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Quick Revision Capsule

Module A: Retail Banking

Chapters 1-4 · 27 pages

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Fact-checked & current

Up to date till 30 June 2026.

Chapter-wise key points

Crisp bullets and summary tables for each chapter.

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CONTENTS

1. Retail Banking - An Introduction/Overview
2. Retail Banking Role within the Banking Operations
3. Applicability of Retail Banking Concepts and Distinction between Retail and Corporate/Wholesale Banking
4. Branch Profitability

CHAPTER 1. RETAIL BANKING - AN INTRODUCTION/OVERVIEW

Introduction

- Bank now a **one-stop financial hub**.
- Shift from **product-centric** to **customer-centric** (study needs, then build solution).
- **Financial intermediation** is the primary function; **deposit mobilisation** is its first step.

Retail banking: supply of banking products and services to **individual customers**, usually for **non-entrepreneurial (personal)** purposes; counterpart is wholesale (corporate) banking.

- **Liability side**: many small depositors – SB, current, FD, RD.
- **Asset side**: many borrowers, low ticket size – housing, personal, vehicle, education loans.
- **Other services**: credit cards, depository (demat), para-banking (insurance, MFs, capital market products).

Stages of retail banking

Stage	Target	Approach
Mass retail	General public	Standardised, high volume; broad stable base
Class retail	Niche: HNIs, professionals, NRIs	Customised; higher business per customer
Private banking	HNIs and ultra-HNIs only	Bespoke, RM-led; with wealth management

- **Definitions** (no single law defines it): consumer/personal banking; consumer-market service; lending to consumers; direct dealing; branch service to small accounts; product-based; pure retail (individuals, later SMEs, HNIs).
- **Prime** borrower: strong record, lower rate; **sub-prime**: weaker, pays more; India uses **risk-based pricing** on credit score.
- In India a **CD** is a money-market instrument (**minimum Rs 5 lakh**), not a retail product; retail equivalent is the FD.
- **Providers**: 12 PSBs, private and foreign banks; SFBs; **payments banks** (deposits up to **Rs 2 lakh** per customer, **cannot lend**); RRBs, co-operative banks; NBFCs, HFCs; fintechs as lending service providers.

Characteristics of Retail Banking

- **Three multiples**: multiple products x multiple customer groups x multiple channels.
- Six features: focus on **individuals and small units**; **very large customer numbers** (diversified); **mass-market**; **wide product range**; **physical and virtual delivery** (branches; ATMs, internet, mobile, phone banking, UPI); **extension to SMEs**.

- **Regulatory retail portfolio**: up to **Rs 7.5 crore** per counterparty (raised from Rs 5 crore on **12 October 2020**) gets **75%** risk weight.
- Since **16 November 2023**: consumer credit **125%**, bank credit-card receivables **150%**; housing, education, vehicle, gold-backed and microfinance/SHG loans excluded.
- Basel III Standardised Approach Directions **issued 27 April 2026, effective 1 April 2027**.

Advantages of Retail Banking

- **Risk spread widely**: Rs 1,000 crore as 5,000 home loans of Rs 20 lakh – one default touches only **0.02%** of book.
- **Loyalty and cross-selling**: salary account to card, loans, insurance.
- **Wider spreads**: customers too fragmented to bargain, esp. unsecured loans and cards.
- **Diversified credit risk** across borrowers, regions, occupations.
- **Stable demand**: retail credit cycle less volatile than corporate.
- **Easier marketing and selection**: mass marketing; segmentation via **credit scoring and data mining**.

Constraints in Retail Banking

- **Handling huge numbers**: needs strong IT/core banking.
- **IT strain** from fast product launches.
- **High cost of small transactions**: push to ATMs, mobile, internet; branches for high-value work.
- **Higher delinquencies** in unsecured loans and card receivables.
- **Bank run**: sudden mass withdrawal after loss of trust; **DICGC** cover **Rs 5 lakh** per depositor per bank (principal + interest) since **4 February 2020**; risk-based premium from **1 April 2026**.
- **Fierce competition**: mis-selling, lending without checks.

Evolution of Retail Banking

- Pre-1960s: corporate working capital and project finance; **current account** central.
- Functional banks emerged: **investment banks** (M&A, advisory), **merchant banks** (capital raising, debt structuring); heterogeneous customers led to **corporate** and **retail (consumer) banking** lines.
- **World Retail Banking Report 2015** (Capgemini with **EFMA**): banks falling short of expectations; non-bank competition speeding up; too much front end, too little back end.
- **Report 2016** (fintech): customers using fintech **63%**; executives seeing move to digital ecosystem **96%**; having systems for it **13%**; fintechs fast **36%**; good experience **40%**; fintechs as partners **65%**.
- India: retail began with **foreign banks** in **late 1970s/early 1980s**; pioneers **Standard Chartered** and **Grindlays** (ANZ Grindlays acquired by Standard Chartered in 2000); **Citibank** boosted credit cards in early 1980s.
- PSBs had no clear retail line; SBI, IOB, BOI, BoB, Andhra Bank built retail products; **BoB and Andhra Bank** early PSB card issuers; Andhra Bank merged into Union Bank w.e.f. **1 April 2020**.

- New private banks led to a **retail war** (win-win); **CBS** brought end-to-end computerisation.
- Banks (and NBFCs, MNCs) now target the **bottom of the pyramid**.

