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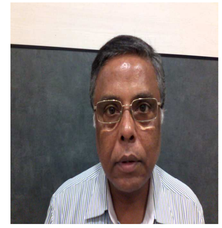
Retail Banking in some selected Public Sector Banks in India

Bijay Krishna Bhattacharya[1]



Abstract
Middle class family forms the main target groups for the banks in recent times. These families are more prone to higher consumption expenditure. Very often they need financial support from the banks to even out their cash flows to meet the high demand for consumer products. In this paper attempt is made to make an assessment of the performance of banks in the field of retail banking and retail lending. For this purpose six public sector banks have been selected to make an overall assessment of retailing banking in the country. Study results show that keeping parity with the general performances in retail banking, selected public sector banks' retail deposit growth rate was also high (near about 64.9%) and it was significant at 10% level. In respect of retail lending growth rate, both in nominal and real terms, Education loan was highest, followed by Micro, small and medium enterprises loans, and then comes agricultural loans, personal loans, other priority loans, car loans and housing loans.
Key-words: *Retail Banking, Retail Lending. MSME, Priority Sector Lending.*

1. Introduction

Over a period of time, the middle class family, especially the nuclear family structure with a higher income slab has become a very significant group which the banking sector cannot afford to ignore. The changing lifestyle of the members of these families triggers more consumption expenditures which is the pivot of retail lending. India is one of the countries having a very high proportion (70%) of the population below 35 years of age (young population).

The consistent growth in the Indian economy and the consequent increase in purchasing power have been largely responsible towards a surge in consumption in the country. India's economy grew at an average rate of 6.8% during the period 1992-2002 and continues to grow at more than 8% now. This has made India (along with China) as the destination for retail business by almost all the topmost global players.

Following Narasimham committee's recommendation, the Indian Banking Sector was opened up in the year 1992 with the following measures:

(1) Liberalisation of Branch licensing policy.
(2) Allowing indigenous and foreign banks to enter in the India Banking Industry.

[1] Associate Professor, Globsyn Business School, Salt Lake Sector – V, Kolkata-700091.

(3) Introduction of Capital Adequacy norm minimum to 9% following Basle norm to reduce risky investment.
(4) Allowing Banks to fix interest rate on loans above Rs.2.00 Lacs.
(5) Classification of Loans and Advance assets into Standard, Sub-standard, Doubtful and Loss assets and make necessary provisions to reduce NPA burden.
(6) Allowing Public Sector Banks to go to the Capital Market for collection of necessary funds.
(7) Improvement of Customers Service.

The main objectives of banking sector reform are to improve public sector banks health and to compete with private banks beside improved customer's service without government help. In this backdrop retail banking was introduced in Indian Banking Industry since 1995.
Decline in the interest rates during the period 2000-2005 was one of the main reasons behind generation of demand for cheap credit by retail customers, which contributed to the growth of retail credit. Though interest rates are in the upswing now, the general opinion is that it may not adversely impact the growth in retail credit in a significant manner, at least in the short term.

An emphasis on retail lending is also a result of increasingly higher push given by the manufacturers of consumer goods who are trying to make their products attractive by providing discounts and also using various other marketing tools. These efforts have resulted in a change in the consumer behavior in India from savings to consumption

2. Retail Banking and Retail Lending: Meaning

Retail banking is 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. 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).

The term 'Retail lending' refers to the small denomination loans provided to a larger mass of people or customers for consumption, investment or production purposes. In simple terms, therefore, the concept of retail lending is opposite to the concept of wholesale lending. The latter phrase is used in the context of large quantum of credit provided to the corporate & institutional customers of commercial banks. Not only the individual credit limits are large, the covenants attached to these credit propositions are also complicated in nature. Dispensation of wholesale credit requires the services of experts in the field, which may not always be available in plenty. The concept of retail credit includes the productive segments as well that help a large no. of families earn their living. Lending banks have been providing certain concessions to the productive sector in view of the developmental role of credit provided to these segments, thus making them distinct from the consumption segments of retail credit viz. housing finance, personal & mortgage loans, education loans, loans for financing consumer durables etc. However, the consumption loan segment is growing very fast compared to the productive loan segment of the retail sector.

As per the Current Report on Trend and Progress of Banking in India, the loan values of this retail lending typically range between Rs. 20,000 to 100 lakh. The loans are generally for duration of five to seven years with housing loans granted for a longer duration of 20 years. The credit card segment is another rapidly growing area of this group of products.

3. Objectives of the Study

The objective of the study is to assess the impact of 'Retail Banking' on the public sector bank's economic condition.

4. Data Base and Methodology

4.1. Sources of Data

Secondary data is collected from the published Annual Reports of the Reserve Bank of India / Annual Reports of six selected public sector banks namely State Bank of India (SBI), Allahabad Bank, United Bank of India (UBI), United Commercial Bank (UCO),Punjab National Bank(PNB) and Oriental Bank of Commerce (OBC).

Data is collected on different performance parameters like Earning Per Share, Net Asset Value, Dividend Pay Out ratio, Interest earned ,Interest expended, credit-Deposit ratio, retail deposits, retail loans disbursement and recovery, retail loans NPA etc.

4.2. Methodology

We have used linear trend equations like straight line equation($Y=a+bt$) and in some cases parabolic equation($Y=a+bt+ct^2$) depending on the best fitted criteria i.e. Correlation co-efficient magnitude. Here 'b' represents growth factor and 'c' represent acceleration or deceleration rate.

