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# Interactive Banking- Technology driven Retail Business for Indian Public Sector Banks

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## **ABSTRACT**

*The role of traditional players in the Indian Banking sector Indian PSBs- Public Sector Banks has been crucial and has changed dramatically with the opening of India for Foreign Banks. PSBs have geared up with dynamic speed of globalization of the economy and many have performed well. They are emerging as Indian heroes in the current Global Financial Scene. Still, it's a long way for PSBs to compete with the giant foreign banks which have well developed system and MIS to support customer interactions especially in Retail Banking. With the advent of Internet and Mobile phone it is imperative for Banks to adopt Interactive Banking in the form of Online Banking and Mobile Banking. Online Banking is still limited to Indian metros and few cities but Mobile Banking is yet on the run-way in Indian Retail Banking arena.*

*This paper attempts to explore the contemporary state of retail operations of PSBs with regard to use of electronic mode, in the light of different reports and studies done recently, concentrating on issues and challenges related to Interactive Retail Banking Services provided by them in India.*

**Key words: Retail banking, Interactive banking, Online Banking**

### **1. Indian banking**

The banking sector in India has made a remarkable progress since the economic reforms in 1991. New private sector banks and foreign banks have brought the necessary competition into the industry and spearheaded the changes, towards higher utilization of technology, improved customer service and innovative products. Customers, all over, are now becoming increasingly conscious of their rights and are demanding more than ever before. The recent trends show that most banks are shifting from a “product-centric model” to a newer model, the “customer-centric model” as customer satisfaction has become one of the major determinants of survival and business growth. In this context, prioritization of preferences and close monitoring of customer satisfaction have become essential for all banks.

Banking sector plays an important role in our economy ranging from economic development in rural nations to form core of the money market in urban areas. Different measures that have been taken time to time would help the highly regulated and directed banking system to transform itself into one characterized by openness, competition, prudential and supervisory discipline. Customers will also make the new challenges particularly the growing demands from customers for high quality services.<sup>1</sup>

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*1. Banking Sector Reforms: Policy Implications and Fresh Outlook, Information Management and Business Review Vol. 2, No. 2, pp.55-64, Feb 2011*

## 1.1 Game changers in the Indian banking sector

There are 26 public sector banks (State Bank of India and its five associates, 19 nationalised banks and IDBI Bank Ltd.), 7 new private sector banks, 14 old private sector banks and 36 foreign banks. The number of SCBs increased to 83 in 2010-11 from 81 in 2009-10.<sup>2</sup> In below mentioned Figure 1. The shift from PSBs to private and foreign banks.