Key milestones

Year	Milestone
1980	Central Bank of India's **Centralcard**
1993	RBI new private bank guidelines (**22 January**; min capital **Rs 100 crore**)
2004 / 2005	RTGS / NEFT
2008-09	NPCI set up; functional early 2009
2014	PMJDY launched (**28 August**)
2015	In-principle licences: payments banks, SFBs
2016	UPI launched by NPCI
2020	Ten PSBs amalgamated into four (1 April)

Retail Banking in Numbers

Retail loans, end-March (Rs crore)

Type	2019	2021	Change 2019-21
Housing	12,04,400	15,61,900	29.7%
Consumer durables	9,200	21,600	134.8%
Credit card receivables	1,11,300	1,38,600	24.5%
Vehicle/auto	2,69,700	3,29,500	22.2%
Other personal	6,33,500	8,56,000	35.1%
Education	76,200	78,800	3.4%
Total retail	23,04,300	29,86,400	**29.6%**
Retail share of advances	**24.18%**	**28.06%**	(2020: 26.33%)

- Yearly growth of retail total: 18.6%, 15.4%, 12.3% (2019-21); total advances grew 13.4%, 6.0%, **5.4%** (to about Rs 106 lakh crore in 2020-21).
- Housing about **52%** of retail loans (2021); total retail about 13.8% a year.
- ATMs: **2,13,575** (March 2021), about **174%** of branches (1,22,976, all under CBS).
- Micro ATMs 2.71 to 4.04 lakh (+49%); white label ATMs 0.23 to 0.25 lakh (about 9%); Bharat QR 20.27 to 35.70 lakh; UPI QR **925.22 lakh**; over **96 million** QR codes by March 2021.

- Volumes 2018-19 to 2020-21 (mn): **UPI 5,391 to 22,330**; mobile banking 6,200 to 25,210 (about 4 times); IMPS 3,278; NEFT 3,092; RTGS 159 (2020-21); UPI value Rs 8.77 to **41.04 lakh crore**; ECS replaced by **NACH**.
- Debit cards outstanding +8.4% (2020-21); credit cards +31.8% (March 2019-21) but transactions almost flat.
- **BCG**: retail brings nearly **60%** of global banking revenue.

Current position

Indicator	Value	Period
Personal loans in SCB credit	**30.7%**	end-March 2026
Individuals in bank credit	**47.8%**	end-March 2026
Credit / personal loan growth	14.1% / 12.9%	2025-26
Personal loan growth (y-o-y)	15.4% (11.1% year earlier)	fortnight to 31 May 2026
Term / savings deposits	61.6% / 28.7%	end-March 2026
Household share of deposits	**59.3%**	end-March 2026
UPI in a month	23.2 bn, Rs 29.90 lakh crore	May 2026

Prerequisites for Success of Retail Banking

- **Efficient delivery mechanism** – the **most important**: quality service, fair pricing, prompt service; safe, secure, prompt, cost-effective delivery via technology; integrate alternate channels.
- **Direct banking**: not just online – ATMs, call/e-mail centres, mobile, direct mail, web models.
- **Product appropriateness**: analytics match products to segments.
- **Fair pricing** (RBI): **external benchmark** for new floating-rate retail and MSE loans from **1 October 2019**; **penal charges** not penal interest, not capitalised (circular **18 August 2023**, revised 29 December 2023; fresh loans **1 April 2024**, existing by 30 June 2024); **KFS with all-in APR** for retail/MSME term loans from **1 October 2024**.
- **No pre-payment charges**: floating-rate home loans since 2012; any floating-rate term loan to individuals since **7 May 2014**; Pre-payment Charges Directions, 2025 **issued 2 July 2025**, for loans sanctioned/renewed **on or after 1 January 2026** (all REs; extended with limits to business loans to individuals and MSEs).
- **Credit scoring**: statistical model predicting applicant's behaviour from existing borrowers with similar features; **four CICs** under **CICRA 2005** – TransUnion CIBIL, Equifax, Experian, CRIF High Mark; **fortnightly** reporting from **1 January 2025**.
- **Consumer protection**: enter retail only if committed to fair treatment; complain to bank first, then RBI Ombudsman; **Integrated Ombudsman Scheme, 2021** (12 November 2021 to 30 June

2026, 'One Nation One Ombudsman'); **2026 Scheme issued 16 January 2026, effective 1 July 2026**.

Challenges for Retail Banking

- **Consumer protection and pricing**: arbitrary charges; **poor subsidise the rich**; pricing must be **non-discriminatory, risk-based, competitive, value-added**.
- **Inadequate MIS**: no segment/product-level profit data, so risk cannot be priced.
- **KYC/AML**: under **PMLA 2002** and RBI KYC Directions; RBI consolidated into **244 Master Directions** on **28 November 2025**; KYC for deposit, loan and **third-party products**.
- **Managing risk**: process gaps, technology (vendor) gaps, fraud, low customer literacy.
- RBI steps: **'.bank.in'** domain (circular 22 April 2025; deadline 31 October 2025); **zero liability** if third-party breach reported within **3 working days** (6 July 2017); **MuleHunter.AI** (Reserve Bank Innovation Hub).
- **Disruptive technologies**: retail most affected; impersonation, identity theft, SIM swap frauds.
- **Financial inclusion**: Global Findex 2025 – **89%** adults with account in 2024 (35% in 2011); gap now usage and credit; **FI-Index 67.0** (March 2025; 64.2 a year earlier; Access, Usage, Quality); **PMJDY** about **57.78 crore** accounts, Rs 2.95 lakh crore (25 February 2026); challenge is mindset.

Key Reasons behind the Growth of Retail Banking

- **Demand-side**: young professionals and middle-class purchasing power; A.T. Kearney ranked India **second** among 30 emerging retail markets; real GDP **7.7%** in 2025-26 (PE), 7.1% in 2024-25; almost **65%** below 35; Goldman Sachs **'Dreaming with BRICs' (2003)**.
- **Structural**: financial market reforms; engine of growth; mass-market banking; volume-driven business.
- **Technology**: automation (ATMs as low-cost channel); innovations – cards, internet, phone and mobile banking, QR payments.
- **Easy access**: stamp duty, registration, documentation added to house cost for **LTV** only for units up to **Rs 10 lakh** (RBI, 5 March 2015).
- **Value-added offers**: free cards/insurance, fee waivers; no pre-payment charges; KFS shows APR.
- **Replace treasury income** (falling from mid-2000s): retail had fewer bad loans, less provisioning.
- **Falling rates**: **16-18%** in 1995-96 to single-digit home loans.
- **Low-cost deposits**: **CASA about 38%** of SCB deposits (end-March 2026, **derived**: 100% less 61.6% term; savings 28.7%, current about 9.7%); savings share fell from **34.6%** (March 2022).
- **Longer tenures**: home loans up to **30 years** vs 5-7 years in early 1990s.