Further we have used ratio analysis to examine the relationship of two variables, besides judging liquidity(C-D ratio, Interest Expended to Interest earned ratio)), profitability (EPS, Dividend Pay-Out ratio, NAV) and efficiency (Cost Income ratio, operating cost to assets) of the banks.

5. General Performance Assessment of the Selected Banks

From the liquidity analysis of the selected banks it is found that CD ratio has gradually rising, which implies collected deposit is utilized or circulated in the form of credit more and more. If we go to the interest expended to interest earned ratio then we found that it is gradually fallen which indicates interest earning in comparison to interest spent have increased, it is supported by rising of interest income to total fund ratio. But interest spread ratio has fluctuated time to time, though it is positive in all cases cash to Deposit ratio in all the years were meager, which indicates bankers holding less cash balance and mostly circulate. Hence banks liquidity position is not high; rather bankers are driving to invest collected deposits mostly to increase their earning. Therefore their investment strategy is highly aggressive.

In case of efficiency analysis through cost –Income ratio, it is found that the ratio has gradually fallen. Operating cost to asset has gradually decreasing and simultaneously operating income growth has risen. Net profit and advances growth has fluctuated time to time. Now we can say bankers are able to reduce operating cost and other costs, beside stress is on increasing operating income. But to earn more profit stress should be given on non-fund income, beside more and more loans and advances.

In case of Profitability analysis it is found that yield on advances has fluctuated time to time, but it is always higher than yield on investments.Net income margin is always positive, but it is meager and fluctuated time to time. Most of the banks major source of income is interest income (near about 95%), but spread margin is meager near about 6.5% to 7%. EPS and Dividend pay-out ratio have fluctuated time to time, keeping parity with profit margin.

From the above analysis we can say that the public sector banks are emphasizing more on circulation of deposits rather than liquidity, further there is enough idle fund which could be circulated to enhance income. They are able to reduce cost, but invest income to be raised further.

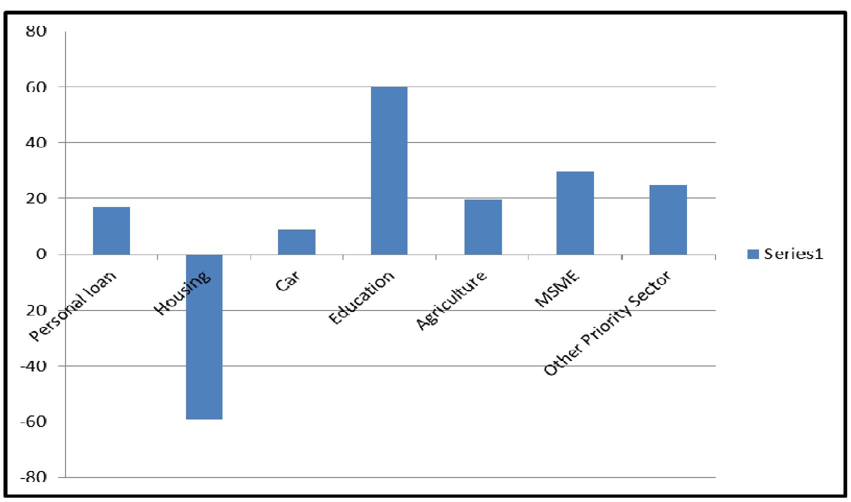
If we compare performances from liquidity, efficiency and profitability point of view among these five leading public sector banks in India then we found that Punjab national banks performances (measured in terms of EPS, Dividend Payout ratio, NAV, Spread Margin, Cost to Income ratio, Interest earned to Interest cost ratio, NPA collection etc.) are best, followed by SBI, OBC, Allahabad Bank, United Commercial Bank and United Bank of India respectively.

6. Retail Banking Performances of the selected Public Sector Banks

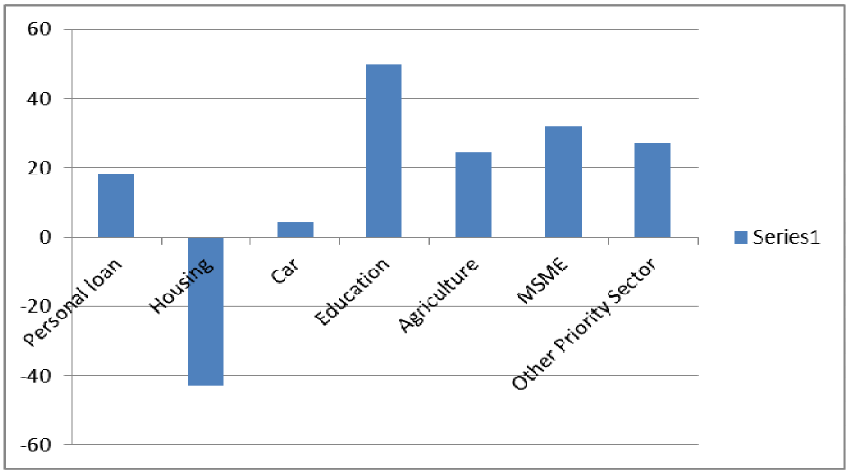
Keeping parity with the above general performances in retail banking selected public sector banks retail deposit growth rate was also high near about 64.9% and it was significant at 10% level. In the selected public sector banks growth rate of retail lending both in nominal and real terms of Education loan was highest, followed by micro, small and medium enterprises, loans, agricultural loans, personal loans, other priority loans, car loans and housing loans. In respect of education loans growth rate of most of the banks is more than 50%, followed by micro, small and medium enterprises (growth rate in PNB is highest, followed by SBI, UCO, OBC, UBI and then Allahabad bank).

