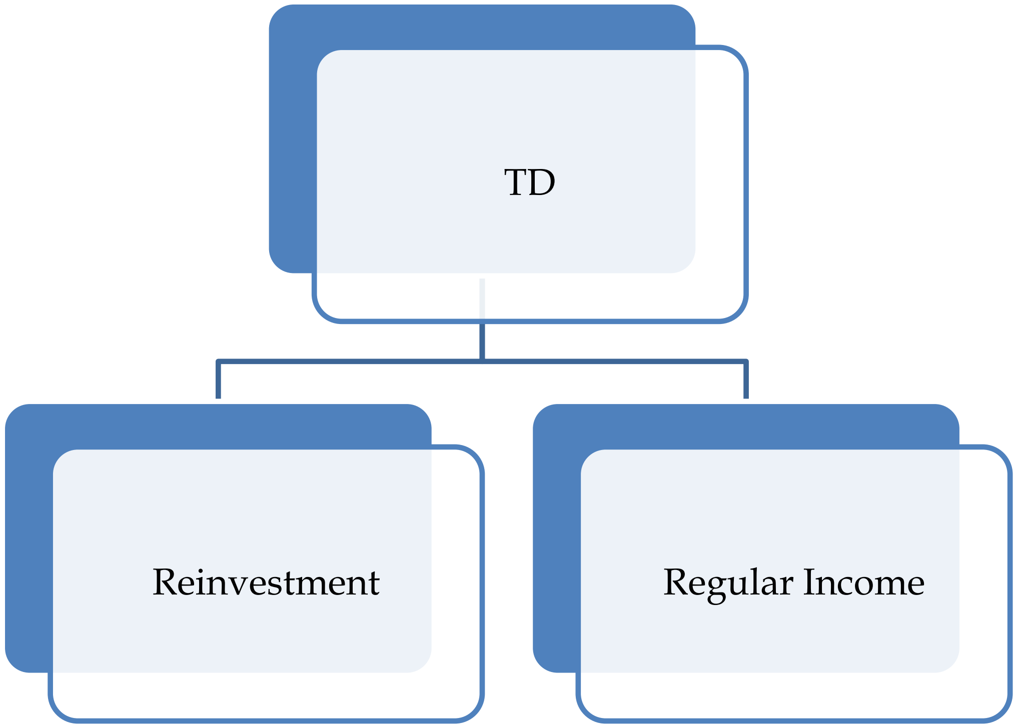

Figure 9: Term Deposit

Reinvestment:

Interest is reinvested in the account. Reinvestment is happening in every quarter. Reinvestment of interest is happening with net of TDS. Income is accrued and accordingly taxes to be paid by the customer on accrual basis. Since the interest is accrued, the effective rate would be higher. This type of deposit is preferred by customers who want money at the maturity. Good product for depositors who require the fund for Marriage,Education of son or daughter or Purchase of high value goods or assets.

The following calculation shows the impact of reinvestment in the overall earning of a reinvestment scheme:

End of quarter	Opening balance	Interest rate	Interest amount	TDS @10%	Interest credited	Closing Balance
1	10000.00	9%	225.00	22.5	202.50	10202.50
2	10202.50		229.56	22.96	206.60	10409.10
3	10409.10		234.20	23.42	210.78	10619.88
4	10619.88		238.95	23.89	215.05	10834.94
5	10834.94		243.79	24.38	219.41	11054.35
6	11054.35		248.72	24.87	223.85	11278.20
7	11278.20		253.76	25.38	228.38	11506.58
8	11506.58		258.90	25.89	233.01	11739.59
9	11739.59		264.14	26.41	237.73	11977.31
10	11977.31		269.49	26.95	242.54	12219.85
11	12219.85		274.95	27.49	247.45	12467.31
12	12467.31		280.51	28.05	252.46	12719.77
		Maturity Value	**Deposit Amount**	**Tenure**	**Effective Rate**	**Interest rate**
	Without TDS	**13060**	**10000**	**3**	**10.20%**	**9%**
	With TDS	**12720**	**10000**	**3**	**9.07%**	**8.10%**

Table 1

In the above example, the principle amount is Rs 10000/- , the interest rate is 9% p.a. compounded quarterly, TDS at 10% and tenure is 36 months. The effective rate is more than the contractual rate. A proper marketing strategy can be designed to communicate this to the desired customer.

