# Impact of Consumer Behavior towards Branchless Banking

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**Abstract**

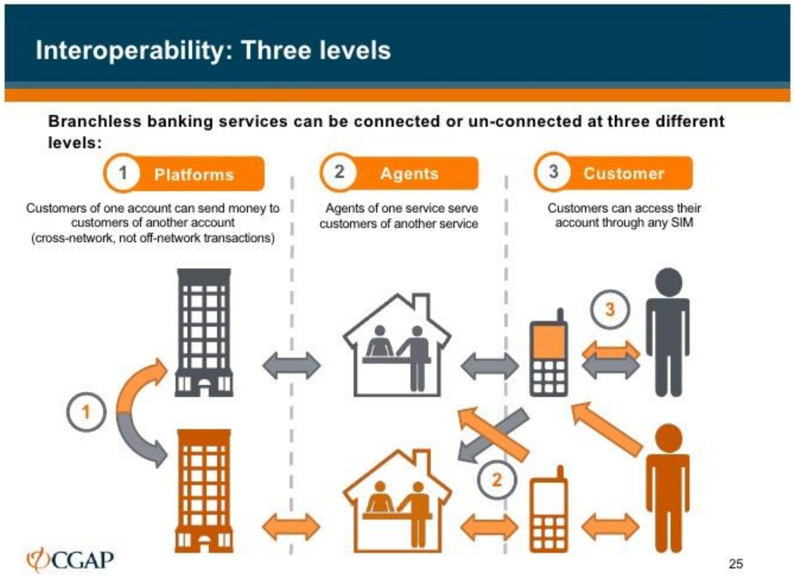
New Age Banking has undergone the much needed transformation to serve its valued customers in a better way. The days of standing in long queues in order to avail the various banking services are a passé. Technology has been a boon to help banks change the way they offer the services to its customers. This paper focuses on exploring the various dimensions of new age technology banking and its impact on the psyche of the consumer. It also emphasized to understand the gains derived by the banking sector out of this new wave of digitization. Banks, both private and public, in order to improve their operational efficiency have introduced a number of steps to cut down on resources and costs, thereby improving the profit margin. One of these proposed initiatives is branchless banking, which in itself has shown positive results in the rural areas of India. The outcome of this research work is to measure the success of technology driven banking which, in turn, will improve the future scope of serving customers in the best possible manner.



Keywords: new age banking, lean banking operations, CGAP Branch Banking models, banking digitalisation, consumer behavior in banking, banking through technology

**Introduction**

The new age banking phenomenon has caught over the globe and customers today prefer online and mobile banking modes while carrying out their transactions. This has led to a kind of transformation in the physical layout of the bank branches. Commercial space has become dearer in most of the cities of India and banks needs to thing again while taking a commercial rental space for banking operations as because it has direct impact on the banks profit margin. As a result there has been an increasing trend among consumers to use the digital modes of banking like Internet Banking (I Banking) and Mobile Banking (M Banking). With the help of technology consumers are not required to be physically present on the banks branches. This is definitely a paradigm shift experienced in the banking sector. Due to this change in consumer preferences, banks are not required to deploy additional manpower, they are also not required to rent in additional space and resources too. All these actions results in savings of additional operational costs for banks and improvement in the margins. The below mentioned model from CGAP, a group of 34 partnering organizations working for the cause of financial inclusion, mentions the future operationalization of bank branches:




As per the above model, connected or unconnected banking services can be offered to customers by three different ways: platform based , agent based and technology based. In the platform based model. According to the platform based model, two different customers having bank accounts in two different banks can send and receive money from each other, also called the cross-network model. This can be done electronically through wire transfers like NEFT and RTGS according to the suitability of the customers. The agent model is used to serve multiple customers of different banks, which means one single agent can serve customers of various banks as per their needs. The same model is also applicable for Business Correspondents too. The third model is about M Banking or Mobile Banking where customers can access their accounts through their mobile phone networks with a valid registered mobile number. If the customer has multiple registered mobile numbers for different accounts, they can access the same accounts through their respective mobile numbers.