In respect of growth of NPA of retail lending of most of the selected public sector banks, Car loan is highest and followed by education loan, personal, agricultural, housing, micro, small and medium enterprises loans, other priority loans. Recovery performance of retail lending growth rate of education loan is highest, followed by car loans, agricultural loans, housing, personal, other priority sector and micro, small and medium enterprises loans.

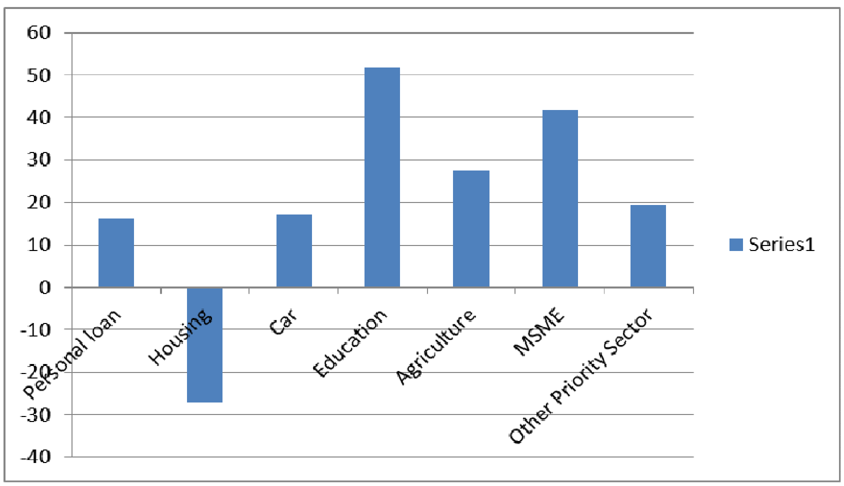
Growth Rate of Retail Loans Disbursement in Allahabad Bank



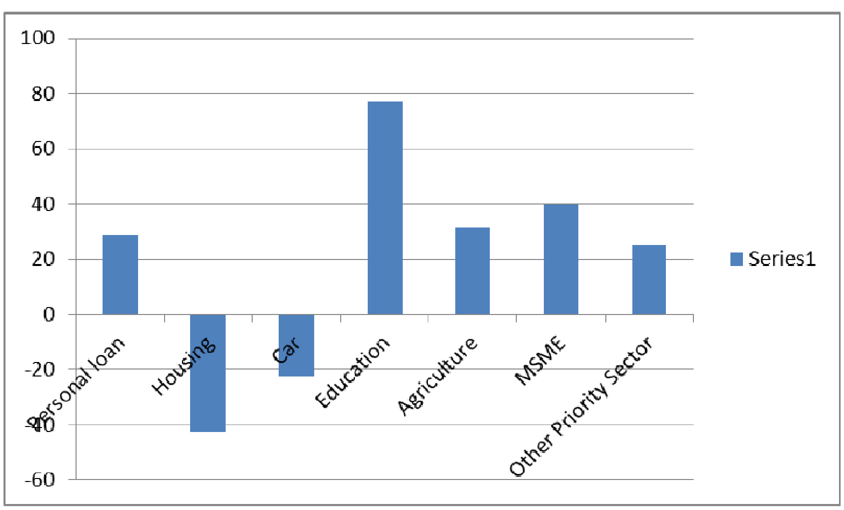
Growth Rate of Retail Loans Disbursement in UBI



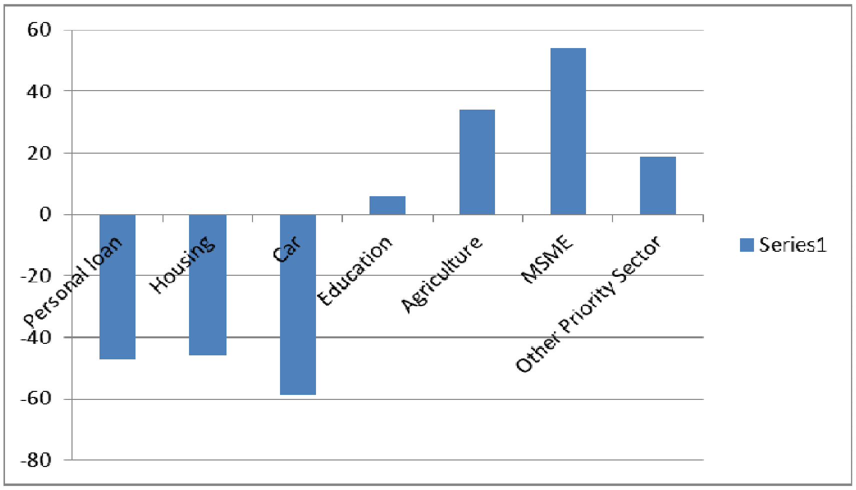
Growth Rate of Retail Loans Disbursement in UCO



