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Technology Impact on Retail Banking

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ABSTRACT: The issue of retail banking is awfully important and topical. Across the world, retail lending has been a fabulous innovation in the commercial banking sector in recent years. The development of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors. India too experienced a rush forward in retail banking. There are various pointers towards this. Retail loan is estimated to have accounted for nearly one-fifth of all bank credit. Housing sector is experiencing a boom in its credit. The retail loan market has decisively got transformed from a sellers' market to a buyers' market. Gone are the days where getting a retail loan was somewhat cumbersome. All these accentuate the drive that retail banking is experiencing in the Indian economy in recent years.

***Keywords*:** Retail Banking Information Technology, Social Media, Mobile Banking.

INTRODUCTION

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current / savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services. Today's retail banking sector is characterized by three basic characteristics:

- Multiple Products (Deposits, Credit Cards, Insurance, Investments And Securities);
- Multiple Channels Of Distribution (Call Centre, Branch, Internet And Kiosk); And
- Multiple Customer Groups (Consumer, Small Business, and Corporate).

Advancements in technology continue to transform the lives of banking customers. As a result, direct channels such as mobile and the internet are flattering increasingly important in retail banking. The evolution in technology around touch-mode and mobility has enabled the customer bank on the go in a real sense. Also, the number of customers who prefer to perform daily banking activities on an anytime/anywhere basis is increasing. The 2012 Retail Banking Consumer Survey be using online banking.

Capgemini found that more than 60% of customers worldwide are expected to use mobile banking in 2015 and more than 90% will likely.In developed economies, banks operate in highly competitive environments and are increasingly challenged to differentiate through products and pricing. They seek out innovative technologies to help them build a stronger relationship with their customers and increase customer loyalty, while controlling operational costs. This is
the key reason that top banks across the globe are investing in mobility.

Objectives of the Study

- Identify the most important trends that will affect retail banking in 2015.
- Assess the impact of regulatory, competitive, and technological developments on the retail banking industry.

Review of Literature

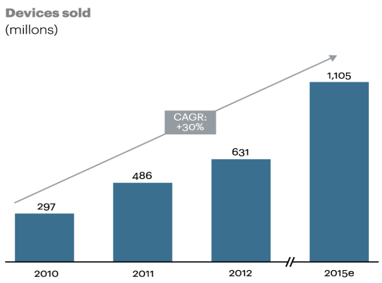
(Ernst and Young ,2012) global survey of consumer banking global survey of consumer banking Customers revealed that people are twice as likely to switch banks as they were the previous year. Fewer than half of the survey respondents said their current bank adapts products and services to meet their needs.

(Ernst and Young ,2012)This intent is troubling for financial institutions that have traditionally found a huge amount of inertia in their customer base. Not only are customers less loyal to their main bank, they are increasing the number of banks they use. Globally,multi-banking is a growing trend as customers search more actively for the best rates and products. Customers with only one bank have fallen from 41% to 31%, while those with three or more have increased from 21% to 32%..

Inform and interact: mobile Web meets social media

The Internet changed the way people and companies interact, but the omnipresent mobile Web is revolutionizing those interactions. Online communication is no longer a one-way street where industries broadcast their products to customers who may or may not buy them. As more customers use online and mobile channels, the challenge for a broad range of industries, including banks, is to find clever ways to get in touch with their customers (see figure 1).

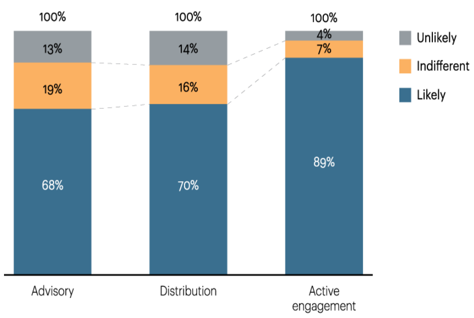
Figure 1
Smartphone sales are soaring worldwide



Sources: Gartner Research; A.T. Kearney analysis

The accessibility of mobile broadband Internet and smart devices and the broad use of Web applications can be used to integrate customers deep into the value chain. Smartphone's and tablets have merged computing power with mobile broadband data connections. Many more ideas and applications are emerging.