Scope of Retail Banking in India

- Rising economic activity.

- Growing **rural purchasing power** (SB, gold loans, two-wheeler loans, insurance).
- Huge household base: about **30 crore** households, **40 crore** middle class; 'save less and spend more'.
- **Nuclear families** multiply banking needs.
- **Tax benefits** on housing principal, housing and education loan interest; under **Income-tax Act, 2025** (from **1 April 2026**) mainly in the **old regime**.
- **Digital public infrastructure**: Aadhaar, UPI, Account Aggregator.

Future of Retail Banking

- **COVID-19** made digital the norm. Fintechs lead UPI apps; UPI run by **NPCI** (not-for-profit, bank-owned, RBI-authorised). **APIs** enable **experiential banking**.
- **BaaS**: fintechs/NBFCs build services on a regulated bank's infrastructure through APIs (open banking); bank remains responsible for KYC and fair conduct.
- **Digital Lending Directions, 2025** (8 May 2025): multi-lender platforms, DLA directory. **Co-Lending Directions, 2025** (6 August 2025, effective **1 January 2026**): each lender retains **at least 10%**.
- **Trend 1 – Digital banking**: FIS saw **200%** rise in mobile registrations (April 2020), traffic +85%; benefits – convenience (**most important**), instant payments, features, security (multi-factor authentication), lower fees, reach. **RBI-DPI 516.76** (September 2025, base March 2018 = 100); **e-rupee retail pilot 1 December 2022**; **75 DBUs** on **16 October 2022**; Account Aggregator and **ULI**.
- **Trend 2 – Blockchain** (Forbes): validation, no middleman, decentralisation.
- **Trend 3 – AI**: opex cut **22% by 2030** (Autonomous Research); fraud prevention, anomaly detection, customer analytics, risk management, algo trading/digital credit; RBI **FREE-AI** framework (August 2025).
- **Trend 4 – Cyber security**: clear policy, continuous monitoring, human awareness (**about 95%** of breaches from human error).
- **Trend 5 – Payments**: prepaid transactions about 5 billion (2020-21); **SEPA Instant** about **10 seconds**; **FedNow** July 2023; **ISO 20022** for cross-border interoperability.
- **Trend 6 – Big Tech**: Apple Card; **PSD2** open banking; partners, not threats.

Most Likely in Exam

- Retail aimed solely at HNIs is **private banking**.
- Most important prerequisite: **efficient delivery mechanism**.
- Regulatory retail: up to **Rs 7.5 crore**, **75%** risk weight; consumer credit 125%, cards 150%.
- DICGC: **Rs 5 lakh** per depositor per bank since 4 February 2020.
- New private banks: **22 January 1993**, capital **Rs 100 crore**.
- Payments banks cannot lend; deposit cap **Rs 2 lakh**.
- Zero liability if fraud reported within **3 working days**.
- BCG: retail nearly **60%** of global banking revenue.

CHAPTER 2. RETAIL BANKING ROLE WITHIN THE BANKING OPERATIONS

Introduction

- Retail model depends on: **weight of retail in corporate strategy** and **future business expected** from retail.
- Hence PSB retail models differ from private and foreign banks.

Role of Retail Banking in Bank Operations

Retail banking: serving individuals, households and very small businesses; standardised products, small tickets, customers in lakhs/crores.

- **Stable, low-cost funds**: sticky household deposits; low-cost **CASA** cuts need for bulk deposits.
- **Diversified loan book**: many small loans, low concentration risk, reasonable yields.
- **Fee income and cross-selling**: cards, payments, insurance, MF distribution.
- **Capital efficiency**: regulatory retail risk weight **75%**; from **16 Nov 2023** unsecured consumer credit **125%**, bank credit cards **150%** (housing, education, vehicle, gold, microfinance/SHG excluded).
- **Customer franchise**: data for **CRM**, market for digital products.
- Risk weights as on 30 June 2026; revised Basel III Directions **issued 27 Apr 2026, effective 1 Apr 2027**.

SCB household indicators, March 2026

Indicator	Value
Household share of deposits	**59.3%**
Savings / term deposits	28.7% / 61.6%
Deposit growth (y-o-y)	11.5%
Household share of credit	**58.6%** (growth 14.3%)
Personal loans share of credit	**30.7%** (growth 12.9%)
Total credit growth	14.1%

Source: RBI BSR-1 and BSR-2, March 2026 (released 29 May 2026).

Organisational Approaches to Retail Banking

- **IIBF-sponsored study** of about ten banks (data up to 2007) found three approaches: **SBU**, **Departmental**, **Integrated**.

- **SBU**: autonomous division, **small enough to be flexible, large enough to control** its long-term results; profit centre for a product set or market segment; own head, staff, P&L.
- SBU works as a **Management by Objectives (MBO)** process: agreed customer, business, profit targets; retail module can be **revised or knocked down** without disturbing the bank (e.g. card SBU with three-year breakeven target sold/closed if losses persist).
- SBU users: **new generation private banks**, **all foreign banks**, **one top-five Mumbai-based PSB** (only PSB).
- **Departmental**: division by **function** (accounting, marketing, finance, planning), each with own manager and chain of command; retail department at HO/controlling offices; same branches sell all business; no separate profit centre. Followed by **PSBs**.
- **Integrated**: usually smaller businesses; whole organisation treated as one to lower risk and raise profit through scale; retail plan written into overall business plan. Followed by **old generation private banks** (conservative).
- **PSBs today**: separate retail verticals, **RAM** (Retail, Agriculture, MSME) focus, centralised processing (SBI's **RACPCs**); **EASE** (Enhanced Access and Service Excellence) launched **January 2018**. For exam: PSBs = Departmental.
- Many large banks now run a **hybrid**: business verticals plus shared operations, technology and risk.