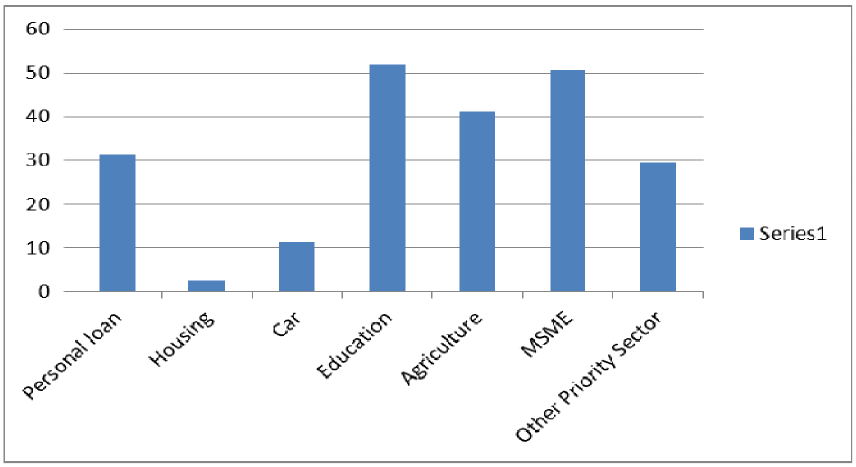
Growth Rate of Retail Loans Disbursement in OBC



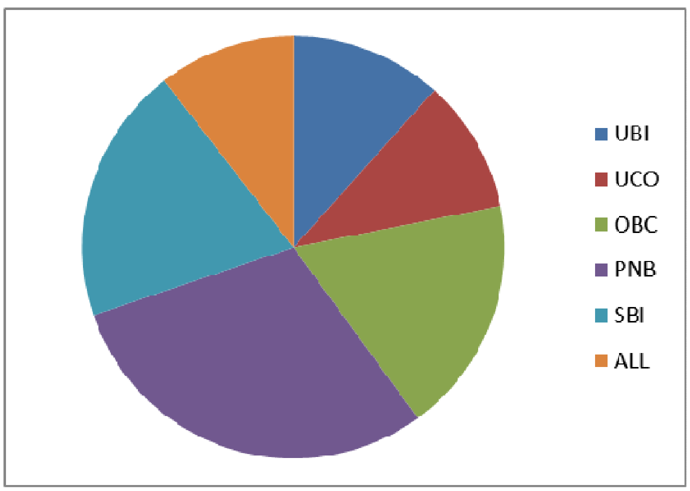
Growth Rate of Retail Loans Disbursement in PNB



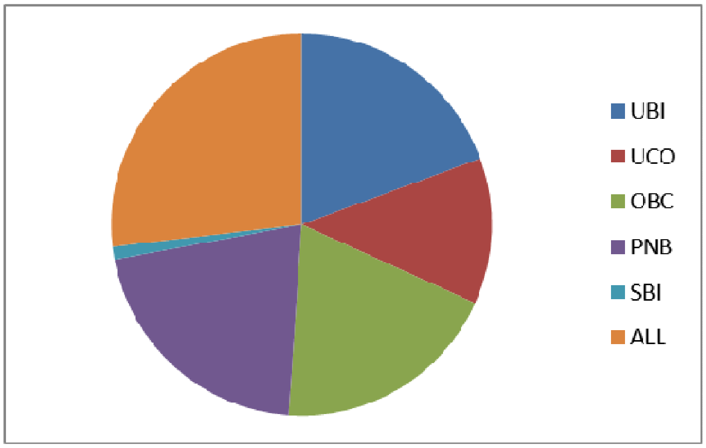
Growth Rate of Retail Loans Disbursement in SBI



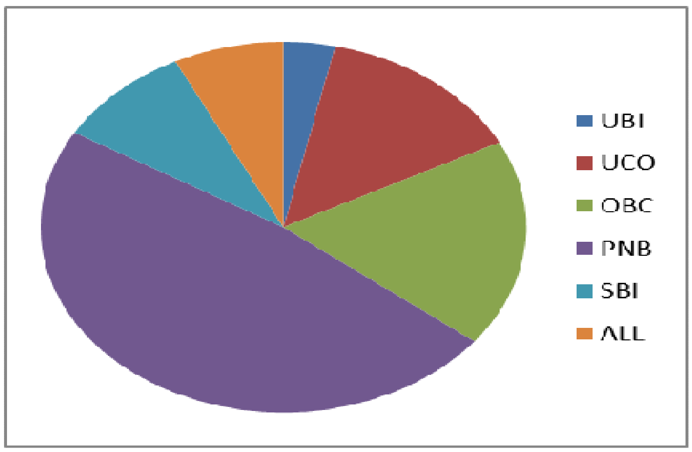
Growth Comparison of Different Public Sector Banks in Personal Loan



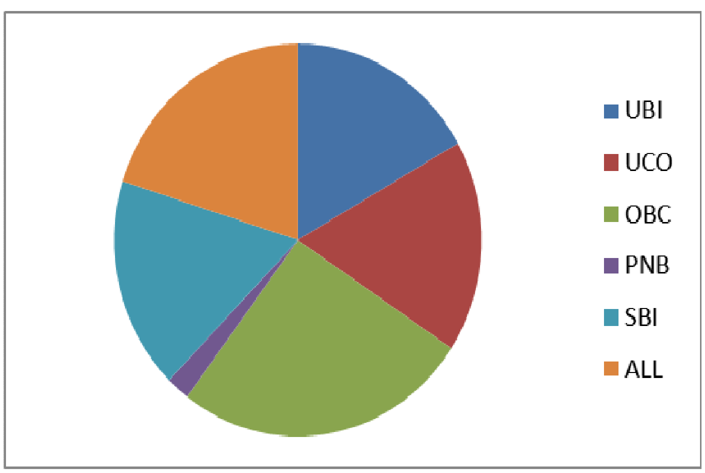
Growth Comparison of Different Public Sector Banks in Housing Loan