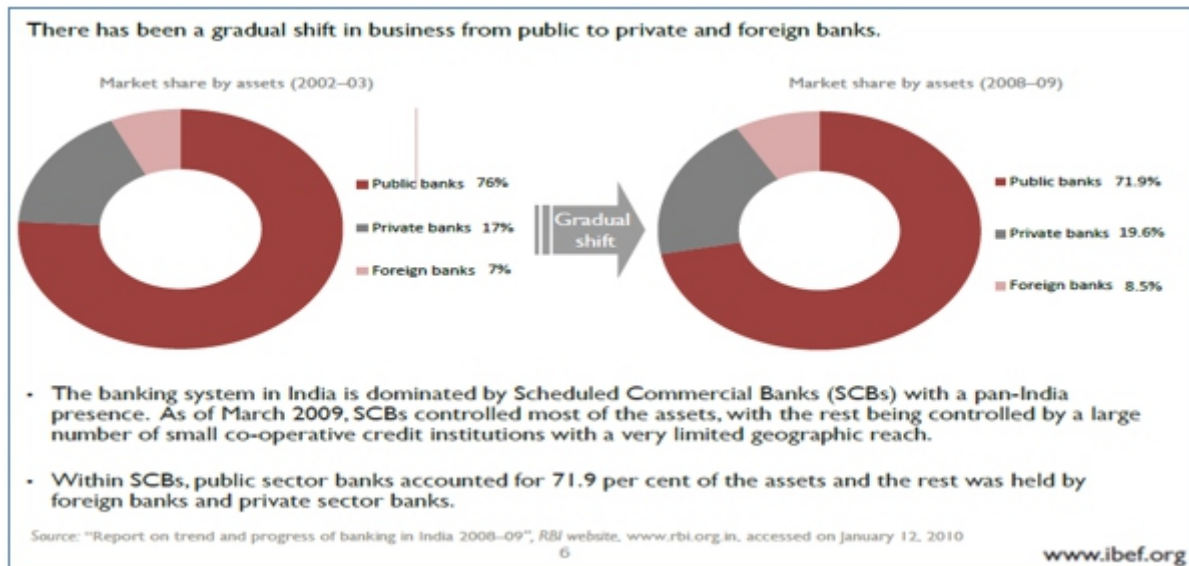


Table-1 Return on Assets and Return on Equity of SCBs - Bank Group-wise

Sr. no	Bank group/year	[Percent]			
		Return on assets		Return on equity	
		2009-10	2010-11	2009-10	2010-11
1	2	3	4	5	6
1	<b>Public sector banks</b>	<b>0.97</b>	<b>0.96</b>	<b>17.47</b>	<b>16.90</b>
	1.1 Nationalised banks*	1.00	1.03	18.30	18.20
	1.2 SBI Group	0.91	0.79	15.92	14.11
2	<b>Private sector banks</b>	<b>1.28</b>	<b>1.40</b>	<b>11.94</b>	<b>10.70</b>
	2.1 Old private sector banks	0.95	1.12	12.29	14.10
	2.2 New private sector banks	1.38	1.51	11.57	13.62
3	<b>Foreign banks</b>	<b>1.25</b>	<b>1.74</b>	<b>7.34</b>	<b>10.28</b>
	<b>All SCBs</b>	<b>1.06</b>	<b>1.10</b>	<b>14.31</b>	<b>14.96</b>

\* Nationalised banks include IDBI Bank Ltd  
 Notes: 1) Return on Assets = Net profits/Average total assets  
 2) Return on Equity = Net profits/Average total equity  
 Source: Calculated from balance sheets of respective banks.

As per the Table-1 the ROA of SCBs is marginally increased to 1.10% in 2010-11 from 1.05% in 2009-10, mainly owing to higher NIM. The return on equity also witnessed an improvement over the same period; however the SBI group was an exception to this general trend.

2. Reserve Bank of India, Report on Trend and Progress of Banking in India 2010-11, RBI Publication, Mumbai

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## **1.2 Major Issues being faced by the Indian banking industry**

Although banking sector reforms have created a high competitive and dynamic environment for commercial banks but at the same time, these reforms have created glaring issues that should be tackled very carefully in the era of IT and WTO. The following are the major issues:

1. A widening gap in the productivity of various bank groups- it is a threat and also motivation for many bank groups.
2. Widening profitability gap among bank groups under study
3. High rate of NPAs in public sector banks
4. Fast shifting of potential customers from public sector banks to new private sector banks and foreign banks and hence created an issue of customer retention for public sector banks
5. Penetration of new private sector banks and foreign banks in semi-urban and rural areas have become survival factor for public sector banks
6. Poor quality of services by many public sector banks created issue of survival in such a competitive environment
7. Lack of autonomy in HRM policies, especially for public sector banks
8. Lack of accountability
9. Loss making branches
10. Technology gap among private and public sector banks
11. Merger and acquisition
12. Privatization of public sector banks
13. Increasing customer expectations and demands
14. Threat of non-banking institutions and non-financial companies
15. Intensified competition within the banking sector, competition from global banking giants.<sup>3</sup>

## **2. INTRODUCTION TO RETAIL BANKING**

Retail banking refers to the dealing 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. It 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).

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*3. Banking Sector Reforms: Policy Implications and Fresh Outlook, Information Management and Business Review Vol. 2, No. 2, pp.55-64, Feb 2011*

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## 2.1 Scenario of Retail banking

Presently, competition among the banks is very severe. The banks have been trying to find new avenues not only to retain the present customer strength but also attracting new customers by offering hassle-free services. In the process, strategies of certain banks, especially Public Sector Banks, are aiming to divide customers into different segments on the basis of the type of service they would like to render and also trying to segregate their servicing counters in their respective branches to enable customer to have easy access to a particular transaction.<sup>4</sup> Presently almost 98 per cent of the branches of public sector banks are fully computerised, and within which almost 90 per cent of the branches are on core banking platform.