**Review of Literature**

As per the report accessed and presented by Consumers International, the future of hassle less banking lies in embracing fintech as a medium to carry transactions. Over the years, e-money has caught up the craze with the public at large and banking has become a non physical consumer experience. Mobile phones and feature phones have been instrumental in bringing this change. New start ups have blossomed up because of this new shift in banking experience and they have all been striving hard to put the best in class online interface for customers. Demonetization during the end of 2016 sparkled the psyche of the customers to go online and use mobile wallets to facilitate most of their payments. It was surveyed and found out that between 2009 and 2014 value of cash-free transactions worldwide increased from 269 billion pounds to 390 billion pounds. GSMA global mobile phone usage penetration stands at 65% as on 2016 and it is expected to reach upto 73% by 2020. Ernst & Young, the global consulting firm also surveyed and found that 76.9% banking customers are embracing financial technology providers and stands at second place worldwide, next to China.

Rezaul, K., Rahman , A. , et al (2010) in a research study conducted to understand the impact of electronic banking and its impact of banks' performance studied the way of restructuring undergone by the financial services industry due to the changing social trends, customer activity and preference for online transacting and technological advancements. The aim of this study was to determine the gains derived by the adopters of new technology both financially and in terms of service quality delivery in both traditional vs modern manner. It also tries to assess the response of customers towards the introduction of newer forms of technology. The research paper touched up on four aspects-role of IT in banking sector, e banking and banks' performance, economic rationale of e banking and behaviour of consumer towards new age banking. The role of Information and Communication Technology has been very crucial in order to develop the base of internet banking services. Retail and Institutionalized banking both have benefited from this advancement in technology. Due to the introduction of PC Banking, ATMs and phone banking the high Internet penetration has added to a new distribution channel for banking: Online/Internet based banking for delivery of goods and services. E banking is the trend which has become popular these days, with the adoption of e banking banks have been able to achieve a marked reduction in processing costs and less search and switching costs for consumers. Researchers started to also establish the inter relationship between usage of modern banking techniques and bank profitability and it was found out that in the initial years of the introduction of e banking the impact on profitability was not much but over the years it showed improved results. To understand the economic rationale of e banking the value chain has been studied and it was analyzed that because of the adoption of Internet for delivering products and services there is an expected reduction in overhead expenses due to the possible elimination of physical branches and related expenses on marketing, staff salaries and rent, etc. Consumer behaviour towards new age e banking revealed that service performance can be measured effectively through a five stage theoretical framework, where the level of services offered starts from the promotional stage move to the transaction based business innovation stage where organizations refurbish their value chain to offer highly customized products and services. Overall the study concluded that internet based banking made profits for the banks if it is practiced over a long-term along with different financial metrics like Return on Assets (ROA), Return on Equity (ROE) and Activity Based Costing. Also it was referenced that the e banking channel made profitable impact on those banks that are backed by internet startups rather than brick and mortar banks transforming into click and mortar.

Suresh, A. & Singh, T. (2017) in their contemporary piece of research work tried to understand the shift in consumer preference towards mobile banking. Adaptability of customers is identified as one of the problem areas in strategic planning for financial institutions. To understand the customer adaptability towards mobile banking, a set of pre determined factors have been taken into consideration like demography, motivation and behaviour of individual towards mobile banking technology and its acceptance. Consumers get influenced towards online banking by their previous experiences of using computer and new technology. All of these come with many issues like consideration of privacy policies, remembering multiple passwords, data encryption and protection of personal information. Apart from the above mentioned factors, there are several other things to bother about before deciding whether to use Internet or not such as the individual's advancing age, the difficulties of using the Internet, the fear of changes in the banking sector due to technological advancements and lack of awareness of banking products and services over the Internet. E banking services can be easily used by the customers if the mobile devices have latest technological capability, service quality of the mobile service provider, friendly and responsive customer service, etc. However, security and data privacy issues and network connectivity are identified as the toughest challenges for the mobile banking service providers and the financial services industry. The outcome achieved by the study came to the conclusion that there is an increasing need to create awareness on mobile banking for customers. Customers perception towards mobile banking have been found to be favourable due to the multitude of offerings like checking account balances, transact money, etc. The awareness about mobile banking, however, needs to be extended in rural areas and remote villages to create a significant impact.