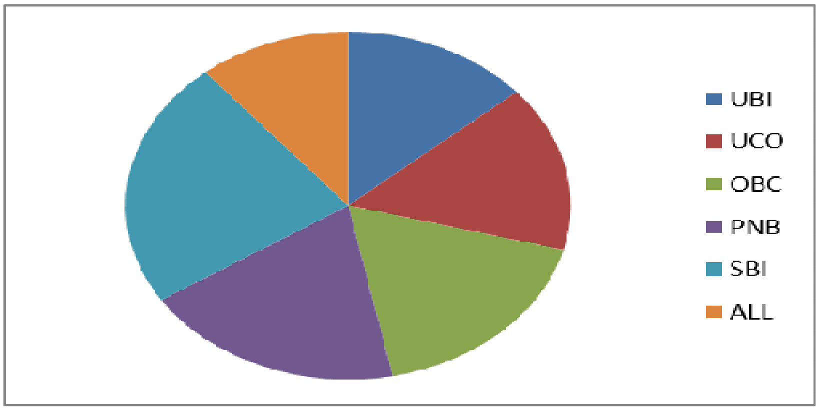
Growth Comparison of Different Public Sector Banks in Car Loan



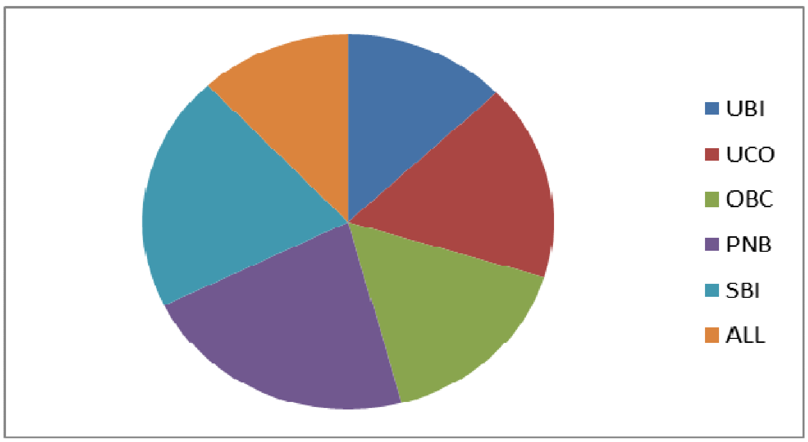
Growth Comparison of Different Public Sector Banks in Education Loan



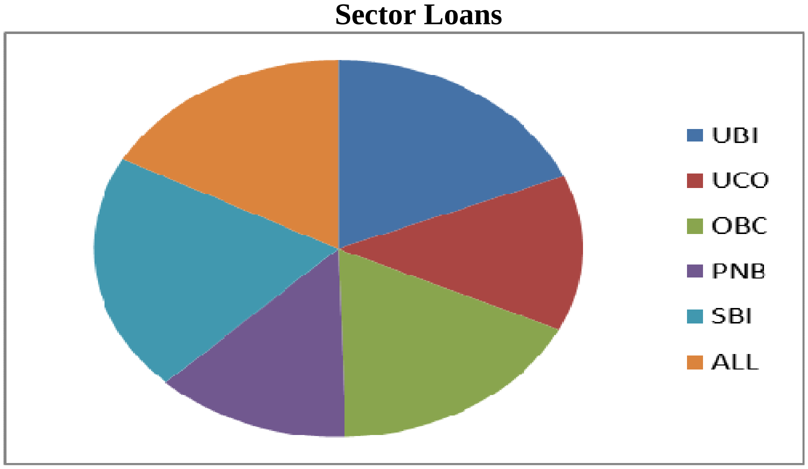
Growth Comparison of Different Public Sector Banks in Agricultural Loan



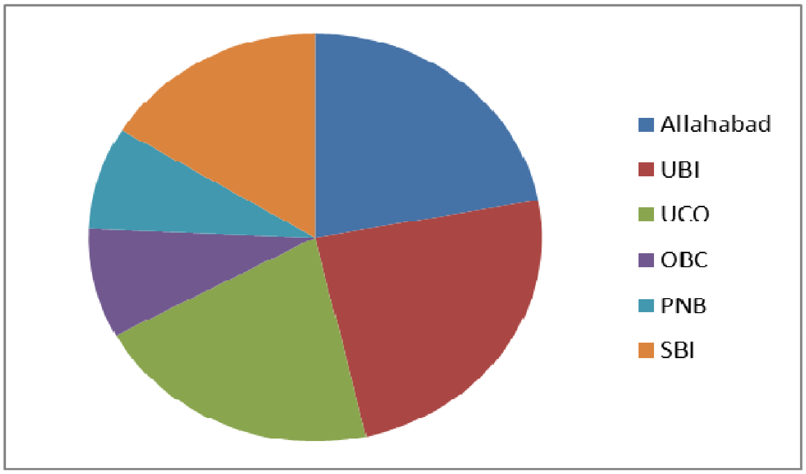
Growth Comparison of Different Public Sector Banks in Micro, Small and Medium Enterprises Loans