The retail loan segment registered higher growth in 2010-11. The highest growth was reported by consumer durables followed by auto loans in 2010-11 over the previous year. The housing loans witnessed a moderate growth of 16 per cent in 2010-11 over the previous year. Importantly, housing loans continued to constitute almost half of the total retail portfolio of the banking sector. Only the credit card receivable is showing negative growth over the previous year. (Table 2)

**Table.2 : Retail Portfolio of Banks**

(Amount in ₹ crore)

Item	Outstanding as at end-March		Percentage variation	
	2010	2011	2009-10	2010-11
1	2	3	4	5
1. Housing Loans	3,15,862	3,67,364	20.0	16.3
2. Consumer Durables	3,032	4,555	-44.2	50.2
3. Credit Card Receivables	21,565	18,655	-28.0	-13.5
4. Auto Loans	78,346	1,00,155	-6.6	27.8
5. Other Personal Loans	2,03,947	2,53,243	-3.5	24.2
<b>Total Retail Loans (1 to 5)</b>	<b>6,22,752 (19.0)</b>	<b>7,43,972 (18.5)</b>	<b>4.9</b>	<b>19.5</b>

**Note:** Figures in parentheses represent percentage share of retail loans in total loans and advances. The amount of total loans and advances are as provided in the off-site returns (domestic) of SCBs.

**Source:** Based on Off-site returns (domestic).

## 2.2 Retail banking opportunities and challenges for PSBs

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.

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4. Keynote address by Ms Shyamala Gopinath, Deputy Governor of the Reserve Bank of India, at the IBA - Banking Frontiers International Conference on "Retail Banking Directions: Opportunities & Challenges", Mumbai, 28 May 2005.

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Public Banks now need to use retail as a growth trigger which holds high potential for growth. This requires product development and differentiation, innovation and business-process reengineering, micro-planning, marketing, prudent pricing, customization, technological up gradation, home / electronic / mobile banking, cost reduction and cross-selling.

### **Opportunities**

1. Supremacy of customers- Changing demographics- increased purchasing power and demand for retail financial services and products. PSBs long presence is still an advantage for compete in retail banking.
2. Restrictions on foreign players- In spite of giving permission for WoS(wholly- owned subsidiaries) the entry of foreign players is still restricted by way of different measures e.g. taxation.
3. Support from govt. - With the entry of foreign players, Govt. and RBI are initiating different moves to support PSBs to grow and establish in India as well as to find a platform in the International Financial Scene.
4. Growing usage of mobiles-Deployment of a combination of multiple delivery channels capable of offering timely convenient and cost-effective services will stay ahead of the curve. Almost 50% of new mobile subscriptions come from rural areas which provide banks an opportunity to make its presence and penetrate in branch-less remote areas through Mobile banking.

### **Challenges**

1. Customer centric retail banking innovative services- Development of Innovative product and services portfolios given the “customer centric Banks” with focus on core strengths.
  2. Development and implementation of mobile based services- Mobile banking is the answer to penetrate the Indian Retail Banking which further pose challenges such as awareness, coverage in rural and semi-urban areas, widening the scope of banking facilities, transparency and security issues.
  3. Universal bank vs. focused bank-With the intensified competition its focus on specific profitable consumer specific services, it's imperative to succeed in the market place. Shifting from big portfolios of banking services to focusing on selected one is a dilemma.
  4. Demanding work force and changing their attitude towards customers- given the dependence with regard to HR policies and increased expectation of current employees, their education (in terms of customer centric attitude) and training & development also possess challenge to synchronies with the newer IT developments.
  5. Technological developments- with the advent of technological innovations, it is always possible to give more relevant, convenient, innovative and tailored service solution to the consumer.
- Matching with the ever increasing expectations of consumers is yet a big challenge. This also



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necessitates consumer education with employees training as per the requirements of newer technologies.

6. Complaints-Increase in complaints against PSBs in 2010- 11 over the previous year, whereas the no. of complaints against private sector banks and foreign banks witnessed a decline over the same period. More than 95% of the complaints regarding pension were received against PSBs.

### **3. Interactive banking**

E-banking is one of the fastest and most efficient way to manage personal finances and eliminates the long hours while queuing at the bank. Although E-banking is not very old as it only become popular in 2000, attractiveness of this placed it on an ascending trend that does not seem to slow down at all. Jadhav Anil (2004)<sup>5</sup> described various channels of electronic banking services such as ATM, Telephone banking (Tele-banking), Mobile banking, Internet banking and its features.

**3.1 Online/ Internet Banking-** use of world wide web in banking through the network of PCs and laptop has revolutionized the conduct of business and banking.