## Data Analysis & Interpretation

The E&Y Fintech Adoption Index is a global benchmark index adopted on the basis of an online survey by taking into consideration the responses of over 27,000 digitally active consumers across 27 markets. It was launched in 2015, designed to measure the usage and popularity of Fintech services. Out of the survey conducted , it was found that:

- 35% of consumers use at least two Fintech services
- Two most active countries adopting the Index are : China and India
- The most popular category of Fintech services used is money transfer and payments ; more than 50% of consumers use it regularly
- The age group that mostly prefer these kid of services are between the age range of 25-44 years
- The least used and preferred Fintech services is online budgeting and financial planning tools

Furthering this claim, it was ascertained that future growth in this category lies if the awareness about Fintech as a service grows, consumer concerns and worries should be low and technological advancements should be made in a consistent manner.



| Year | E& Y Fintech Adoption Index-India (in %) |
|---|---|
| 2017 | 52 |
| 2019 | 87 |

*Source:* www.ey.com

**Figure 1: Comparison of E&Y Fintech Adoption Index -India**

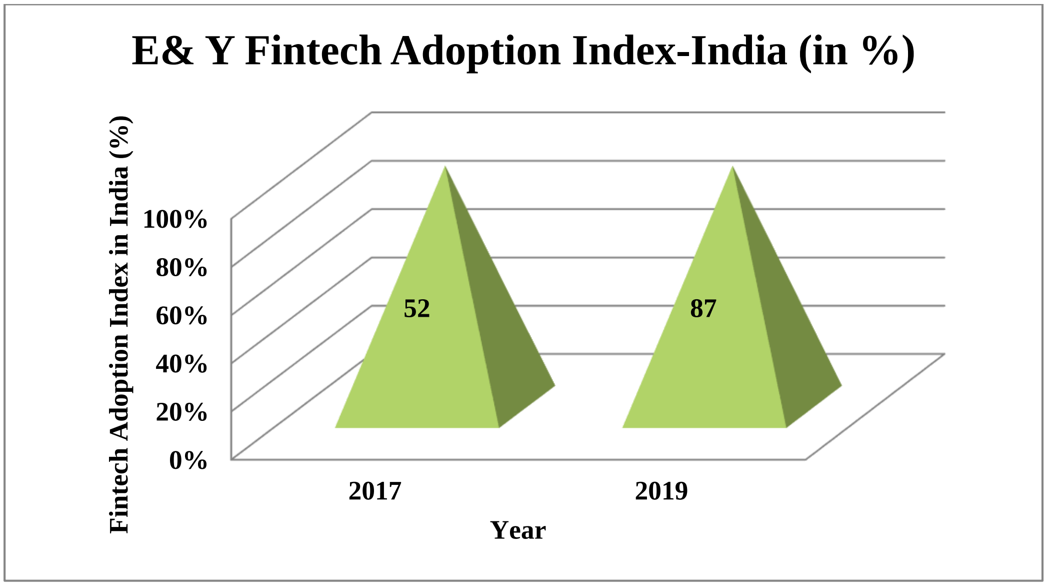



**Figure 2: Growth of E&Y Fintech Adoption Index –India**



The above diagram shows that E&Y Fintech Adoption Index has grown significantly from 52% in 2017 to a phenomenal 87% in 2019 which in itself speaks about the increasing popularity of Fintech as a service in India.

| Year | Volume of Total Retail Payments(in millions) | Growth (in %) |
|---|---|---|
| 2015 | 4621.6 | |
| 2016 | 6945.2 | 50% |
| 2017 | 10861.7 | 56% |
| 2018 | 15760.5 | 45% |
| 2019 | 24371.6 | 55% |

*Source:* www.rbi.org.in

**Figure 3: Volume of Total Retail Payments**

The apex bank of the country, RBI, through its distinct entity the Department of Payment and Settlement Systems (DPSS) strives to work towards the streamlining of the payment and settlement systems across the country. The highlights of this initiative include: (a) reducing paper-based clearing instruments; (b) steady growth in individual segments of the retail electronic payment systems such as the National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS) and card transactions; (c) increasing the registered customer base for mobile banking; (d) launch of new products like Unified

Payments Interface (UPI) and Bharat QR (BQR); (e) growth in acceptance infrastructure; and (f) accelerated use of Aadhaar in payment systems.