Three approaches compared

Feature	SBU	Departmental	Integrated
Basis	Business line/segment	Function	Whole business
Strengths	Focus, accountability; speed, flexibility; easy exit/expansion	Uses branch network; functional control; low set-up cost	Simple, economical; risk pooling; unified customer view
Weaknesses	Silos; cost duplication; short-term pressure	Weak ownership; slow decisions; diluted branch focus	Retail under-prioritised; hard to measure; slow innovation

Business Models: Positioning by Bank Group

Positioning: the place a bank wants in the retail market (e.g. top three among PSBs); strategy follows from it.

- **PSBs**: most aim for **top three in peer group**; one large **western India** PSB aims for top three across all banks.
- **Old generation private**: measured positioning in line with size; a **Tamil Nadu** bank aimed for top three in peer group.
- **New generation private**: **top slot across all banks**; modern technology, clear strategy, aggressive positioning.

- **Foreign banks**: **no positioning goal**, only customer, business, profit targets; SBU on MBO lines; exit unprofitable retail/segments, corporate business continues.

Foreign bank retail exits

Bank	When	What happened
BNP Paribas	Feb 2002	Quit retail as unprofitable
Barclays	Dec 2011	Sold about 1.6 lakh cards to Standard Chartered
RBS	Aug 2013	Cards, mortgages, business banking to RBL Bank
Citibank	Announced Apr 2021; completed 1 Mar 2023	India consumer business to Axis Bank, **Rs 11,603 crore**
Standard Chartered	Jan 2025; Apr 2026	Personal loans (about Rs 3,330 crore) to Kotak; up to about 4.5 lakh cards to Federal Bank
Deutsche Bank	Announced 30 Jun 2026	Retail, private banking, wealth (about 1.5 lakh customers, Rs 16,000 crore deposits) to Kotak; completion by Sep 2027

- **American Express**: banking arm sold to Standard Chartered in **2008**; still issues cards; RBI lifted 2021 curbs on **24 Aug 2022**.

Elements of the Retail Model

- Four **interdependent** building blocks: **products, processes, delivery channels, technology**.
- **Deposits** differ little; success via value additions and service. **Retail loans** are the **bread and butter**.
- PSBs offered standard savings with ATM/debit cards; new gen private and foreign banks the full range.
- **No PSB** in the study offered wealth/portfolio management.
- Remote channels: ATMs, internet, phone banking, call centres; foreign banks use DSAs except for HNI clients.
- **DSA** only sources loans; credit decision stays with bank.
- Today centralised processing is standard in PSBs; all banks run on **CBS**.

Bank groups compared (IIBF study)

Feature	PSBs	Old gen private	New gen private / Foreign
Processing	Branch stand-alone	In-house, partly central	Centralised hubs / outsourced
Acquisition	Branch	Branch	DSAs + remote channels
Technology	In-house	Mixed	Outsourced, vertical CBS

Most Likely in Exam

- Three approaches: SBU, Departmental, Integrated.
- SBU = autonomous profit centre run as MBO; module can be knocked down.
- PSBs: Departmental (except one top-five Mumbai PSB: SBU).
- New gen private and foreign banks: SBU; old gen private: Integrated.
- Foreign banks: no positioning goal, only business objectives.
- Risk weights: retail 75%, unsecured consumer 125%, cards 150% (16 Nov 2023).
- Households: 59.3% of deposits, 58.6% of credit (March 2026).
- Citi India consumer business to Axis Bank, completed 1 Mar 2023.

CHAPTER 3. APPLICABILITY OF RETAIL BANKING CONCEPTS AND DISTINCTION BETWEEN RETAIL AND CORPORATE/WHOLESALE BANKING

Introduction

- **Growth drivers**: IT progress, macroeconomic change, financial market reforms, micro-level demand/supply factors.
- **Promise**: right product, right price, right place, right time (four 'rights').
- **Why all banks adopted retail**: huge customer base; many products; better pricing (little bargaining power); **cross-selling** (more products) and **up-selling** (higher-value product); risk spread thinly.
- Banks break **silos**, re-engineer products to raise **share of customer's wallet**.
- **Three multiples**: multiple **products** (deposits, loans, cards, insurance, investments, securities); multiple **channels** (branches, call centres, internet, mobile, kiosks); multiple **customer groups** (consumers, small businesses, corporates mainly as channel to employees).

Applicability of Retail Banking Concepts

Bank-group comparisons: **IIBF study** by **Dr J. Sethuraman** (10 banks: 6 PSBs, 2 old private, 1 new private, 1 foreign; data to **March 2007**).

- **Implementation models** (who does the work): **in-house sourcing**; **partial outsourcing** (few activities out); **predominant outsourcing** (most out); **end-to-end outsourcing** (front and back end, under bank's control).
- Choice depends on products, processes, technology readiness, delivery capability, regulation.
- **PSBs**: in-house; outsourced only card issue; regulation a major reason. **Old private**: in-house. **New private**: balanced, tilted to outsourcing (some outsourced asset side only). **Foreign**: mostly outsourced; some kept front end (HNI acquisition).
- **Managing Risks in Outsourcing Directions, 2025** (issued **28 Nov 2025**; financial, IT, cloud). **Never outsourced**: internal audit, compliance, loan sanction, KYC decisions, investment portfolio. Bank's responsibility unchanged.
- Commonly outsourced: DSAs, document checks, card processing, call centres, recovery agents.
- **Co-Lending Arrangements Directions, 2025** (issued **6 Aug 2025**, effective **1 Jan 2026**): each lender keeps at least **10%** of every co-lent loan.

BCG process models

Model	How it works	Cross-selling
Horizontally organised	Modular; product-wise process and solution	Weak: product-wise data
Vertically organised	Functions across products; one central customer database	Strongest: single customer view
Predominantly horizontal	Mainly product-oriented; common data for some products	Limited
Predominantly vertical	Common data for most products	Strong

- **BCG** study 'Transforming Retail Banking Processes': based on technology and customer interface.
- **Horizontal = product-wise data; vertical = customer-wise data.**
- **PSBs**: horizontal (one western-India PSB predominantly vertical). **Old private**: mixed (Karnataka bank horizontal; Tamil Nadu bank blend). **New private**: vertical. **Foreign**: predominantly vertical.
- Today **CBS** moved all groups towards vertical.
- **Business approaches**: **Segmented**: branches as **Resource, Profit, Priority, General Centres**; **Geography-based**: regional products; **Classification-based**: **Rural, Semi-urban, Urban, Metro**.
- PSBs, old private: holistic corporate model. New private: segmented plus classification. Foreign: own plan.