**3.2 Mobile Banking Transactions-** Recognizing the true potential of using mobile phones as a banking tool towards furthering financial inclusion, the bank-led model of mobile banking has been adopted, which would extend all banking facilities, including money transfer facility, through the mobile channel. The Reserve Bank has so far approved proposals of 50 banks to commence mobile banking services. The Bank has also authorized the NPCI (The National Payments Corporation of India) to provide a seamless, instant, 24X7, mobile-based inter-bank fund transfer system through mobile phones, called Inter-Bank Mobile Payment Service.<sup>6</sup>

**3.3 ATMs-** automated teller machine. In 2010-11 the number of ATMs witnessed a growth of 24 per cent over the previous year. However, the percentage of off-site ATMs to total ATMs witnessed a marginal decline to 45.3 per cent in 2010-11 from 45.7 per cent in 2009-10. More than 65 per cent of the total ATMs belonged to the public sector banks as at end March 2011.<sup>7</sup>

### **3.1 Features<sup>8</sup>**

- Check account balance
- Obtain information on current loan balance and date of next payment
- Obtain currency exchange rates

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5. Jadhav A. S., Mrs. R. A. Jadhav, "Status of e-banking in India", National annual convention of CSI 2004.

6. RBI Report

7. RBI Report

8. [http://www.dodcommunitybank.com/home/products/interactive\\_banking/interactive\\_features](http://www.dodcommunitybank.com/home/products/interactive_banking/interactive_features)

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- Transfer funds
  - Obtain current certificate of deposit information
  - Verify recent deposit and withdrawals transactions
  - Check interest information
  - Verify recent ATM withdrawals by date and amount
  - Verify if specific cheques have cleared or not
  - Change your interactive banking PIN no.
  - Online bill payment and shopping
  - Deposit of Income tax return
  - Recharge of mobile phones

### **3.2 Advantages of online banking: On the part of customers**

- Convenience: Unlike your corner bank, online banking sites never close; they're available 24 hours a day, seven days a week, and they're only a mouse click away.
- Time & cost saving: Fast as no need to visit bank, resulting in time, money and effort savings.
- Ubiquity: If you're out of state or even out of the country when a money problem arises, you can log on instantly to your online bank and take care of business, 24/7.
- Transaction speed: Online bank sites generally execute and confirm transactions at or quicker than ATM processing speeds.
- Efficiency: You can access and manage all of your bank accounts, including IRAs, CDs, even securities, from one secure site.
- Effectiveness: Many online banking sites now offer sophisticated tools, including account aggregation, stock quotes, rate alerts and portfolio managing programs.

#### On the part of banks

- Reduce overhead cost as reduced need for renting space, spending upon ambience and hiring staff
- More productive use of time as less front office work
- Transaction database provides bases for client segmentation for effective CRM resulting into client loyalty
- Low complaints because less personal interface with the clients
- No scope for leakage of any insider information or any favourness

### **3.3 Disadvantages of online banking**

- Start-up may take time: In order to register for your bank's online program, you will probably have to provide ID and sign a form at a bank branch. If you and your spouse wish to view and manage your assets together online, one of you may have to sign a durable power of attorney before the bank will display all of your holdings together.

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- **Authentication and identity Issue:** The act of verifying the identity of a user from net is not possible. It is only on the part of client to keep PIN no. and password a secret.
  - **Security issues:** while making online payments or transferring money from one account to another the online bankers are always concerned about hackers and anti social elements. To protect the clients, banks employ firewalls, high end data encryption and other measures to maintain a high level of security.
  - **Infrastructural requirements:** for availing the benefits of interactive banking one should have a PC or laptop or mobile (with compatible features) along with access to internet. This limits the usage of interactive banking. Termination of internet connectivity or low signals during the on-going transactions becomes a major problem in country like India.
  - **Handling of Multiple account details:** most people have complex financial situation as they can have a no. of bank accounts, debit and credit cards with each having its unique PIN no. and passwords. It makes difficult to manage all the related activities in a cohesive way.
  - **Customer care services:** during the online banking transactions there are many instances when customer might need help of a representative from the bank, which is not available.
  - **Corrective measures by Banks:** Fraud Risk Management Over the last few years the risk for banks in India has undergone significant changes. There has been a no. of high value frauds, leading to major loss to the Indian financial Sector. As per data released by CBI (Central Bureau of Investigation) during 2008-09, no. of cases related to Bank fraud has been increased by 128%. “Individual fraudsters” have now turned up into “hacker syndicates”. They use a combination of Technology, banking knowledge and insider information. To counter frauds RBI has issued a circular on fraud risk management system for banks to setup transaction monitoring units within their fraud risk management groups. Bank faces a no. of challenges during transaction monitoring-emerging fraud trends, growing complexities, evolving compliance demands, technology limitations and diverse data sources.<sup>12</sup>

### 3.6 Scenario in Interactive banking Transactions

- Electronic banking transactions have been on steady increase 4.83 The electronic payment systems such as Electronic Clearing Service (ECS) credit and debit, National Electronic Fund Transfer (NEFT) for retail transactions and Real Time Gross Settlement (RTGS) for large value, improved the speed of financial transactions, across the country.
- Volume of transactions through NEFT registered a steep growth 4.84 Both retail and large value systems of electronic payment transactions registered a growth out of which NEFT registered a steep growth in 2010-11 over the previous year (Table-3).

