

Business Standard

Digital gobbles up the business, but banks may not stop adding branches

Acquiring new customers drives growth more than digging deeper into the wallets of existing ones, they say

Mayank Jain | New Delhi May 23, 2018 Last Updated at 23:10 IST



India's cashless drive may have taken off after demonetisation but banks have been witness to the digital revolution much earlier. Data shared by banks in their investor presentations shows that branches now have a miniscule share of financial and non-financial retail transactions as mobile and internet banking has taken over.

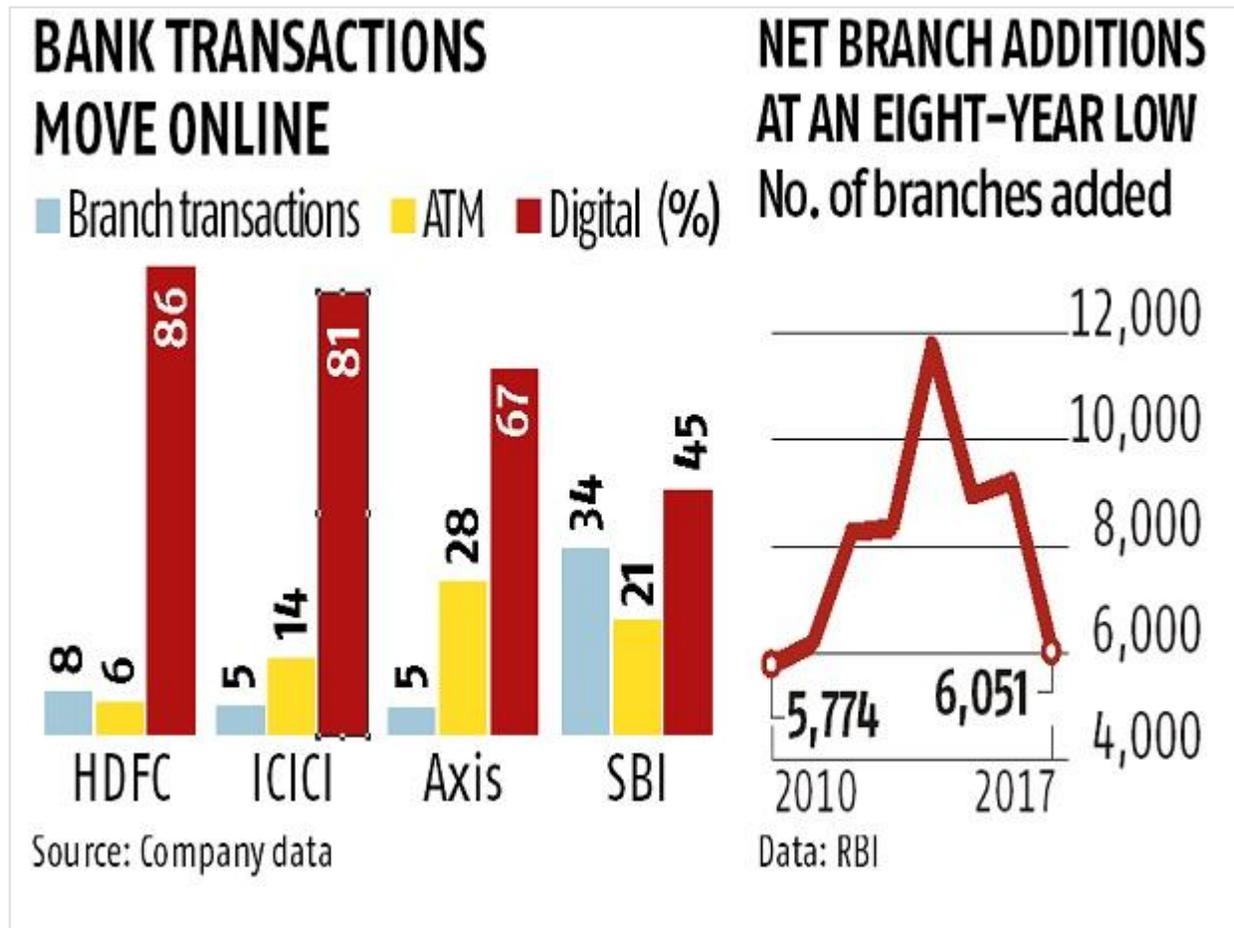
For instance, HDFC Bank's latest investor presentation for the quarter ended March 31, 2018 showed that the bank's branches only do 8 percent of customer transactions as opposed to 43 percent of the transactions in 2008. This is largely due to the larger share captured by internet banking which now constitutes 85 percent of all transactions for the bank. In 2008, internet and mobile transactions contributed a measly 3 percent to the HDFC Bank portfolio.