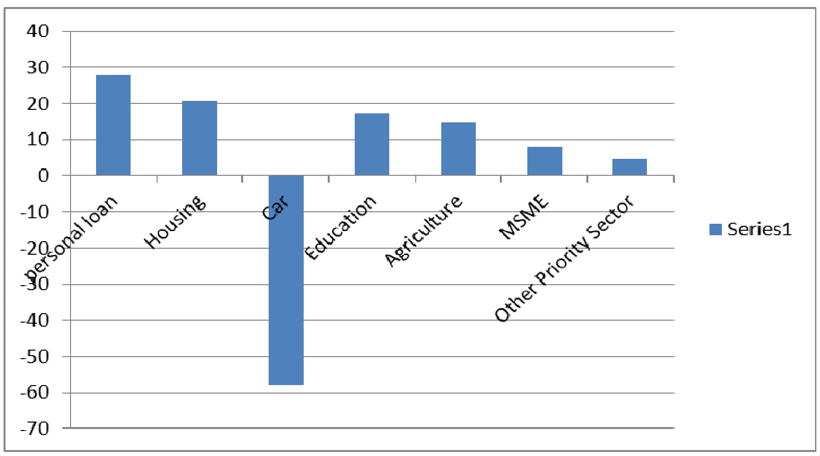
Growth Comparison of Different Public Sector Banks in Other Priority Sector Loans



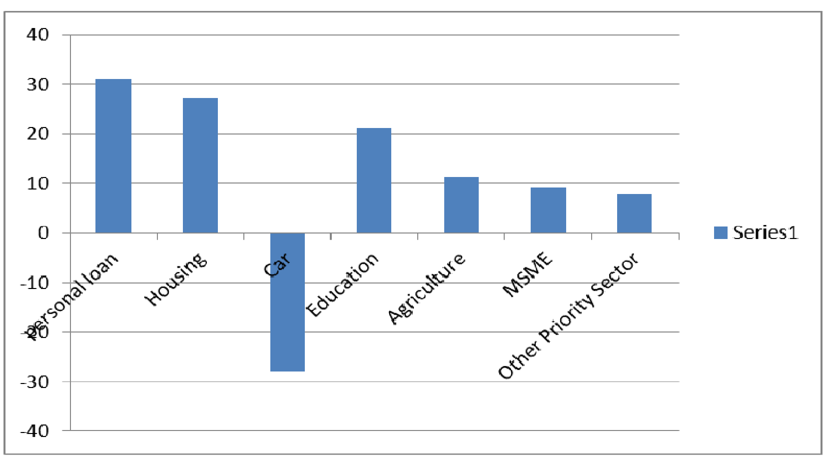
Growth Comparison of NPA of Different Banks in Retail Loans



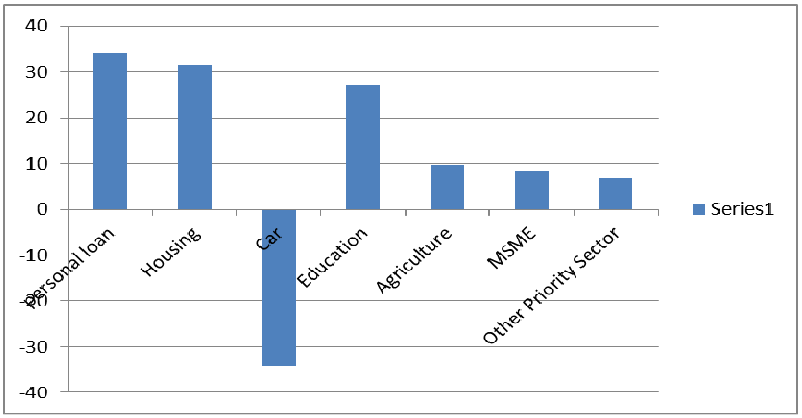
Growth Comparison of NPA of Retail Loans in Allahabad Bank



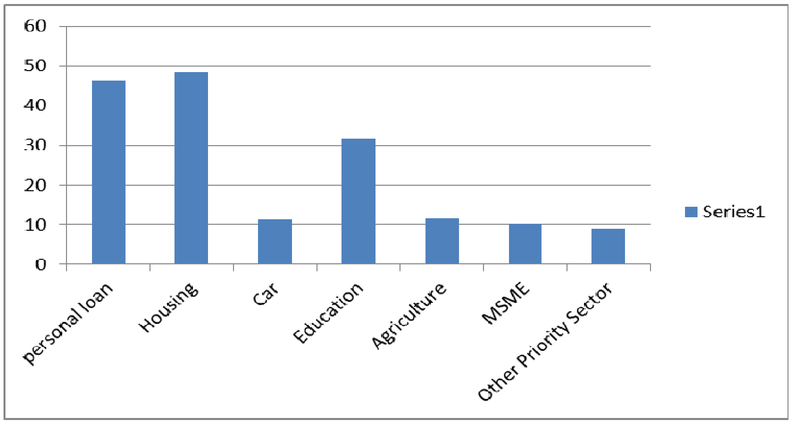
Growth Comparison of NPA of Retail Loans in UBI



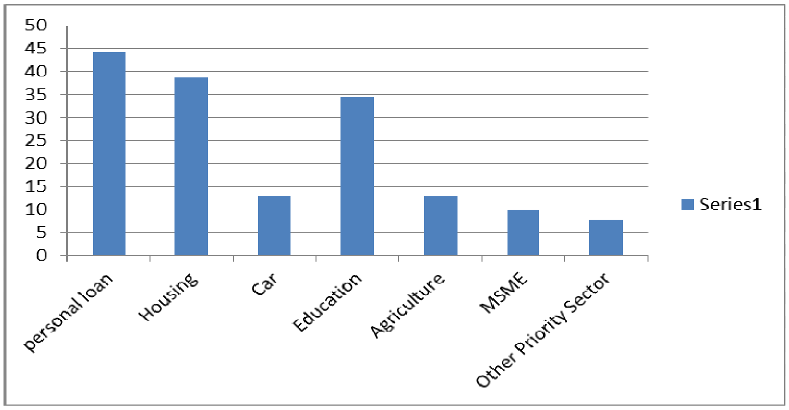
Growth Comparison of NPA of Retail Loans in Uco Bank