Product Models and Retail Liability Products

- Retail banking = **multiple products to multiple customers through multiple channels, at a profit**. Indian customer groups: individuals, MSMEs.
- Portfolio: liability, asset, other services, third-party products.
- Liability: **Savings, Current, Term Deposit**; differentiated by value additions ('plain vanilla' to value-enriched).
- **Savings features**: cards, multi-city cheques; internet/mobile banking; group insurance (life, family floater health, accident); loan processing concession; **sweep**.
- **Sweep**: excess to FD (**sweep-out**), back when needed (**sweep-in**). Example: threshold **Rs 50,000**, balance **Rs 1,50,000**, so **Rs 1,00,000** earns deposit interest.
- **Current accounts**: plus auto or fixed overdraft limit.
- IIBF study: PSBs: SB with card, often accident cover; some sweep, 'super savings'. Old private: add-on life cover. New private/foreign: all. Difference **wafer-thin**; value addition decides.
- **Term deposits** (monthly, quarterly, cumulative): **deposits in units** (partial withdrawal), **built-in overdraft** (like cash credit). Group life/health only on demand deposits.
- **Retail deposits**: stable core, interest-insensitive, low-cost, base for CRM.

Retail Asset Products

- Retail loans: **backbone of revenue**; cross-selling built around them.
- Retail assets up to **40 to 45% of total assets** in some banks (IIBF study period). Reasons: stability, spreads, diversification.
- Personal loans **Rs 69.40 lakh crore** at end-March 2026, about **one-third** of non-food credit (**Rs 212.91 lakh crore**); growth **16.2%** y-o-y vs **11.7%** a year earlier.

Personal loans, end-March 2026

Segment	Rs lakh crore
Housing (largest)	33.56
Other personal loans	17.32
Vehicle loans	7.39
Loans against gold jewellery	4.61
Others* (consumer durables 0.22, FD advances 1.69, shares/bonds 0.11)	2.02
Credit card outstanding	2.94
Education loans	1.56
Total	69.40

- Source: RBI Sectoral Deployment of Bank Credit, March 2026 (released 30 April 2026); *combined by author from three RBI sub-items. Housing nearly **half**.
- **Standard products**: housing, consumer durable and car loans, credit cards, mortgage loans (loan against property), personal loans (usually unsecured).
- **Other loans**: loan against rental receivables; salary overdraft and loan against securities; loans to traders; loans to professionals; **overdraft against unencumbered car/house** on **market value**.
- **Advantages**: yield; deployment avenue; lower NPA perception; economic revival; lifestyles; little marketing effort; diversification; fee income; innovation.

Other Products and Services

- **Service tools**: plastic cards (credit, debit, ATM, gift), digital channels, capital market services (depository, broking).
- **Third-party/other**: insurance, MFs, gold coins/bonds, bill payment, multi-city cheques, payment gateways, wealth management, **PMS**, private banking.
- **Twin objectives**: meet multiple needs in one place; raise **fee income**.

- IIBF study: some private banks earned **over 50%** of revenue from fees. **2024-25**: SCB 'other income' up **14.7%** to about **Rs 3.75 lakh crore**, about **one-seventh** of total income (RBI Trend and Progress 2024-25).
- IIBF study: PSBs were **corporate agents** for insurance, sold MFs; **no PSB offered wealth management/PMS**; new private/foreign full bouquet.
- Now: all PSBs offer UPI, digital banking; **no fresh SGB tranche since February 2024**.

Product Development in Retail Banking

- **Methods**: **in-house, research-based** (hybrid cross-pollination plus value engineering); **market-led / 'follow the leader'** (no research, or copy the leader); **top management-led** (no research).
- Segments: NRIs, HNIs, mass affluent, salaried, professionals, women.
- **PSBs**: in-house; **top management views main driver**; geography little weight; branch type due weight. **Private**: in-house, independent; also competitor positioning.
- **Ideal cycle (7 steps)**: market survey, need identification, product development, pilot test, feedback, fine-tuning, final roll-out.
- PSB market surveys **in-house only, never outsourced**.

Process Models for Products and Services

- **Approaches**: fully in-house (PSBs, old private); partly outsourced (new private); fully outsourced with bank's standards (foreign).
- **Retail asset models**: **Centralised Retail Asset Processing Centre** (disburses itself or branch disburses); centralised for some products; **regional processing hubs**; **standalone branch**.
- PSBs: regional hubs/branches. Old private: standalone. New private: blended. Foreign: centralised. Today PSBs use centralised centres (**SBI's RACPCs**).
- **Liability**: opening, passbook, cheque book, card, PIN mailer **'tangibilise'** the service. Models: centralised; regional; partly centralised (cards, cheque books central, accounts at branch); standalone. PSBs: standalone; foreign: centralised.
- **Single-stage**: FD, car loan. **Multi-stage**: housing loan, savings/current account.
- **Process time** (application to sanction) = key measure. A south PSB used **Six Sigma**; other PSBs **2 to 15 days**. New private/foreign **separated sanction from release time**.

Pricing of Products and Services

- **Variables**: market dynamics, risk perception, return expectations, tenor, resources position, ALM position, customer profile. Regulatory advice overt and covert; cost-based pricing merged with **ALM**.
- PSBs: mainly ALM-based. Old private: slightly aggressive. New private/foreign: aggressive, price races.

- **Step-up (teaser)** housing pricing: low start, market rate **after 3 years**; RBI standard-asset provision **2%** on teaser loans (**December 2010**). External benchmark now leaves little room for teasers.
- **Price structuring**: standalone; quantum/volume fine-tuning; **price bundling** (package cheaper than separate); relationship concessions; repayment rebate. PSBs used little bundling.
- **Hidden pricing**: free remittances/DDs, charge waivers; almost all banks.