Regular Income:

In this type of deposit, the principle amount is kept with the Bank and the interest accrued is paid on regular interval to the depositor. Generally interest is paid

- Annually
- Half yearly
- Quaterly

- Monthly

TDS is deducted at the time of accrual or payment whichever is earlier. This product is good for those who are looking for regular income for e.g. retired people. Since this deposit is directly competing with the small savings deposits and debt mutual fund, proper marketing strategies should be present. In the case of small savings scheme, premature withdrawal is not possible. Besides, at the time of withdrawal, depositor faces lot of inconvenience. In the case of bank deposit, this is not the case, so proper marketing strategies should be developed for canvassing this deposit.

Recurring Deposit:

Recurring deposit can be opened for individual customer, where customer would be paying instalments in regular intervals. Recurring deposit is an excellent way to build up wealth by investing small amount on a periodic basis. If a depositor deposits small amount on regular interval, the depositor would not feel the pinch and after a certain period of time, the depositor would have accumulated a large amount of wealth. TDS would be deducted on interest accrual amount. This product is good for those investor who are risk averse and looking for large cash flow in future to meet expenditure like buying house, children marriage, children's education, retirement fund etc.

Recurring deposit is an excellent product for building up wealth as well as for future cross selling of other products. For e.g. for a housing loan, the customer requires some margin money and this margin money can be built up by recurring deposit

Characteristics of all the three deposit:

- All the deposits are non transferrable deposits.
- Deposits can be opened in the joint name and the mode of operations can be:
    i. Any one
    ii. Either or survivor

iii. Former or survivor

- DICGC insurance to the tune of Rs 1 lacs per account per bank is available.
- Nomination facilities for each category of deposit are available.

Below is an example of three types of customers and the appropriate deposits. Banks can build up a comprehensive list of other category customers and market appropriate products.

Segmentation of customers (examples)

Nature of customers	Nature of deposits	Need
Salaried : Government and Young	SB : TD : Reinvestment plan ; RD : Wealth Creation ;	Transaction demand ; savings purpose ; wealth creation ;
Salaried : Private , young and urban focussed	SB with auto sweep ; TD ; reinvestment plan ; RD : margin money build up for loan	Transaction demand ; savings purpose ; wealth creation ; margin money for future loan ;
Business : Private , urban	Current Account with auto sweep ; net banking ; tax payment ; customised payment solution ;	Transaction purpose ; statutory dues payment purpose

Figure 10: Segmentation of Customers

9. Retail Banking Operations:

Retail banking transactions can be segregated under three heads: cash, clearing and transfer; one must understand the basic nature of these three types of transactions:

