

PGDM (RM) 2018-20
Retail Banking
RM-412

Trimester – IV : End-Term Examination : September 2019

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

Section A : Attempt 3 out of 6 questions as per below choices. All questions carry 10 marks each (Total 30 Marks).

Ques A1a List out third party products offered by banks with details. How does cross selling of third party products lead to growth of bank business !! (CILO 3)

OR

Ques A1b Define Priority Sector lending. What are the different categories of Priority Sector loans !! Explain with examples. (CILO 3)

Ques A2a Explain main features of Branch Banking (including accounts), Mobile Banking, ATM channel of Banking, Debit Cards and Credit Cards. (CILO 2)

OR

Ques A2b What are the different components of Retail Foreign Exchange in a bank !! Elucidate in detail with examples. (CILO 2)

Ques A3a "The customer segmentation in banking can be listed under five broad market segments". Explain their essential features with their practical relevance in the growth of banking business. (CILO 3)

OR

Ques A3b Outline the targets and sub-targets for banks set by Reserve Bank Of India under Priority Sector advances. (CILO 3)

Banks Wary of Big Rate Cuts, Fear Hit on Deposit Growth

Despite mounting pressure to reduce interest rates across the spectrum, banks are wary of slashing retail deposit rates beyond a few basis points, as doing so would make it tougher to garner deposits in a competitive landscape where incremental savings are hard to come by.

Bankers have expressed concerns over the falling deposit rates, especially for senior citizens, who largely live on their interest earnings.

In other words, banks are protecting small depositors who account for 80-90% of their liability portfolios, even at the risk of slightly lower interest rate margins. This also means that the monetary transmission would remain slow and partial.

State Bank of India Chairman Rajnish Kumar recently said deposit rates cannot be lowered beyond a point as this would hurt small savers. There is a need to protect senior citizens from falling deposit rates as they largely depend on interest income, he said. SBI, the nation's largest bank, has only linked bulk deposits to repo rate while Allahabad Bank has linked savings bank deposits above Rs 40 lakh to the external benchmark. Past experiments with floating rate term deposits to ensure better and quicker policy-rate transmission have largely been unsuccessful.

On the asset side, only home loans or Mudra loans are being linked to repo rate, which would make the transmission of lower repo rate automatic for new borrowers in these segments.

"We have a commitment to small depositors as they can't plan their cash flows well. There is certain stickiness to individuals' savings behaviour. That stickiness is important for the economy," Allahabad Bank Chief Executive SS Mallikarjuna Rao said. "On a larger perspective, savings need to be promoted."

Stickiness in deposit rates remained the biggest hurdle in rate transmission. Reserve Bank of India has lowered repo rate by 110 basis points since February, while banks have on an average transmitted around 40 bps through their MCLR. State-owned lenders have transmitted more than their private sector rivals.

"Upfront capital infusion is positive for PSU banks, but faster rate transmission by PSU banks will arrest their expected net interest margin (NIM) improvement," Nomura said in a research note.

United Bank of India chief executive Ashok Kumar Pradhan said that NIM around 2.5% can be considered as low in the Indian context, given the banks' social banking mandates. "Ideally, NIM should be around 3%, given the volatility in the banking sector," Pradhan said.

SBI's Group chief economic adviser Soumya Kanti Ghosh said that a 100-basis point cut in deposit rates could result in 45-50 basis point reduction in lending rates. "Interestingly, small savings rates are not a constraining factor as incremental small savings collections are merely 11% of incremental deposits! However, in a developing country like India, cutting deposit rates always remains a challenge, given that senior citizens depend on interest income from deposits as a source of livelihood," Ghosh said.

Questions on Case Study (10 marks each)

Ques 1 : Evaluate the contents of the case study in your own language and the main issues raised.

Ques 2 : What is better in the Indian context : higher interest rates or lower interest rates !! Elucidate with examples.