Loan rate = External benchmark + Spread

- **External benchmark**: new floating-rate retail and MSE loans from **1 Oct 2019**; medium enterprises from **1 Apr 2020**; now in **Interest Rates on Advances Directions, 2025** (28 Nov 2025). Benchmarks: **repo rate**, FBIL **3/6-month T-Bill** yield, other FBIL benchmark; reset at least once in **three months**.
- **MCLR** (from **1 Apr 2016**) for other floating loans. **KFS with APR** for retail and MSME term loans from **1 Oct 2024**.
- **Penal charges** not penal interest from **1 Apr 2024**; not compounded. **No prepayment charge** on floating loans to individuals (non-business): issued **2 July 2025**, for loans from **1 Jan 2026**.
- **Bulk deposit**: single rupee TD **Rs 3 crore and above** (SCBs other than RRBs, SFBs) may carry differential rates; retail gets uniform card rates.

Technology Models in Retail Banking

- Three models: **in-house, outsourced, partly both**. PSBs mainly in-house; old private outsourced (scale of CBS move); new private, foreign mostly outsourced.
- **PSB journey**: standalone **ALPMs**, total branch automation and regional networked hubs, then **CBS**. New private banks began with a **single server** environment.
- Today: CBS universal in SCBs; UPI/internet/mobile in all groups; **DBU** guidelines **7 April 2022**, **75 DBUs in 75 districts** in **October 2022**; **Account Aggregator** for consent-based data sharing.

Sustainable Retail Banking: Future Models

zeb 2019 archetypes

Core strength	Archetypes
Customer centricity (broad to narrow)	Ecosystems (incl. non-banking); Trusted advisors (expert advice); Supermarkets (many providers, self-directed); Focused digital players (narrow, digital)
Value chain focus	Product specialists (lead in categories); Utility banks (B2B, licence and back end to non-banks); BaaS providers (back end to other FIs)

Distinction between Retail and Corporate/Wholesale Banking

Retail vs corporate banking

Basis	Retail	Corporate/wholesale
Target customer	Individuals	Mainly corporates
Market	Mass market	Select client base
Approach	B2C	B2B
Ticket size	Small	Large
Risk	Spread widely	Concentrated, few large borrowers
Returns	Higher; better spreads	Lower; finer rates
Monitoring/recovery	Laborious; many accounts	Fewer accounts
Cost of deposits	Lower; card rates	Higher; negotiated
Impact of NPAs	Less pronounced	More pronounced

- **Regulatory retail portfolio** (Basel III standardised): **75%** risk weight if all four tests met: **orientation** (individual or small business, turnover up to **Rs 50 crore**); **product** (revolving credit, line of credit incl. OD, term loan, lease, small business facility); **granularity** (no counterparty over **0.2%** of portfolio); **low value** (max **Rs 7.5 crore** per counterparty, raised from Rs 5 crore in **October 2020**).
- From **16 Nov 2023**: unsecured consumer credit **125%**, credit card receivables **150%**; housing, education, vehicle, gold loans excluded. New credit risk directions **issued 27 Apr 2026, effective 1 Apr 2027**.
- **Large Exposures Framework**: single counterparty **20%** of Tier 1 (**25%** with Board approval); connected group **25%**.
- **LCR run-off** on retail deposits: **5%** stable, **10%** less stable, plus **2.5%** if internet/mobile-enabled (**7.5%/12.5%**); issued **21 Apr 2025**, effective **1 Apr 2026**.
- SCB **GNPA 1.8%** at end-March 2026 (FSR June 2026). Personal loans GNPA **1.2%** vs agriculture **6.1%** at end-March 2025 (FSR June 2025).

Most Likely in Exam

- Three multiples: products, channels, customer groups.
- Loan sanction, KYC decisions, audit, compliance cannot be outsourced.
- BCG: horizontal = product-wise data; vertical = customer-wise data.
- Segmented approach: Resource, Profit, Priority, General Centres.
- Single-stage: FD, car loan; multi-stage: housing loan, SB/CA.
- Teaser rates reset after 3 years; 2% provision (Dec 2010).
- External benchmark from 1 Oct 2019; KFS with APR from 1 Oct 2024.
- Regulatory retail: 75% RW, Rs 7.5 crore cap, 0.2% granularity.

CHAPTER 4. BRANCH PROFITABILITY

Banking System in India

- Regulated by **RBI** under **Banking Regulation Act, 1949**: passed as **Banking Companies Act, 1949**, in force **16 March 1949**, present name from **1 March 1966**.
- **Phase I (1770–1969)**: Bank of Hindostan (1770); 3 Presidency Banks into **Imperial Bank (1921)**; RBI **1 April 1935**; **SBI (1955)**.
- **SBI (Subsidiary Banks) Act, 1959**: 8 associates (7 after 1963); last five merged **1 April 2017**.
- **Phase II (1969–1991)**: **14 banks** nationalised **19 July 1969**; **6** on **15 April 1980** (total 20).
- **Phase III (1991–)**: **Narasimham Committee** (1991; 1998): private/foreign entry, rate deregulation, CRR/SLR cuts; private bank guidelines **January 1993** (2001, 2014); SFBs, payments banks (2015).
- **Four risks**: **credit**, **liquidity**, **market**, **operational** (incl. fraud). Subprime crisis **2007–08**.
- **End-March 2025**: **139** commercial banks: PSBs **12**, private **21**, foreign **44** (2 WOS), SFBs **11**, payments banks **6** (cannot lend), LABs **2**, RRBs **43** (**28 from 1 May 2025**, One State One RRB: 26 into 11). StCBs **34**, DCCBs **351**, UCBs **1,457**.
- PSB share (once over 70%), end-March 2025: **54.9%** balance sheet, **58.8%** deposits, **56.2%** advances.
- End-March 2021: gross NPAs about **Rs 8.34 lakh crore**, net **Rs 1.97 lakh crore**; contagion risk; **Kingfisher** (from 2011-12), **PNB LoU fraud (2018)**.