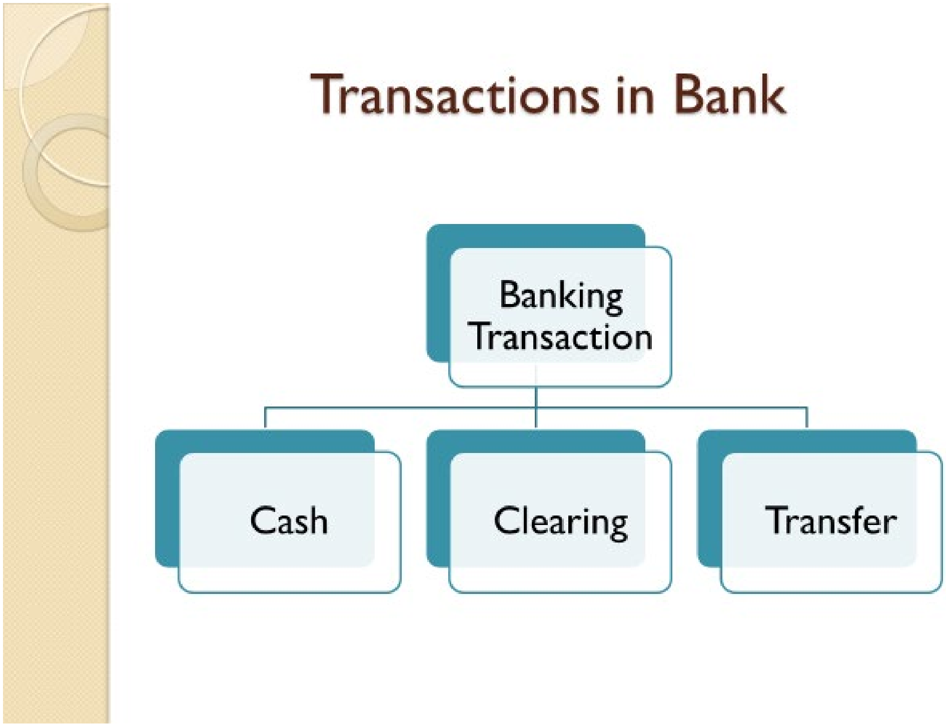

Figure 11: Retail Banking Operations

Cash Transaction:

In Cash transaction, the customer opens a current account by depositing certain amount in the bank. The bank is holding such cash in its branch. Since the cash is an idle asset this type of transaction is not considered good. In the below example, M/S PQR opens current account by depositing Rs 100 lacs, which is lying in bank's balance sheet as cash and bank balance.

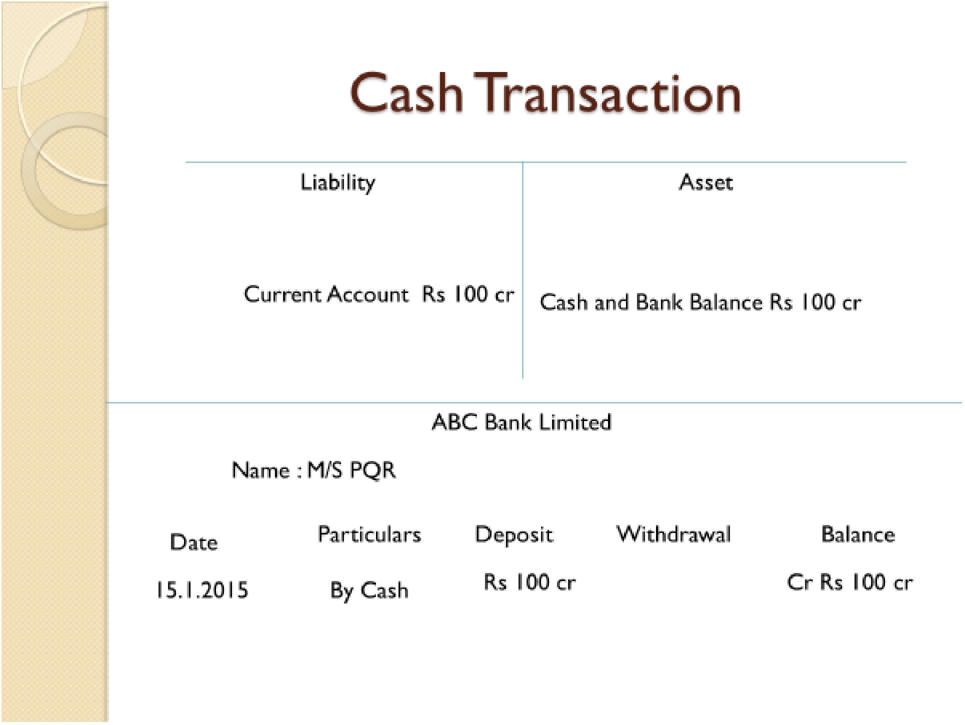

Figure 12: Cash Transaction

Clearing Transaction:

In this process, a customer opens an account by depositing the cheque of other bank. Once the money is cleared, the bank can use the fund. Cash storage cost is not involved in such transaction, so this type of transactions is better than the cash transaction. The payment system of India is mainly catering to this type of transaction.

