

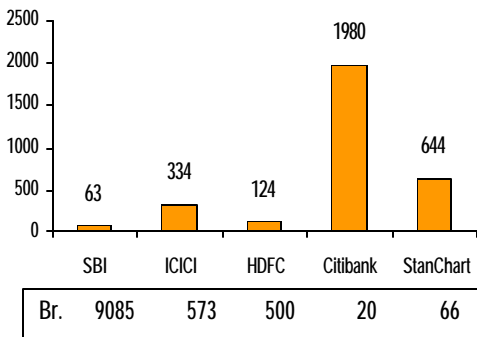
Branch Banking: Not going anywhere, anytime!

Massive strides in technology accompanied by evolving consumer needs have changed the way Indian banks serve their urban customers. The regular visits to the local bank branch, and personal acquaintance with its manager, has given way to anytime, anywhere and largely anonymous banking for routine transactions. The hype around self service delivery channels seems to suggest urban customers no longer care about branches. Or do they?

Branching away

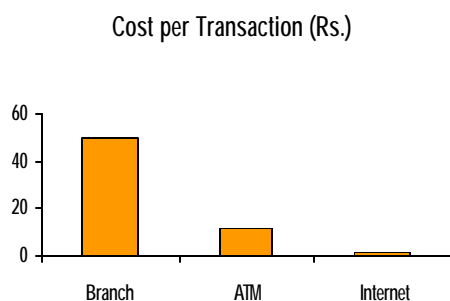
Traditional Indian banks led by the public sector giants, have always flexed their distribution muscle. Technology, the great leveler, helped private and foreign banks with tiny branch networks challenge their dominance. ICICI bank boasts a business of Rs.190,000 crores, 1/3rd that of SBI, with a physical network that is 1/16th the size. A few years ago, nearly all business was conducted at ICICI branches; that number is down to a quarter, with ATMs taking care of more than half of all transactions. Comparison of branch productivity proves that a pervasive brick and mortar network is no longer the only route to customer acquisition – Citibank generates 32 times the amount of business per branch compared to SBI.

Business per Branch (Rs. cr)



Other private banks have similar stories to tell, and they are no longer alone. Public sector banks have woken up to the reality of changing customer expectations, and have pursued a strategy centred on technological advancement.

The economics is undeniable – a transaction conducted via the Internet costs barely 5% of one that is executed in a branch. Small wonder, that banks are actively encouraging their customers to bank as far as possible away from a branch. Armed with a 24x7 convenience of being able to bank from wherever they choose, today's busy customers seem happy to oblige. But facts state that despite the hype, only certain channels have taken off.



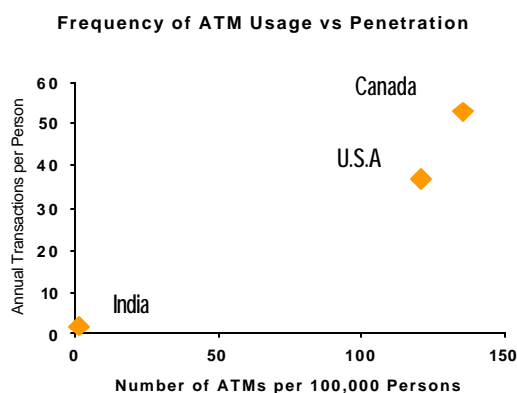
Bank anywhere but “there”

Reduced costs, increased customer convenience and wider opportunities to cross-sell are the main drivers of the shift towards non-branch banking. So much so, that banks reward customers not to come to their doorstep. And given the myriad ways in which customers can transact, there's really no need to go anywhere for routine jobs. However, customers have mainly favoured the ATM thus far, indicating that the proliferation of channels is supplier driven.

ATMs, here to stay: The Automated Teller Machine is undoubtedly the most popular medium. The number of ATMs connected to Visa and MasterCard networks grew over 13 times in 5 years, to touch about 17,000 in 2005.

When they started out, banks with a retail focus like ICICI and HDFC and the lead foreign players used their exclusive ATM networks as a differentiator and a tool to acquire customers. This model has given way to one in which the ATM is focused on customer convenience and banks are happy to acquire transactions by sharing networks. Several multilateral networks led by Cashnet (5000) and NFS (4100) have sprung up in no time. 50% of all transactions and 80% of cash transactions at ICICI bank happen at their ATMs. State Bank of India, although a late entrant, now towers over the rest with its 5300 strong ATM network, over twice that of rival ICICI. 11 million SBI card holders generate 1 million transactions of all types, (including 65,000 on ATMs) worth Rs.70 crores daily.

Comparison with mature markets like Canada and the United States show that a high ATM penetration is accompanied by more frequent usage. Thus, while the ATM may have driven some transactions away from the branch, it offers the chance to touch customers more frequently by offering a bundle of (not necessarily banking-related) services. In India too, the ATM is being used to deliver value added services like utility bill payments and mobile phone recharges. Although it is still at a nascent stage, this is seen as an important source of revenue and a way to increase the intensity of transactions.