A similar trend is seen across all big private as well as public banks reviewed by *Business Standard*. The rise of digital transactions has come on the back of Immediate Payment Service, proliferation of mobile banking apps and unified payments interface in recent years. More importantly, even

Digital banking

of all transactions in 2008 to just 6 percent in the year ended March 2018.

This, however, doesn't mean that banks are reducing their branches or scaling down operations in the face of rising popularity of digital means. For instance, Axis Bank said in its investor presentation that the bank will continue to invest in branches. The bank currently has 3,703 branches even as the branch size has become only 38 percent on average of what it was in 2013.



graph

account product termed yono in order to gain a larger share of the digital pie.

the share of ATM based transactions in the mix seems to be reducing over the years. For HDFC Bank, ATM transactions reduced from 40 percent

Even as Axis Bank's business has undergone a similar digital change with 92 percent transactions happening outside branches as opposed to 87 percent transactions a year ago. However, the bank is focused on increasing the number of branches as new branches drive customer acquisitions and increase CASA deposits, the bank stated.

"New customer acquisition is a larger growth driver than deepening of existing customer wallet share. Physical distribution continues to be central to new customer acquisition (even as transactions and cross sell have shifted to Digital channels)," Axis said.

However, the increase in branches has definitely slowed down. In the year ended March 2018, the expansion of branches by public sector banks and private banks hit an eight year low as the banks added only 4,023 branches in total which is the lowest since the year ended 2009 when 3,536 branches were added, RBI data showed.

In November, SBI Chairman Rajnish Kumar had said that the country's biggest lender sees only 22 percent of transactions occurring through its branches while the rest 78 percent is composed of ATMs, mobile and digital transactions. SBI has also recently launched a completely digital savings

SBI's business in branches has gone down to 21 percent of total business in December 2017 as compared to 26 percent in 2016. The state owned bank has also seen a fall in proportion of ATM transactions in line with other banks even as its internet banking transactions are still low at just 20 percent of total transactions.

In the private sector, ICICI is at the forefront of digitisation of banking as it opened 85 percent of savings account through a digital tablet as opposed to branch based banking. Similarly, the bank sees 95 percent of financial and non-financial transactions happening outside the bank branches, an increase of about one percent in the last six months.

Meanwhile, analysts say that bank business is set to go through a change in mix of transactions as digital payments grow but insist that over reliance on digital while ignoring branch banking could spell trouble.

“An important thing to note is that branches aren't going away anytime soon especially in rural areas where internet banking is still unheard of or unreliable,” said a banking analyst on condition of anonymity. “While the ICICIs of the world are witnessing huge growth in digital transactions, they are overlooking a basic tenet of banking which is that it relies on trust and interpersonal relationships.”

The analyst referred to singapore based DBS bank which is a completely online and paperless bank in India operating solely through its mobile app. While the bank boasts of a million accounts, its business is pretty low as compared to peers, the analyst said.

“The branch business can't go away even if digital transactions increase. The reason is that you may not enter the branch but you want to see it near you as it establishes trust,” said Jindal Haria, Associate Director-Financial Institutions, India Ratings. “Secondly, a lot of MSMEs have people just to do cash in and cash out at the bank on a daily basis because a lot of stuff like PF deposits only happen at bank branches.”