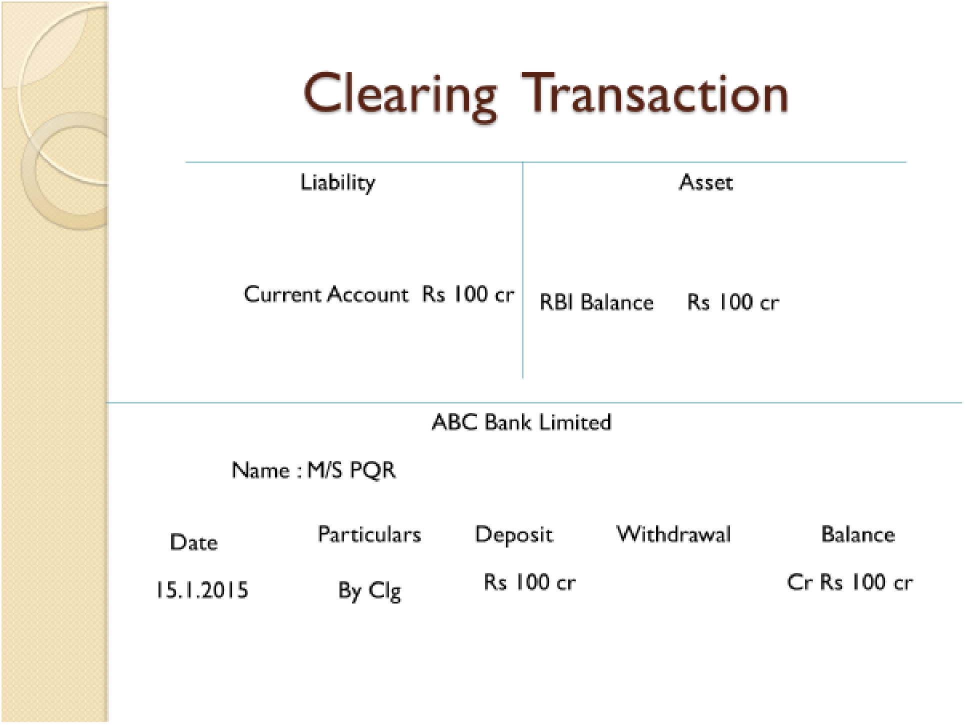

Figure 13: Clearing Transaction

Transfer Transaction:

In this type of transaction, funds are transferred from one account of the bank to other account of the same bank. In this case the fund is getting transferred from current account of customer X to current account of customer M/S PQR. This type of transaction is the most convenient to a bank.