On 15th May 2019, the DPSS released its latest initiative the "Payment Vision Initiative 2021" which is expected to work towards achieving the dual objective of : (a) exceptional customer experience; and (b) enabling an eco-system which will result in this customer experience. The Vision aims at empowering payment system operators and service providers, and putting in place forward-looking regulation, supported by risk-focussed supervision. It encompasses the four elements—competition, cost, convenience, and confidence. Specific thrust areas like creating a regulatory sandbox and authorising new players have been incorporated for competition in the payment systems landscape. This is expected to achieve economy in cost for the customers. Free access with availability of multiple payment system options anytime-anywhere is intended to ensure convenience; and a 'no-compromise' approach towards safety of payment systems would address security vulnerabilities and retain customer confidence.

Some of the Payment System Indicators identified the banking regulator are:

1) Real Time Gross Settlement (RTGS)
2) Collateralized Borrowing and Lending Obligation (CBLO)
3) Cheque Truncation System (CTS)
4) Electronic Clearing Systems (ECS)
5) National Electronic Fund Transfer (NEFT)
6) Immediate Payment Systems (IMPS)
7) Unified Payments Interface (UPI)
8) National Automated Clearing House (NACH)
9) Prepaid Payments Interface (PPI)



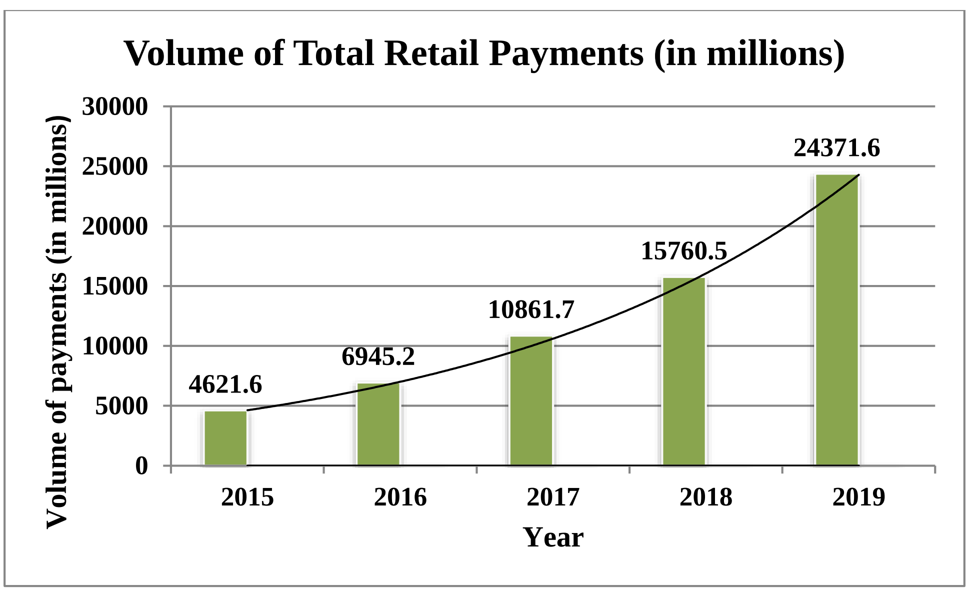



**Figure 4: Growth in Volume of Total Retail Payments**

Over a five year period between 2015 and 2019, the volume of Total Retail Payments has increased almost six fold from Rs. 4,600 million to about Rs.24,400 million which is evident from the numerous types of payment and remittance services introduced for the convenience of the customers.

| Year | Value of Total Retail Payments (in billions) | Growth (in %) |
|---|---|---|
| 2015 | 154126 | |
| 2016 | 177752 | 15% |
| 2017 | 220634 | 24% |
| 2018 | 285613 | 29% |
| 2019 | 364073 | 27% |