SCB indicators (latest)

Indicator	Value	Period / later
RoA	1.4%	2024-25 (1.3% H1 2025-26)
RoE	13.5%	2024-25 (12.5% H1 2025-26)
NIM	3.1%	2024-25 (3.3% 2023-24)
Net profit growth	14.8%	2024-25
Gross NPA	2.2%	End-Mar 2025 (1.8% end-Mar 2026, multi-decade low)
Net NPA	0.5%	End-Mar 2025 and end-Sep 2025
Slippage	1.4%	2024-25 (1.2% 2025-26)
CRAR	17.4%	End-Mar 2025 (17.7% end-Mar 2026; CET1 15.3%)
CD ratio	79.2%	End-Mar 2025 (80.5% end-Nov 2025)

Profit and Profitability

- **Profit**: **absolute** amount (revenue minus expenses). **Top line** = sales; **bottom line** = profit after all expenses.

- **Profitability**: profit relative to sales, assets or equity; **relative**, gauge of **efficiency**.
- A firm can show profit yet have poor profitability.
- P: Rs 2 crore on Rs 200 crore = **1.0%**; Q: Rs 1.5 crore on Rs 100 crore = **1.5%**: Q more profitable.

Gross, Operating and Net Profit

Gross Profit = Total Sales - COGS; Gross Profit Margin = Gross Profit / Total Sales x 100

Operating Profit (EBIT) = Gross Profit - Operating Expenses (SG&A)

Net Profit = Operating Profit - (Interest + Taxes); each margin = profit / total sales x 100.

- **Company A**: sales Rs 1,00,00,000; COGS 60,00,000; gross **Rs 40,00,000 (40%)**; opex 20,00,000; operating **Rs 20,00,000 (20%)**; interest + tax 10,00,000; net **Rs 10,00,000 (10%)**.

Profitability in Banking

- Main income **interest on assets** plus fees; main expense **interest on liabilities** (short-term market money via **CDs**).
- **Leverage (gearing)**: borrowed funding makes ROE many times ROA.

NII (Spread) = Interest Earned - Interest Expended

Operating Profit = NII + Other Income - Operating Expenses; Net Profit = Operating Profit - Provisions and Contingencies - Tax

Burden = Non-interest Expenses - Non-interest Income; Operating Profit = Spread - Burden (lower burden, more operating profit).

- **Bank X** (Rs crore: interest earned 1,000, expended 600, other income 150, opex 300, provisions 50, tax 50): NII **400**; operating profit **250**; net profit **150**; burden **150** (400 - 150 = 250).

Return on Assets

Assets = Liabilities + Bank Capital (Owners' Equity); Bank X: 11,000 + 1,000 = **Rs 12,000 crore**; owners fund about **8.3%**.

- **Low/no-earning assets**: cash, **CRR** balances, **SLR** securities (below loan rates), **NPAs** and provisions.

Interest Rate Spread = Average Rate Earned on Assets - Average Rate Paid on Liabilities

- Bank X: 10% earned - 6% paid = **4 percentage points**.

NII = (Interest on Securities + Loans) - (Interest on Deposits + Borrowings); NIM = NII / Average Total Assets x 100

- RBI uses total assets (banks often earning assets, higher). Bank X NIM = 400 / 12,000 = **3.33%**; SCB **3.1%** (2024-25).

Average Total Assets = (Opening + Closing Total Assets) / 2; Bank X: (11,500 + 12,500) / 2 = **Rs 12,000 crore**.

ROA = Net Income / Average Total Assets x 100 = (NII + Fee and Other Income - Opex - Provisions - Tax) / Average Total Assets x 100

- (NII + fees - opex) / assets is **operating profit to assets**, higher than ROA. Bank X: operating profit/assets **2.08%**; ROA = 150 / 12,000 = **1.25%**.

Return on Equity and Leverage

ROE = Net Income / Average Bank Capital (equity plus reserves) x 100; Bank X: average equity (950 + 1,050) / 2 = 1,000; ROE = **15%**.

- Narrow spread (market deposit rates, competitive loan rates), so banks lend more per rupee of capital.

Leverage Ratio (Equity Multiplier) = Bank Assets / Bank Capital; Bank X: 12,000 / 1,000 = **12 times** (bank's version of debt ratio).

ROE = ROA x Leverage Ratio = Net Income / Bank Capital; Bank X: 1.25% x 12 = **15%**; SCBs 2024-25: 13.5 / 1.4 = about **9.6 times**.

DuPont: ROE = (Net Profit / Total Income) x (Total Income / Total Assets) x (Total Assets / Equity) = net profit margin x asset utilisation x equity multiplier.

- Bank X: total income 1,150; margin **13.04%**; asset utilisation **9.58%**; multiplier **12**; ROE **15%** (first two give ROA 1.25%).
- Assets 100, capital 5: leverage **20 times**; ROA 1% gives ROE **20%**; **5%** asset fall wipes capital. Wipe-out = **1 / leverage** (10% at 10x).
- **RBI Basel III leverage ratio** (Tier 1 / total exposure): **4% D-SIBs**, **3.5% others**; circular **28 June 2019**, effective **1 October 2019**.
- US: **4%** (**5%** well capitalised); multipliers around **10-12 times**. Revised **PCA** (issued **2 November 2021**, effective **1 January 2022**): capital, net NPAs, leverage.
- **Lehman** (founded 1850): leverage about **30.7 times** (November 2007); bankrupt **15 September 2008**; a **3.3%** fall wiped capital.

Branch Operating Efficiency

- **Operating efficiency**: best value for money on all spending; **balanced approach**, not cost-cutting alone.

- **Pressures**: changing customers; new competition (fintechs, big tech); new technology; heavy investment; margin pressure.
- **Scalable processes**: income +15%, costs +6% = more efficient.

Cost-to-Income Ratio = Operating Expenses (excl. provisions) / (NII + Other Income) x 100; lower is better. Bank X: 300 / 550 = **54.5%** (about 55 paise per rupee).