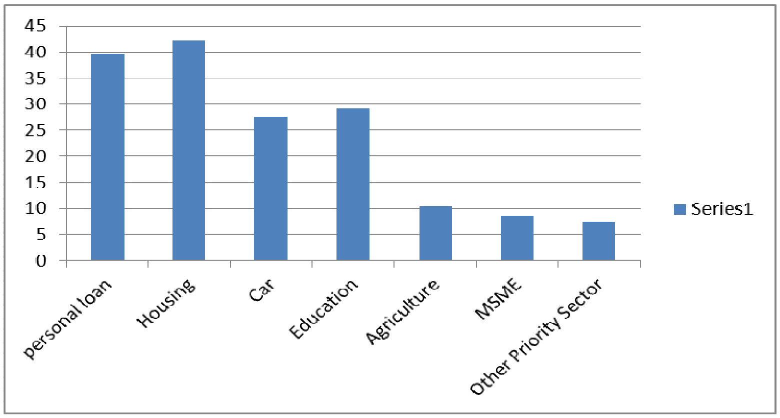
Growth Comparison of NPA of Retail Loans in OBC



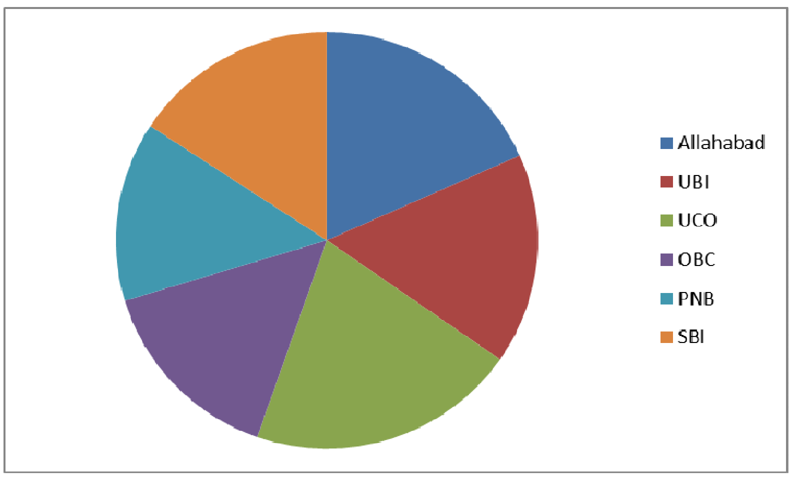
Growth Comparison of NPA of Retail Loans in PNB



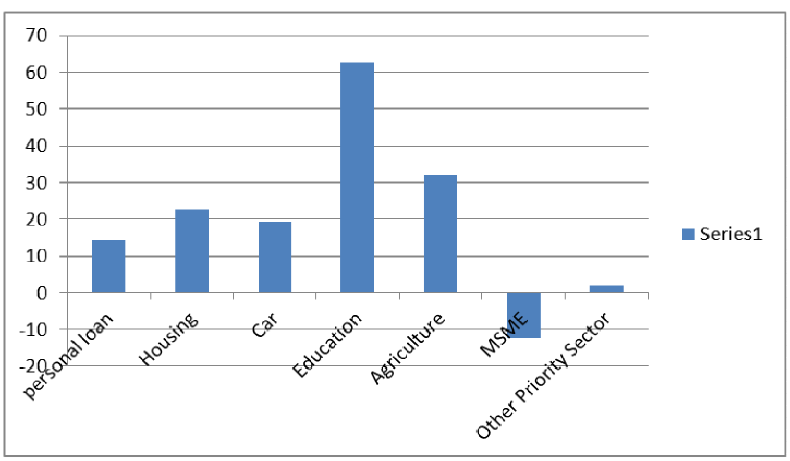
Growth Comparison of NPA of Retail Loans in SBI



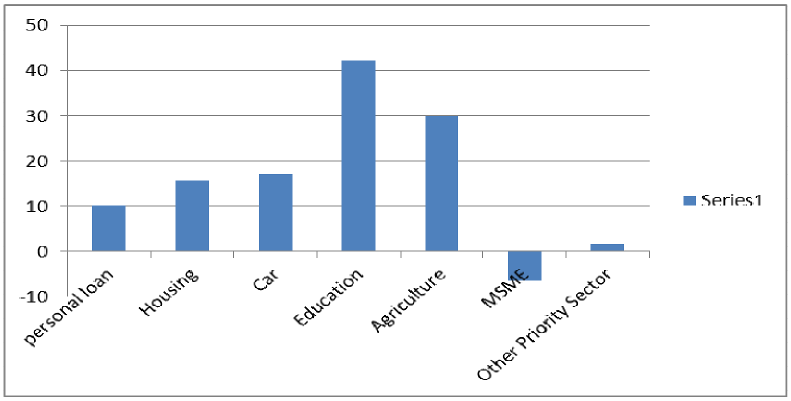
Growth Comparison of Recovery of Retail Loans in Different Banks



