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Private banks are waking up to the call of heartland

BY PRATIK BHAKTA, ET BUREAU | JAN 02, 2019, 10.52 AM IST

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BENGALURU: Private sector banks have steadily expanded their branch network in rural and semiurban markets, dwarfing the branch growth rate seen among public sector lenders, according to data from the Reserve Bank of India (RBI).

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According to RBI data for 2018, private sector banks expanded their branch network in rural areas by more than 27% and in small towns by almost 18.4%, compared with 0.5% growth rate seen among public sector lenders.

By the end of last year, private banks had 6,160 branches in rural areas, up from 4,822 a year ago, while in semi-urban areas the number had grown to 9,242 from 7,803. Public sector banks, which have historically had a strong nonurban presence, had 29,201branches in rural areas against 29,033 at the end of 2017.
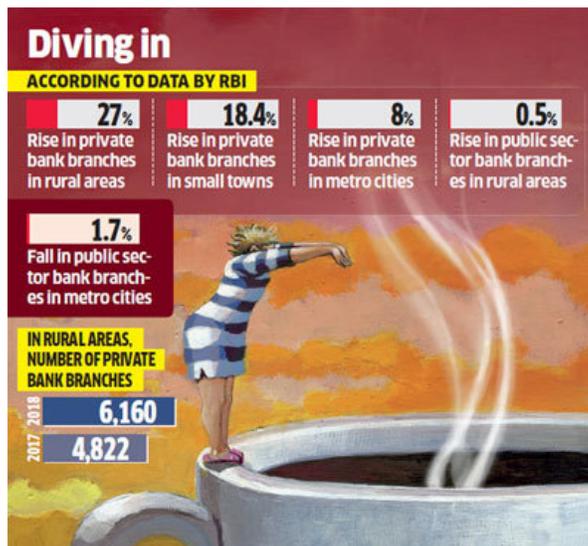
In metro cities, private banks have increased branches by 8% to 7,477, but government-owned banks have reduced the number of branches by 1.7% to 18,546.

"In terms of our network, 53% of the branches are in semi-urban and rural areas. The idea is to combine physical network with digital, thus creating the 'Phygital' approach," an HDFC Bank spokesperson told ET.

The fact that these lenders are specifically targeting smaller towns is evident by the sheer number of branches in those areas. With 9,242 branches, private banks have more offices in semi-urban areas than metro cities where there are 7,477 branches.

Bankers pointed out that public sector banks have shown slower growth because they are already present across the length and breadth of the country. For catering to 'Jan Dhan' account holders, these entities have been the driving force of financial inclusion for the government.

The RBI data also shows that among the private banks, Bandhan Bank has the largest number of branches in rural and semi-urban locations. With 2,621 branches, it is ahead of HDFC Bank — the country's largest lender in terms of assets — which has 2,495.

Highlighting the fact that there have been much-improved financial parameters in the heartland of the country, Virat Diwanji, president of retail liabilities and branch banking at Kotak Mahindra Bank, said that most banks have seen impressive loan and deposit growth from these areas.

"This can be attributed to a number of factors, such as improvement of infrastructure in these markets, the agriculture sector doing well on a consistent basis, availability of credit bureau data that has led to improved credit culture, and technology that has helped in bringing down the cost of doing business in remote locations for banks," he said.

Kotak Mahindra Bank has 472 branches in smaller locations in the country. In fact, the bank had also promoted itself as being present in every nook and corner of the country after acquiring ING Vysya in 2015.

The trend indicates that while banks are almost becoming technology companies themselves and taking services digital, branch banking is not dead. The HDFC Bank spokesperson pointed out that branches coupled with digital processes can actually help take financial

services to the masses.

"In these markets as well, customers can choose the touchpoints they want to bank with us. It can be branches, mobile or any other digital banking/technology platforms. The choice is theirs," said the HDFC Bank spokesperson.

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