*Source:* www.rbi.org.in

**Figure 5: Value of Total Retail Payments**

The Reserve Bank of India as a part of its immediate term plan the Payment Vision Initiative 2021 focused not only on the volume of retail payment but also on the value of the payments. It is always advised that an imperative to inclusive growth is to have a balanced view of both volume and value. Keeping this in mind the apex bank introduced newer forms of payment services like the Unified Payment Interface (UPI), National Automated Clearing House (NACH), Prepaid Payments Interface (PPI) to name a few. All of these payment services has seen continuous growth in the past years and at the same time the consortium of banks are working together to make things better in the years to follow.



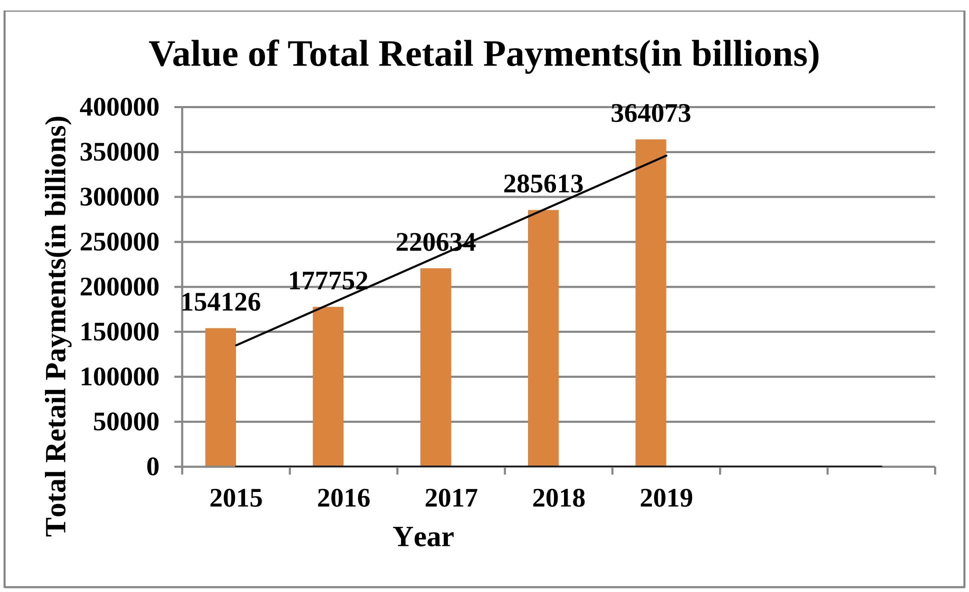



**Figure 6: Growth in Value of Total Retail Payments**

The above figure highlights that the average growth rate of value in total retail payments is 23.75% between 2015 and 2019 which will definitely experience an upward trend in the coming years due to the continued focus on advanced technology and increased consumer awareness on the newer forms of services.

| Year | ICT A/cs through BCs - Total Transactions (Number in millions) | Growth Rate (in%) |
|---|---|---|
| 2015 | 477 | |
| 2016 | 827 | 73% |
| 2017 | 1159 | 40% |
| 2018 | 1489 | 28% |
| 2019 | 2084 | 40% |

*Source:* www.rbi.org.in

**Figure 7: Number of ICT A/cs through Business Correspondents**

Business Correspondents (BCs) is an innovative model to extend branchless banking services in the rural areas of the country. A Business Correspondent is a retail agent engaged by banks with the objective of offering banking services at locations other than a bank branch or ATM. They offer these services to the people in need at a very low cost. The Business Correspondents (BCs) are engaged to offer multitude of services like: identification of borrowers, collection of small value deposit, disbursal of small value credit, recovery of principal ,collection of interest, sale of micro insurance/ mutual fund products/ pension products/ other third party products and receipt and delivery of small value remittances/ other payment instruments, creating awareness about savings and other products, education and advice on managing money and debt counseling, etc.