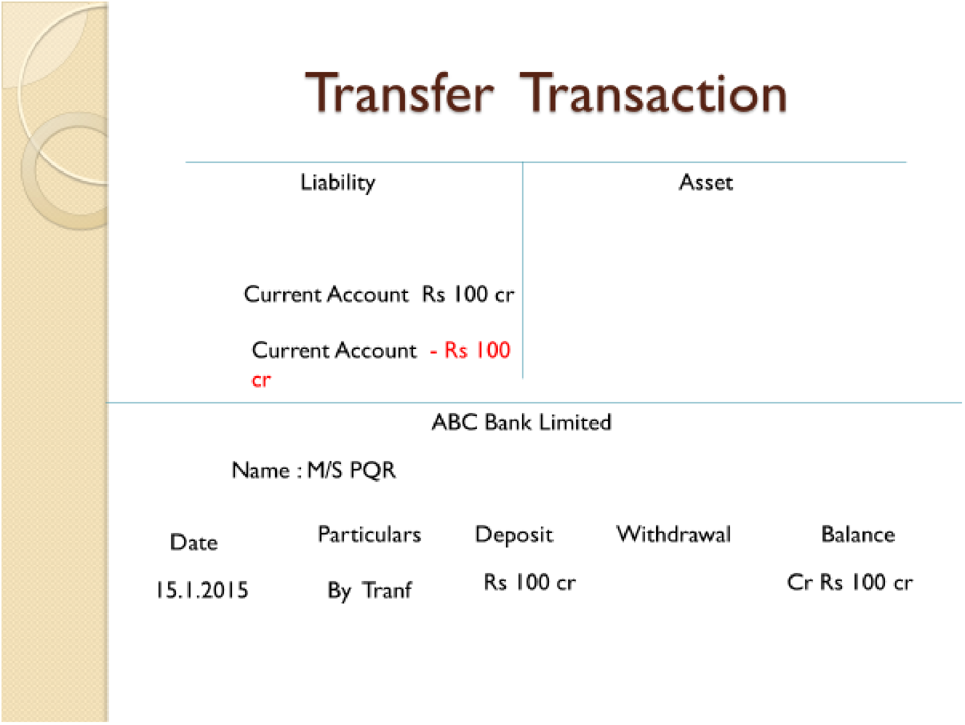

Figure 14: Transfer Transaction

10.Retail Payment System:

One of the key features of retail banking is the process of transfer of fund from one bank to another bank. This has been carried out by retail payment system. In India, retail payment system has undergone revolutionary changes over the last couple of years. Retail banker must know the working of such system. Retail Payment system has changed significantly over the last five years. National Payment Corporation of India (NPCI) has changed the entire payment structure of Indian banking scenario. The RPS can be classified into two categories. The first category is the transfer of fund within banking hours and the second category is the transfer of fund round the clock.

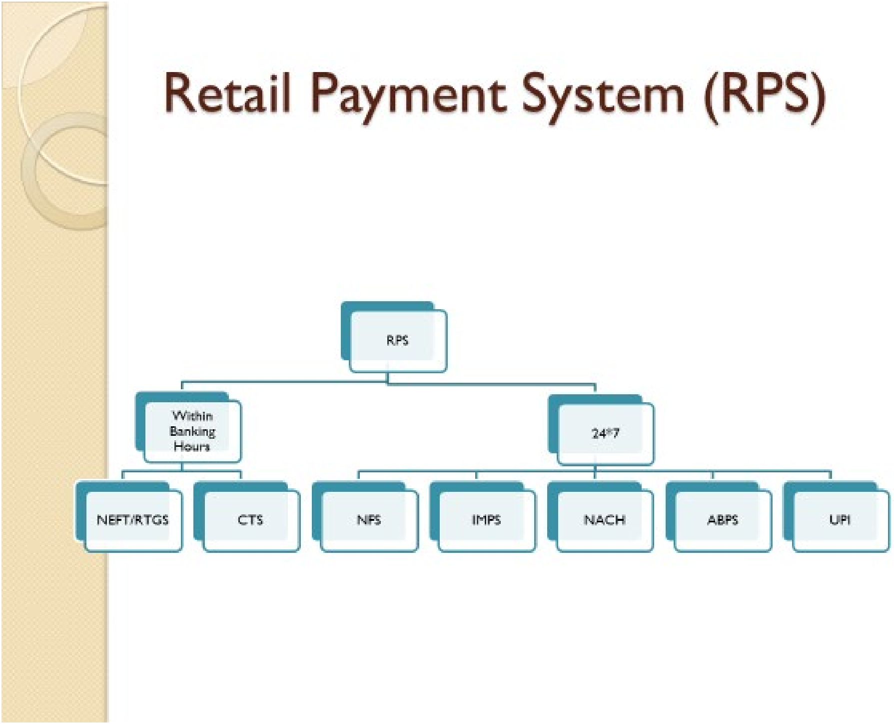

Figure 15: Retail Payment System

National Financial Switch (NFS):

NFS helps to withdraw fund from any ATM. Through this system, the customers' convenience had gone up significantly. To build up a robust and acceptable national payment systems, representations from lead banks are required. Accordingly, a steering committee was formed to oversee the development and progress of NFS. Number of NFS approved transaction volume has started decreasing because of IMPS popularity.

