

Vepa Kamesam: Retail banking - challenges ahead in distribution channels in urban/rural India

Address by Shri Vepa Kamesam, Deputy Governor of the Reserve Bank of India, at the Twenty-Fifth Bank Economists' Conference - 2003, Mumbai, 12 December 2003.

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The promise of lower transaction costs, increased sales productivity, and more convenient service has lured banks into setting up new delivery channels. Earlier, vast brick and mortar branch network has been considered as an inherent advantage of established banks and new entrants were at huge disadvantage vis-à-vis the established players in terms of customer reach. However, post 1990s new players are effectively taking on the branch network advantage of the established players by optimally leveraging technology and cost-effective delivery channels.

The goal for banks' senior management is to turn today's "all things to all people" branch network into highly differentiated system for delivery of multiple products. The foundation for creating such delivery channels is superior insights into customer behaviour. These can come in many forms, but at their most basic they entail understanding customer needs for the delivery of different products, how these needs vary by customer types (including small businesses), current customer behaviour (especially as it relates to channel usage), and customer profitability. It is this multifaceted understanding of customers that yields actionable implications for distribution strategy. Although banks may invest heavily in new delivery channels, the success and sustainability of these channels critically lie in the ability to convert that investment into lower distribution costs. The steps to be followed in making a new distribution channel successful:

- a) Understand customers' current channel/transaction behaviour and their underlying attitude;
- b) Use sophisticated experimental customer research to assess the economic impact of tactics designed to change that behaviour;
- c) Develop an integrated channel migration plan which blends economic and non-economic incentives to ensure that right initiatives are targeted at the right customers;
- d) Protect sales effectiveness by utilizing the ability of non-branch channels to select amongst prospects and differentiate the marketing message;
- e) Design non-branch channels to emphasize personalized interaction to counteract decreased loyalty among remote customers;
- f) Develop tracking mechanisms to allow you to assess and revise your migration strategy on an ongoing basis.

Turning our attention to delivery channels used by banks in India, in comparison with their international counterparts, it is observed that the banks are yet to exploit the delivery channels to the maximum extent technology permits. Increase in off-site delivery channels has led to new product development, speed of transaction processing and reduction in transaction costs. In India the major issue about new technology related delivery channels is their impact on the processing of information, which lies at the core of banking business. In spite of their advantages, reliance on technology based delivery channels often exacerbates traditional risks: operational risk (since it requires changes in procedures), reputational risk (if the bank fails to deliver secure, accurate and timely service) and legal risk (uncertainty about which legislation applies to e-banking transactions), besides emergence of other risks (business and credit risks). ATMs still remain the most successful delivery channel followed by telephone banking and internet banking. With about 9000 off-site and on-site ATMs installed, banks are effectively reaching out to a large customer base at a substantially lower cost. Typically, it costs close to Rs.50 per transaction if conducted in a branch and the same if done through ATM costs about Rs.15. In order to reduce the cost of transaction banks have started out-sourcing and sharing of ATM services and this trend will gather momentum in near future. As this delivery channel gains mass acceptability and is user friendly, the bank can use it to cross-sell its as well as others' products. For example, banks have already started dispensing railway tickets, movie tickets through their ATMs. In future a bank's ATM would function like a kiosk delivering more of non-cash transactions, thereby simultaneously reducing the fixed and operating cost of ATM.

Internet Banking-an emerging delivery channel-offers significant cost advantage to banks. A net-based transaction costs the bank only around Rs. 4 and costs per transaction are even lower than those of an ATM, mainly due to savings on prohibitive real estate costs. Internet Banking has failed to take off due to a combination of psychological, legal, technological and socio-economic factors. Lack of critical mass of early adopters, lack of a strong trust environment, slowness in adoption of the internet, low penetration of PCs and access to internet are some of the impediments in the adoption of internet banking in India. With drastic fall in cell phone tariff and emergence of seamless connectivity between fixed and mobile lines, mobile banking is set to emerge as one of the cost-effective delivery channels in near future. Toll-free-numbers would also gain popularity as an important delivery channel. Although banks abroad are using call centre as a delivery channel for some time, banks in India have just begun to exploit it as an effective non-branch delivery channel.

The bankers will have to take a comprehensive view about their delivery channels. Till now delivery channels were viewed in terms of cost and technology. Delivery channels were devised focussing mainly on time and place advantage to the customers. However, with the continuing advances in wireless technology, flexibility in delivery channel device would be the forte of banks. Successful adoption of wireless technology would help banks to offer not only any time, anywhere, but also any device banking. Further, banks will have to build integrated delivery channels with both vertical and horizontal integration. In order to do so the banks should install an enabling and compatible multi-channel platform which should support and seamlessly integrate both the existing and future delivery channels.

In today's distributed computing environments, retail users sign onto many different applications and systems including email, networks, databases and Web servers each typically requiring its own security procedure. The more systems users must navigate, the more IDs and passwords they must remember.

Systems should be developed in such a way that a customer can use his ATM card and his own ATM PIN (Personal Identification Number) for customer authentication in a Web transaction, which is normally not done in a Web-based transaction or in any other delivery channel.

The process cycle of the above single 'Signon' should be that once the customer initiates the transaction by entering the PIN from any of the delivery channels, the PIN entered by the customer is verified with the PIN details of the customer and once the verification yields a positive response the customer will be allowed to perform the transaction. The PIN, which the user enters to perform the transaction, should be a unique PIN that can be used by the customer to perform the transaction across any delivery channel. In short, the banks should have a comprehensive system which will allow them to deliver dynamic end-to-end customer service that can reshape customer base, maximise cross-selling opportunities and generate a positive ROI (Return on Investment) in the changing business economy.