

Banks still bet on brick and mortar branches to boost business

Radhika Merwin

1

Small Business Ideas

2

Most Profitable Business Ideas

3

Independent Financial Advisor

Private lenders lead branch expansion, especially in rural, semi-urban areas, in last five years

BL Research Bureau:

Despite sweeping technological advances in mobile and electronic banking, data suggest that the significance of the brick-and-mortar channel for Indian banks is far from diminishing. Over the last five years, banks have been setting up 5,000 to 11,000 branches a year, a compounded annual growth of 8 per cent between 2010-11 and 2014-15. From about 90,000 in 2010-11, the branch count has gone up to around 1,25,800 in 2014-15, according to RBI data.

This is in contrast with the trend seen in the US, where banks having large networks have been cutting back on their branches in the last couple of years. According to financial news, data and analysis provider SNL Financial, the US banking sector ended 2015 with 92,997 branches, 1,614 less than a year earlier, extending a branch reduction trend that started in 2009.

Tapping the rural market

Branch expansion in India has been led by private banks in the last five years. While PSU banks have increased their number of branches by 8-9 per cent annually, private banks have seen 13-14 per cent growth on a smaller base.

One reason for the higher rate of expansion in private banks can be that the larger PSU banks have already spread across the country, in both urban and rural areas. SBI, for instance, has four times the number of branches that HDFC Bank or ICICI Bank have. As the private banks catch up, they have to follow the mandated rules for branch expansion — one-fourth of new branches have to be in unbanked areas.

As the branch count increases, presence in rural and semi-urban areas is also moving up. HDFC Bank, for instance, has been setting up 400-500 branches every year in the last five years. Semi-urban and rural branches together constitute 55 per cent of HDFC Bank's total branches, up from about 40 per cent in 2010-11.

"In line with HDFC Bank's strategy of increasing its presence in the rural market — also referred to as 'the Bharat', we have been increasing our footprint in terms of branches in these markets," says Ravi Narayanan, Country Head, Branch Banking & Retail Trade Fx, HDFC Bank.

Banks have also been able to manage costs better at rural branches to make them viable. "For instance, instead of employing 8-10 persons as in the case of urban branches, we have experimented with two-man and three-man branches in rural areas," explains Ravi.

For Axis Bank, which has doubled its branch strength in the last five years, branches are largely split equally between metro, urban, semi-urban and rural areas, according to Rajiv Anand, Group Executive & Head Retail Banking, Axis Bank.

Face to face

Banks have also been ramping up branch presence to build a national presence and have a wider reach.

"Customers still walk into a branch irrespective of social strata, to have a face to face discussion as a matter of cultural comfort," says Narayanan of HDFC Bank. He thinks that branches will slowly shift focus to financial awareness activities.

Axis Bank's Rajiv Anand says, "While we are witnessing exponential growth in the adoption of self-serve digital channels, there is still a large chunk of the population that prefers the brick and mortar model. Also, digital channels typically cater to transactional activities while branches provide relationship-based activities that require proximity."

Both private lenders believe that branches not only play a key role in acquiring new customers but also towards migrating customers to the digital channels.

Given the reduction in transactional banking activities at the branch level, branches in the medium term are likely to become more compact in size, leading to quicker break-even, adds Anand.

Surprisingly, SBI has been going slow on branch expansion. After adding 1,050-odd branches in 2013-14, India's largest lender added just 464 branches in 2014-15, and 165 in the nine-months ended December 2015.

(This article was published in the Business Line print edition dated May 10, 2016)