Immediate Payment Services (IMPS):

Funds transfer through NEFT happens in batches and only during banking hours which is not on real basis. NPCI conducted pilot study on the mobile payment system with all the large public sector banks and launched immediate payment service (IMPS) in November 2010. IMPS offers an instant 24X7, interbank electronic fund transfer service through mobile phones.IMPS is an emphatic tool to transfer money instantly within banks across India through

- Mobile
- Internet
- ATM

Transaction through IMPS is not only safe but also economical both in financial and non financial perspectives.This facility is provided by NPCI through its existing NFS switch.The eligible criteria for the Banks who can participate in IMPS is that the Bank should have approval from RBI for Mobile Banking Service.

Participants of IMPS:

- Remitter (sender)
- Beneficiary (receiver)
- Banks
- NFS (NPCI)

Pre Requisite for Mobile Banking through IMPS:

- Registration for remitter: Register oneself with the mobile banking service of the bank.
- Get Mobile Money Identifier (MMID) and MPIN from the bank
- Download Software (Application) for mobile banking (ensure the compatibility of mobile with the application) or use the SMS facility in customer's mobile if customer's bank provides IMPS on SMS.
- Registration for beneficiary: Link your mobile number to the account in the respective bank.
- Get Mobile Money Identifier (MMID) from the bank

National Automated Clearing House (NACH):

To increase the coverage of the payment system, NPCI started working on a solution called NACH in which banks, financial institutions, corporates and government are participants from the non individual category.National Automated Clearing House (NACH) is a centralised system, launched with an aim:

- To consolidate multiple ECS systems running across the country
- To provide a framework for the harmonization of standard & practices
- To remove local barriers/inhibitors

NACH system will provide a national footprint and is expected to cover the entire core banking enabled bank branches spread across the geography of the country irrespective of the location of the bank branch. With the implementation of NACH system, NPCI intends to provide:

- A single set of rules (operating and business)
- Open standards and best industry practices for electronic transactions which are common across all the Participants, Service Providers and Users etc.

NACH system can be used for:

- Bulk transactions towards distribution of subsidies, dividends, interest, salary, pension etc.
- Bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investment in mutual funds, insurance premium etc.

NACH system also supports Financial Inclusion measures initiated by Government, Government Agencies and Banks by providing support to Aadhar based transactions.The NACH system facilitates the member banks to design their own products and also addresses specific needs of the banks & corporates including a refined Mandate Management System (MMS) and an online Dispute Management System (DMS) coupled with strong information exchange and customised MIS capabilities.

The NACH system provides a robust, secure and scalable platform to the participants with both transaction and file based transaction processing capabilities.It has best in class security features, cost efficiency & payment performance (STP) coupled with multi-level data validation facility accessible to all participants across the country

NACH's Aadhar Payment Bridge (APB) System, developed by NPCI has been helping the Government and Government Agencies in making the Direct Benefit Transfer scheme a success.APB System has been successfully channelizing the Government subsidies and benefits to the intended beneficiaries using the Aadhar numbers. The APB System links the Government Departments and their sponsor banks on one side and beneficiary banks and beneficiary on the other hand.

Aadhar Based Payment System (ABPS):

ABPS was launched in 2011 and over a period of time it has evolved to a great extent. ABPS was migrated to NACH post NACH launched in 2012. Direct benefit transfer scheme was launched in 2013. Programs covered under DBT scheme are National child labour project, student scholarship and LPG subsidy.

Below are the different entities in ABPS:

- Beneficiary
- Banks
- Government
- Aadhaar number

11.Retail Banking Building Strategies:

Retail banking would witness tremendous competition going forward. New banks must design different strategies to overcome challenges associated with retail banking. Strategies must focus on four pillars namely customer selection, need identification, providing services and increased engagement.

Customer selection:

- Make more customer on board
- Use existing relationship

Need identification:

- Big data analysis
- Innovative process

Providing services:

- Use of technology and process
- Increased stickiness

Increased engagement:

Marketing of multiple products to same customer.