Business per Employee = (Deposits + Advances) / Employees; Profit per Employee = Net Profit / Employees

- **Branch A** (deposits 100, advances 60, 20 staff, profit Rs 2.05 crore): business **Rs 8 crore**; profit **Rs 10.25 lakh** per employee.

Strategies to Improve Operating Efficiency

Targeted, data-driven approach, not across-the-board cuts: **17 strategies** under three heads.

17 efficiency strategies

Head	Strategies (key idea)
Structure, channels, processes	1 Business realignment (exit low-margin); 2 Channel optimisation; 3 Process costs (unit cost-to-value, factory view); 4 Staff productivity (line-of-sight incentives); 5 Technology (self-service, quick information, automated decisions); 6 Vendor management (SLAs)
Customers, pricing, service	7 Bundling, relationship pricing (total customer value); 8 360-degree view; 9 Segmentation; 10 Real-time cross/up-selling (moments of truth); 11 Reward design (co-branded cards); 12 Automated care
Digital, data, branch, culture	13 Digital (linked branches thrive); 14 Big data (MuleHunter.AI); 15 Seamless multi-channel; 16 Branch design (75 DBUs, 16 October 2022); 17 Efficiency culture

- **Segmentation**: banking metrics; **psychographic** (values, lifestyle); **behavioural** (usage, loyalty); **demographic** (occupation, income).
- **Big data**: lower fraud costs, fewer false positives, real-time detection, better offers.
- Digital about **99.8%** of payment volume (2025); UPI **85.5%** (H2 2025).

Factors Affecting Bank Profitability

Profitability factor groups

Group	Main factors	Effect
Macro-economic	GDP growth, inflation, interest rate level	GDP (+); inflation (-); low rates with competition (-)
Industry-specific	NPAs, competition, cost of funds, deposits to GDP	NPAs most adverse (-)
Bank-specific	Deposits, non-interest income, NIM, capital, efficiency, operating costs	Mostly within management control

- NPAs, cost of funds: partly internal.
- **Non-interest income**: commission, service charges, fees, guarantee fees, profit on sale of investments, forex profit. Deposits: **positive** link with profit.

Profitability Analysis of Branches

- Branch profitability is the **starting point**, not full branch value (inclusion, cheap deposits, fees).
- **FTP (Funds Transfer Pricing)**: Head Office internal rate; surplus branch **credited** notional interest, deficit branch **charged**; interest rate risk stays with **Treasury**; can give higher credit for CASA.

Branch Profit = (Interest on Advances + FTP Credit + Fee Income) - (Interest on Deposits + FTP Charge + Opex + Provisions)

Branch A vs Branch B

Item (Rs crore)	Branch A	Branch B
Deposits / advances	100 / 60 at 9.5%	80 / 120 at 9.5%
FTP at 7%	Credit 2.80 (surplus 40)	Charge 2.80 (borrows 40)
Income	9.10 (5.70 + 2.80 + 0.60)	12.20 (11.40 + 0.80)
Deposit interest	4.95	3.96
Total expenditure	7.05	9.56
Branch profit	2.05	2.64

- Deposits: current nil, savings 2.5%, term 7%. Branch A cost-to-income **45.8%**. FTP makes branches comparable.

- **Indicators**: per-employee; cost-to-income; CASA, CD; gross NPA; fees, products per customer; break-even business.

Steps to Improve Branch Profitability

- Steered via **transfer pricing** and **KPIs**; branch is **costliest channel**.
- **8 strategic**: balance profit, growth, risk; strategic fit/role; customer base (wallet share); best prospects; competition; specific goals; marketing campaigns; redefine future model.
- Retention (US literature): 1 product **18 months**, 2 **4 years**, 3 just under **7 years**; **73%** of US community bankers ignored wallet share.
- **8 operational**: NPA reduction; quality loans; non-interest income; CASA; minimum cash; cost management; customer relationships; courteous branch head.
- **NPA**: substandard up to 12 months; doubtful **D1** (up to 1 year), **D2** (1-3), **D3** (over 3); loss once identified. Tools: demand notices, **SARFAESI Act, 2002**, suits, OTS.
- **Internal benchmarks (bank-set, not RBI)**: gross NPA **below 3%**, CD **about 70%**, CASA **above 35%**, cash **below 1%** of deposits. SB rate deregulated **25 October 2011** (about 2.5%-3%); SCB CASA about **37%** (end-March 2025, computed).

Gross NPA Ratio = Gross NPAs / Gross Advances x 100; Branch A: 2.4 / 60 = **4%**; recovery needed **Rs 0.6 crore** to reach 3%.

CD Ratio = Advances / Deposits x 100; Branch A **60%** (room to lend); Branch B **150%** (leans on Head Office).

CASA Ratio = (Current + Savings Deposits) / Total Deposits x 100

- Branch A CASA **40%**; shifting 10 from term to savings cuts cost 4.95 to 4.50: saving **Rs 0.45 crore** a year (CASA 50%).
- Excess cash 0.5 x 7% FTP = **Rs 3.5 lakh** a year lost.
- Principle: **one size does not fit all**.

Continuous Improvement in Profitability

- **Continuous process**; depends on location, segments, competition, resources, staff, size.
- **Review**: improve processes; KPIs; general costs; cut waste; pricing; test prices first; best customers; bargain with suppliers; long-term deals; new opportunities; benchmark.

Most Likely in Exam

- ROE = ROA x Leverage; Bank X 1.25% x 12 = 15%.
- NIM = NII / Average Total Assets; SCB 3.1% in 2024-25.
- Operating profit = Spread - Burden; Burden = non-interest expenses - non-interest income.
- 20 times leverage: 5% asset fall wipes out capital; Lehman about 30.7 times.
- RBI leverage ratio minimum: 4% D-SIBs, 3.5% others, from 1 October 2019.
- NPAs have the most adverse impact on bank profitability.
- FTP: surplus branch credited, deficit branch charged notional interest.
- Internal benchmarks: GNPA below 3%, CD about 70%, CASA above 35%.

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