Figure 2
Social media will be a major success factor in retail banking



Sources: A.T. Kearney and Research Center Finance and Information Management (FIM), June 2011

Successful companies offer customers access to information anywhere at any time. In addition, listening to the opinion of the crowd and inviting customers into product development and services is standard operating procedure. However, honestly offering everything to everyone causes information overflow. Clever techniques to analyze information to offer the right product at the right time are the keys to success. More companies are using sentiment analysis to cross-sell products more effectively, to track customer opinions, and to monitor employee behaviors. However, companies must avoid a Big Brother image if they want to build or maintain a trusting relationship with their customers.

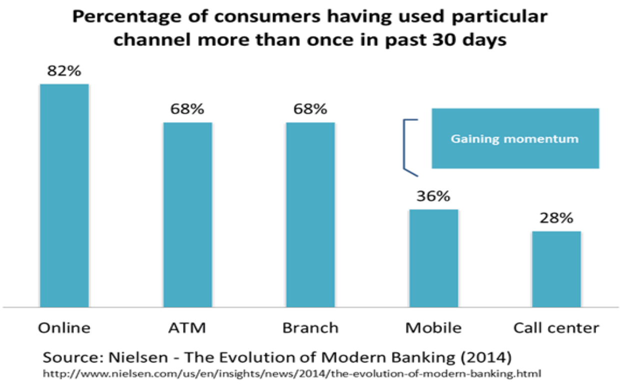
All in all, acceleration, digitization, and increased mobility have created a hyper-connected world on the move. Online communication and online content dominate other media, including television, and nearly every industry is affected.

A generation ago, the ability to broadcast a message to a large number of people was restricted to a few people communicating via radio or TV. The levers and hurdles to share experiences were easy to control. The rise of social media such as YouTube, Face book, and Twitter changed this in two major ways: First, everybody today has the ability to broadcast a message to millions of people around the world. Second, the crowd can immediately respond. Even spontaneous annoyances shared on Twitter or Face book are instantly available to hundreds or thousands of people. More than simple entertainment, social media is a powerful tool, as seen by the 2011 Arab Spring civil uprisings.

Times are changing, and today’s digital world is having widespread effects on an array of consumer behaviors, including how we handle our finances. Electronics and mobility are key trends for financial institutions to keep track of, but consumers aren’t ready to sever all ties with their local bank branches just yet.

According to Nielsen data from a custom study conducted in November 2013, the vast majority of U.S. consumers (82%) have entered the digital arena, stating that they banked online at least once in the last 30 days. The high percentage speaks to the prevalence of the digital world in consumers’ lives, especially when compared against the 68 percent of people who said they had visited a physical branch in the same period.

Mobile banking—either via tablet or smartphone—is a distant preference compared with the other more traditional channels, but it is gaining momentum. The use of call centers, however, is trending the opposite direction, making it the least-utilized channel among consumers. So the bottom line for financial institutions is that staying abreast of consumer banking preference will help maintain loyalty, engage new customers and serve consumers wherever they want to bank.



The banking industry is becoming highly competitive as the traditional differentiators such as large branch and ATM networks, phone banking, priority banking, and online banking no longer offer a competitive edge. Nowadays, customers across all segments expect highly personalized, convenient, and reliable service, along with 24/7 accessibility. Banks need to leverage technology to provide quick and personalized service to customers through various channels, while ensuring a consistent experience across all channels.

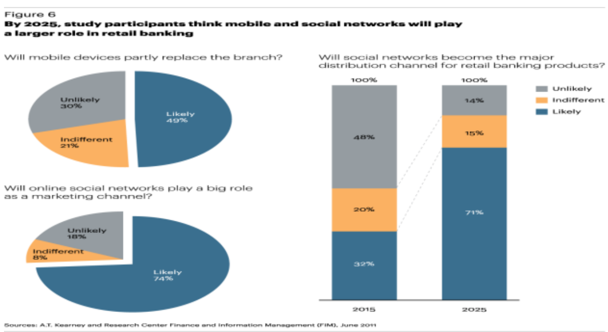
These changes have led to the emergence of four key technology trends in the retail banking channels:

• Increased spending on mobility to improve the customer experience.