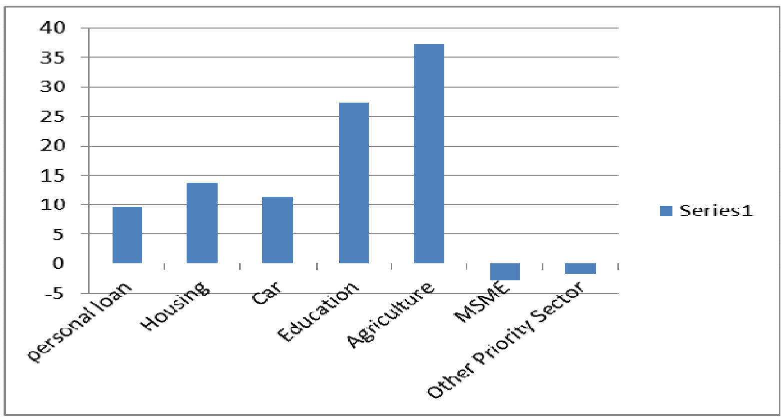
Growth Comparison of Recovery of Retail Loans in Allahabad Bank



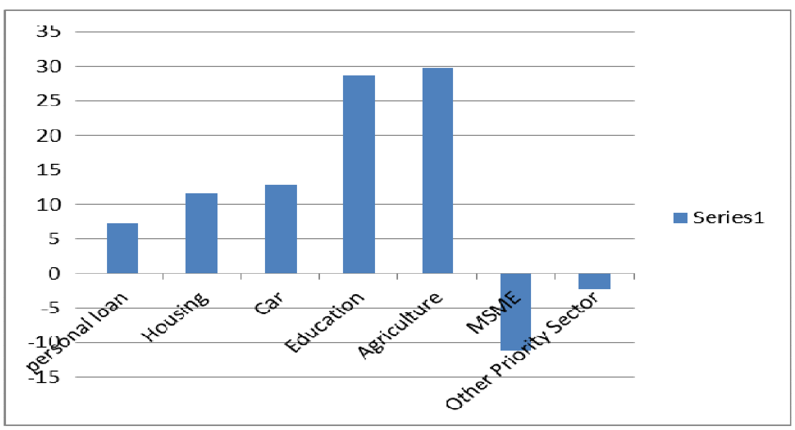
Growth Comparison of Recovery of Retail Loans in UBI



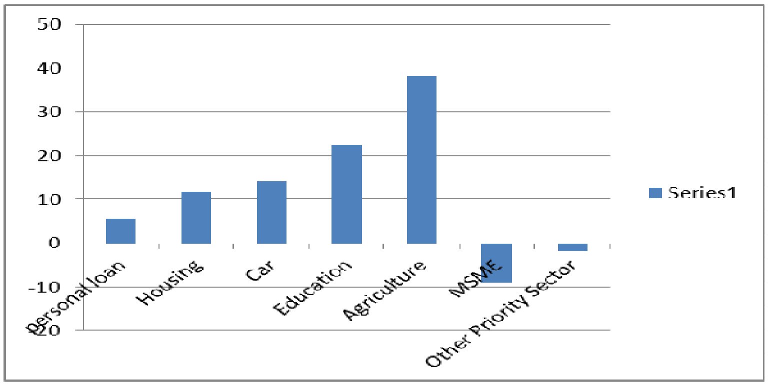
Growth Comparison of Recovery of Retail Loans in Uco Bank



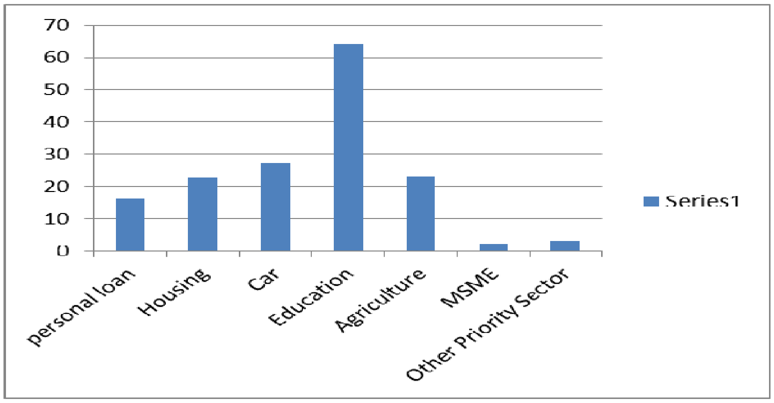
Growth Comparison of Recovery of Retail Loans in OBC



Growth Comparison of Recovery of Retail Loans in PNB



Growth Comparison of Recovery of Retail Loans in SBI



7. Summary and Conclusion

In liberal period (1994-2011),most of the public sector banks economic performances were good like increase in NAV, EPS, D/P ratio, Interest earned /Interest cost ratio, decrease in operating cost and NPA percentage etc. Keeping parity with the above general performances in retail banking selected public sector banks retail deposit growth rate was also high near about 64.9% and it was significant at 10% level. In respect of retail lending growth rate both in nominal and real terms of Education loan was highest, followed by Micro, small and medium enterprises loans, agricultural loans, personal loans, other priority loans, car loans and housing loans. In respect of growth of NPA of retail lending Car loan is highest and followed by education loan, personal, agricultural, housing, Micro, small and medium enterprises loans, other priority loans. Recovery performance of retail lending growth rate of education loan is highest, followed by car loans, agricultural loans, housing, personal, other priority sector and Micro, small and medium enterprises loans.

From the above analysis it is found that there is enough scope to increase the growth rate of retail loans particularly in Car loans, Agricultural loans and Micro, small and medium enterprises loans. In these areas growth rates of NPA is lower and recovery performances are better. Further in these three areas growth rate of earning is much higher than cost of earning.