Information collected at ATMs is mined for furthering cross-selling opportunities. Clearly, the ATM is poised to assume a larger presence on the retail banking stage.

Phone Banking, catching on: This is the most popular option after the ATM. Banks not only operate their own call centres, but also leverage this expertise by managing call centres for international institutions that wish to offshore. About 12% of ICICI's transactions happened over the phone line some years ago.

Cards, great going, but still a long way off: It is estimated that there are about 44 million valid credit and debit cards in circulation. While barely 7% of the population holds a credit card, an impressive 35% growth is expected annually through 2010. Card spending accounts for a paltry 2 - 3% of retail industry turnover, but even that means routine cash withdrawal transactions worth about Rs.20,000 crores may have been diverted from the physical bank branch.

Internet, still foggy: Although ICICI Bank pioneered online banking in India eight years ago, it has been on the rise only since 2000, when Internet usage became more affordable, and increased in penetration. On the supply side, before banks could offer online banking, they had to build a multi-channel architecture that was capable of serving all future delivery channels.

Security concerns have held back the growth of online and mobile banking.

A study by IDC few years ago estimated that the total number of registered online banking accounts was over two million, of which about half were "active". Although online banking penetration is minute, it reveals that 1/6th of all Internet users also banked online, and is only set to grow. For example, from modest beginnings, ICICI Bank's internet user base has grown to nearly 20%. Being the most cost effective of all delivery channels, banks would welcome a large scale migration of transactions to online banking. Besides, it also gives them the opportunity to offer a bundle of services to their customers. However, concerns about security and the effectiveness of a legal fallback and a generally low level of internet literacy remain huge hurdles – this is particularly so for Public Sector Banks, which have a more conservative, older clientele, based in smaller towns.

Mobile Banking, still cool: A survey by Dataquest on mobile banking in 2003 estimated a user base of 120,000. While this represented barely 1% of the mobile user base at the time, it was a 12 fold increase over 2001. Different research houses have predicted that global mobile commerce, of which mobile banking is an important part, will touch between US\$25 - 35 billion by 2007. With the scorching pace of growth in mobile telephony in India, it is only a matter of time before this trend catches on. However, lack of awareness and security fears are issues that need to be addressed by banks that wish to make a major play in this area.

Most customers prefer to conduct a sales process in a branch.

Stepping up

Does this mean that branches are losing relevance? Far from it! A study by consulting firm Booz Allen Hamilton in the United States revealed that they are the key to customer relationships - 90% are gained or lost in a branch. *Also, an overwhelming number of customers prefer to conduct a sales process in a branch, leaving only information processes to other channels.* The firm recommends that banks take up the opportunity to position themselves as advisors, and a participant in their customers' systematic financial planning process. Findings from a survey revealed that customers largely perceived branch staff as over friendly sources of general information and not specialist advisors. This suggests that banks must reinvent their branch philosophy to ensure that the entire experience delivers real value to the client, say by imparting new knowledge, or focusing on problem solving. The latter is particularly important, as often, a proactive branch staffer can resolve an issue on the spot, which might not be possible with a self service channel. Banks must also realize that the branch is the only place to allow face to face interaction, the importance of which can never be undermined.

Given that urban India is still coming to terms with self service formats, and that a large population has no exposure to technology, the role of a brick and mortar bank assumes even higher significance. Consider this - India has only 6 branches per 100,000 people as compared to 31 in the United States. Even if we take only the bankable population of about 300 million, it still works

out to 18 branches per 100,000. Obviously, a lot of people are still walking into their local branches in India. Banks must create adequate depth in their relationships through their branches, to ensure that a transition to another channel does not mean a transition to another bank.

Banks try new tricks

There's no dearth of innovation as banks attempt to reach out.

Direct Selling: The use of third party direct selling agents meant fewer people needed to be housed within the bank's branches. Agents are called upon to sell a plethora of products from loans to credit cards, and a process that used to happen within a branch has now been transferred to the customer's location. The flip side to this decentralization is that the selling process moves into the hands of non-specialists with a single minded focus to bring in the numbers. Needless to say, it has a high nuisance value.

Mobile ATMs: The mobile ATM, introduced by a clutch of banks serves the dual purpose of creating awareness, and reaching far flung areas that are not economical to serve with a regular ATM. They are also handy during high traffic events – such as fairs or concerts. Although opinion is divided about the future of mobile ATMs, it is certainly an innovative concept.

Multi-function kiosks and e-lobbies: ICICI and IDBI Banks have experimented with these, which do more than dispense cash by offering a range of transaction and information services to users.

Mobile POS terminals: A recent tie-up between HDFC Bank and Reliance Infocomm for mobile POS terminals may open new frontiers to the credit card, such as cab and home delivery payments.

Home delivery: Turning the branch concept on its head, some banks even deliver cash, traveler's cheques and foreign exchange at home!

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