• Increased focal point on mobile remote deposit capture and mobile marketing to gain the competitive edge.

• Increased leverage of social media and social analytics tools to strengthen decision-making and increase workforce collaboration.

• Increased emphasis on seamless multi-channel integration to better serve customers.



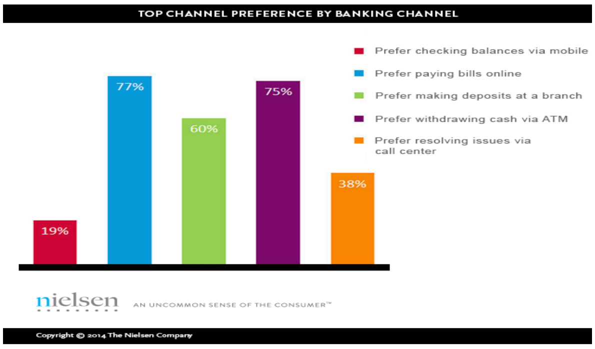
Tech advancements have made changing channel

But identifying banking preferences in aggregate only tells part of the story. In order to truly understand preference, financial institutions need insight into which channels consumers use for their specific banking activities. For example, banks won’t have much luck touting their automated drive-up teller technologies to customers that prefer banking via smartphone app.

In today’s world, companies and brands need to be online. And that includes banks and financial firms. In fact, 77 percent of consumers say they prefer to pay their bills online. Mobile consumers prefer checking their account balances using their smartphones or tablets, and most consumers prefer to make deposits and seek investment advice in the branch.

And when it comes to cold hard cash, there's currently no substitute for the physicality of an ATM that dispenses paper currency—the preferred method for withdrawing money. Got a problem? That's what the call centers are for, which is how most consumers say they seek to resolve any questions or issues they have with their accounts.

After all, there's less benefit in trying to engage a Web-savvy consumer with a highway billboard. And the same is true when it comes to banking. If it's not convenient or feasible for a customer, he or she is bound to find the convenience they're looking for somewhere else. And with myriad choices available, consumers won't have to look far to find what they're looking for.



Over the past decade, the Indian banking sector has seen remarkable progress. It is clearly indicated by their healthy business growth, fast-paced credit expansion and profitability along with control over non-performing assets (NPAs).

The strong effort and focus on financial inclusion by the government and the Reserve Bank of India (RBI) have made Indian banks more efficient, strong and vibrant. Moreover, allowing private companies into the banking business in the early 1990s has changed the Indian banking business model completely and diverted the industry's focus more towards retail banking with tech-savvy methods.

Adaptation of new tech and increased foothold in retail banking has made Indian banks more vibrant and fundamentally strong, which is clearly reflected in the fact that when the world's advanced economies were going through the debt crisis problem, the Indian banking sector displayed resilience.

However, now Indian banks face a tough challenge over asset quality. It is mainly due to the slowdown in the economy coupled with the government's policy paralysis and adverse regulatory environment in some businesses such as mining, power and infrastructure, etc.

CONCLUSION

There is a need of constant innovation in retail banking. In bracing for tomorrow, a paradigm shift in bank financing through innovative products and mechanisms involving constant up gradation and revalidation of the banks' internal systems and processes is called for. Banks now need to use retail as a growth trigger. This requires product development and differentiation, innovation and business process reengineering, micro-planning, marketing, prudent pricing, customisation, technological up gradation, home / electronic / mobile banking, cost reduction and cross-selling.

While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. How far the retail banking is able to lead growth of the banking industry in future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably. However, the kind of technology used and the efficiency of operations would provide the much needed competitive edge for success in retail banking business. Furthermore, in all these customers' interest is of paramount importance. The banking sector in India is demonstrating this and I do hope they would continue.

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