

## 'One-man branch with necessary tech has paid off in rural areas'

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*HDFC Bank's Ravi Narayanan on how technology has helped the lender manage costs*

BL Research Bureau:

By ensuring that digitalisation reaches customers in rural markets as well, we have increased the stickiness of customers, thereby reducing costs in these markets, says Ravi Narayanan, Country Head, Branch Banking & Retail Trade Fx, HDFC Bank. But he believes there is a lot that bank branches can offer in rural, urban and other markets. Excerpts:

### **What has been your strategy for branch expansion?**

Fundamentally a bank always wants to ensure that its physical footprint through its distribution strategy is suitably reflected in its strategy for growth. At HDFC Bank we decide that we truly want to be an Indian bank with a global customer service ethos that means that there should be sufficient representation on the ground of this thought process. And the only way customers in the Indian context feel that way is through the physical presence of the bank through its branches. Over the last five years there has been steady growth in the number of branches.

The rural market or 'Bharat' part of the country, is now definitely becoming bigger than India, as the rural market and up country market are easily available to, say, an FMCG company. So, naturally the financial intermediaries have also followed that path to keep pace with the growth in the rural markets. We at HDFC Bank have recognised this vibrancy in this part of the country. So, there has been a predominant increase in our footprint, in terms of branches, in these markets.

### **But in the past, expanding in rural areas has not been very cost effective. What has changed now?**

It's true that cost is a key deciding factor for expansion. But in financial intermediation it is also important to understand the prevalent ecosystem in the rural and upcountry market. Here, the market is mainly dominated by unorganised money lenders and other financial intermediaries. So, if we approach the whole cost proposition from a customer's point of view, one would realise that the debilitating and crippling cost of credit is a major overhang. So, we offer these very customers lower rates and more transparency. Thus, the cost for the consumer comes down substantially. From the bank's perspective, aligning the cost expectations of a customer with its own becomes a win-win situation. This is because we will have the first mover advantage in such markets, which in the long run, will yield cost advantages.

### **But isn't it true that cost per transaction in rural branches is higher at about ₹ 100 (according to various estimates), compared to ₹ 70-85 for non-rural branches?**

If we try and replicate the branch model prevalent in the urban market in the rural market, then what you are stating in terms of costs is true. This is because cost of infrastructure and providing service remains the same, but the number of customers is fewer in rural branches.

To efficiently manage costs in these rural branches we have implemented different models. Instead of employing 8-10 persons as in the case of urban branches, we have experimented with two-man and three-man branches. Added to this

we have one or two roaming sales person(s) to reach out to people in remote places. In specific centres we were able to create specific models, due to the existing ecosystem like the milk cooperative in Gujarat. There are milk farmers across 15-25 villages and there are milk collection centres in some bigger villages acting as a 'hub' in this model.

In this hub location, we put a physical branch but a one-man branch, and then enabled it with the necessary technology to provide seamless transactions at these centres.

So, from the bank's perspective, we are able to manage costs through better technology and not having to put up multiple branches — in this case the hub is catering to 25 villages.

**What about your digital initiatives? Are you still seeing customers coming to branches for basic banking transactions?**

While we are not discouraging people from coming to branches; we are dissuading them from coming for basic banking services, which we are already providing on the phone or through net banking. We have ensured that digitalisation reaches customers in rural markets too, by extending simple banking transactions through a basic phone (and not necessarily a smart phone alone).

So, by increasing the stickiness of customers we are able to reduce our costs.

Customers in both rural and urban markets come to the branch for more financial literacy and awareness or advice. The branch staff also guide customers on how to use net banking or other digital platforms.

So, we believe that there is a lot that bank branches can still offer in rural, urban and other markets. We believe that we will have to follow a brick and mortar model to some extent.

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