The RBI guidelines recommend that the following products can be offered by the BCs : Small Savings Accounts, Fixed Deposit and Recurring Deposit with low minimum deposits, Remittance to any BC customer, Micro Credit and General Insurance, etc.

After having discussed so much about the pivotal role played by the BCs, here comes the fundamental question: Who can act as a Business Correspondent? Anyone and everyone cannot fit the bill. The following categories have been identified by the RBI to act in this capacity: NGOs/ MFIs, retired bank employees, retired teachers, retired government employees and ex-servicemen, individual owners of kirana / medical /Fair Price shops, individual Public Call Office (PCO) operators, agents of Small Savings schemes of Government of India/Insurance Companies, individuals who own Petrol Pumps, authorized functionaries of well-run Self Help Groups (SHGs) which are linked to banks.

The Business Correspondent Model is one of the most cost effective ways of offering financial services to rural poor people. In this model, the remote Indian villages that lack branches can still get access to basic financial services through the convenience and grocery stores, pharmacies, kiosks and post offices which offer basic services to people visiting these places on behalf of the banks and they are excluded from the mainstream banking activities. Some of the devices that facilitate this model of banking are : micro ATMs, mobile phones, biometric scanners and point of service handheld devices.

Few benefits derived out of the adaptation of the BC model are as mentioned below:

- Using the BC model the banks can reach to inaccessible areas lacking formal financial services at a faster pace and cost effective manner rather than building of physical banking branches
- The BC model helps to provide loan disbursement and recovery services to the clients at convenient locations or even door to door
- As local stakeholders get involved in the loan disbursement process, they know the customers at a personal level. This strengthens borrowers' accountability to the BC, which in turn improves loan performance and repayment rates.

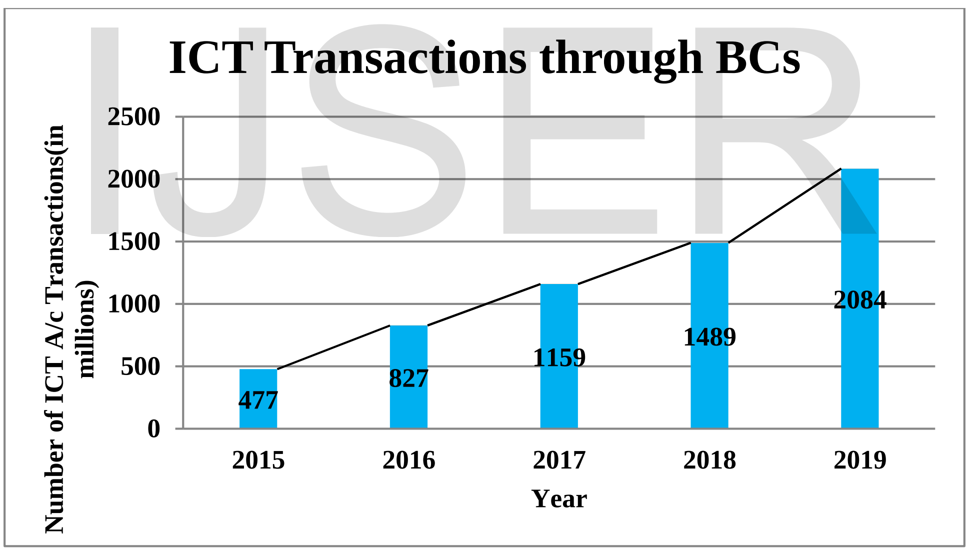



**Figure 8 : Increase in Number of ICT A/cs through Business Correspondents**

The above mentioned figure shows a phenomenal growth in the volume of banking services offered through Business Correspondents between 2015 and 2019 at an average rate of 45% which in itself is a good number achieved within a short time span.

## Conclusion

Though the BC model was attractive it has not delivered effectively because of the many shortcomings associated with it. Firstly, banks have imposed higher restrictions on operations of BCs. Secondly, salaries of BCs were very low compared to the physical work they have to do to cover the distant areas. Overall it can be said that the Financial Inclusion programs of the government needs to be meticulously planned and executed to achieve the best results for which all the stakeholders must contribute their maximum.

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