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12. <http://www.ey.com/IN/en/Industries/Financial-Services/Banking---Capital-Markets/Finesse-3---EY-initiative>



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- Learning curve: Banking sites can be difficult to navigate at first. Plan to invest some time and/or read the tutorials in order to become comfortable in your virtual lobby.
  - Bank site changes: Even the largest banks periodically upgrade their online programs, adding new features in unfamiliar places. In some cases, you may have to re-enter account information.
  - The trust thing: For many people, the biggest hurdle to online banking is learning to trust it. Did my transaction go through? Did I push the transfer button once or twice? Best bet: always print the transaction receipt and keep it with your bank records until it shows up on your personal site and/or your bank statement.

### 3.4 Forces attracting growth of Interactive Banking

- PSBs are planning to open 1500 branches in rural areas in FY2012 as RBI has instructed these banks to open 25% of their branches in rural areas. They are not required to take permission from RBI for the same. This widens the scope for E and mobile banking in rural areas.<sup>9</sup>
- According to the annual I-Cube Report jointly published by IAMAI and IMRB, India's internet population is expected to grow to 121 million users by December 2011 from 100 million in September this year.<sup>10</sup>
- More than 600 million Indians already use mobile phones, which means that it is not very difficult to raise internet usage to about 50% of the population and make India the biggest national base of Internet users in the world (China has about 500 million Internet users). Every phone connection can easily become an Internet connection, with some improvement in the handset and changes in the networks. A five-year goal can be to migrate all mobile networks to high-speed data networks that offer voice as but one functionality.<sup>11</sup>
- Retention of customers is going to be a major challenge. According to a research by Reichheld and Sasser in the Harvard Business Review, 5 per cent increase in customer retention shall increase profitability by 35 per cent in banking business, 50 per cent in insurance and brokerage, and 125 percent in the consumer credit card market. Thus, banks need to emphasise retaining customers and increasing market share.

### 3.5 Issues in Interactive banking

- **Psychological issues:** Indians have the tendency to believe the personal interaction more as compare to automated transactions specially the senior citizens.

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9. "PSU banks to open 1500 rural branches in 2011-12 " *Financial Express (india)*, 15th may 2011

10. <http://timesofindia.indiatimes.com/tech/news/internet/121m-internet-users-in-India-by-2011-end-Report/articleshow/10641973.cms>

11. [http://articles.economictimes.indiatimes.com/2011-11-09/news/30377750\\_1\\_internet-users-internet-usage-active-users](http://articles.economictimes.indiatimes.com/2011-11-09/news/30377750_1_internet-users-internet-usage-active-users)

**Table 3 : Volume and Value of Electronic Transactions\* by Scheduled Commercial Banks**  
 (As at end-March 2011)

Year	(Volume in million, Value in ₹ crore)							
	2009-10		2010-11		2009-10		2010-11	
	Volume		Percentage Variation		Value		Percentage Variation	
1	2	3	4	5	6	7	8	9
ECS Credit	98.1	117.3	11.0	19.5	1,17,613	1,81,686	20.6	54.5
ECS Debit	149.3	156.7	-6.7	5.0	69,524	73,646	3.8	5.9
NEFT	66.3	132.3	106.3	99.5	4,09,507	9,39,149	62.5	129.3
RTGS	33.2	49.3	148.5	48.2	3,94,53,359	4,84,87,234	22.2	22.9

\*. Excluding transactions carried out through cards

## CONCLUSION

The competitive environment in India presents both challenges and opportunities to PSB'S banks in Retail Banking. For PSB'S challenges are- tough competition from global banks even though there is government ceiling on foreign equity ownership. Moreover Global Banks have technological advantages, well-honed efficient processes and appealing products and services.

Retail banking jobs are growing across banking, finance, accounting, insurance, legal, sales, marketing, IT, manufacturing, management consulting, and strategy in the private sector as well as the public sector.

The demands on PSB's as the Senior citizen of Indian Financial System to catch-up the technological up gradation of retail banking are growing, yet the ability of Public Sector banking systems to adjust and the willingness to serve the customers in electronic ways is not matching and needed to be further explored more in terms of customers expectations. The increasing number of ATMS, expansion of branches to rural and semi –urban areas necessitates rapid adoption of latest technology to succeed in the present scenario before gearing up for global financial markets