

Banks move branches, rethink strategy to cut costs amid Covid spread

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In order to mitigate this particular challenge, banks will also have to adopt a stringent set of norms, Moody's said.



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In an increasingly-digitised world, banks have for years now been reorienting their outreach strategies away from purely branch-driven models towards digital channels. This process may now be getting accelerated as Covid pushes them to cut back on branch rentals.

The average banking customer, too, is now averse to making any physical contact with her bank. Small wonder then that banks have begun to reduce their branch footprint and seem to have no qualms moving to smaller and less-prominent locations. They have also started to rethink parameters which determine location of a branch.

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In the last few weeks, large banks such as [Bank of Baroda](#), [ICICI Bank](#) and Bank of India have either moved to or started looking for new locations for some of their existing branches in parts of Mumbai, its adjoining regions and Kolkata. There is a clear drive to lower rental costs through such exercises.

Ramesh Nair, CEO & country head, JLL India, said many banks have gone back to their landlords to reduce rentals. “What is happening is that they are trying to reduce occupancy costs rather than give up branches. This is something which has

emerged post Covid and it is happening across the spectrum in terms of locations,” Nair observed.

There is more to the phenomenon than just cost control. Branch rationalisation ties in quite neatly with banks’ long-term strategic goals of greater digitisation. A senior official with a large public sector bank (PSB) said most PSBs are now targeting cost-income ratios of between 45-50%. For most state-owned banks, the ratio is well over 50%. “Since digital usage has gone up so much, wherever possible and wherever feasible, banks are moving to smaller spaces. Footfalls have come down and the digital footprint has increased,” he said.

Those who have been able to get good deals on rentals are also relooking the parameters dictating branch expansion. Virat Diwanji, group president – retail liabilities & branch banking, [Kotak Mahindra Bank](#), told FE that while a majority of the lender’s existing landlords have agreed to reduce rents, consumer behaviour has changed such that branch planning must be rethought. “In the pre-COVID-19 world,

branch location would have been decided based on data on deposit/advances growth, socio-economic data of the geography, customer servicing requirements, etc. However, the Covid-19-led lockdown has significantly changed consumer behaviour,” Diwanji said. The bank will continue to monitor and assess the new normal and will add to its geographic footprint — branches, ATMs or “phygital” branches — accordingly, he said.

Indian banks’ experience on this count is in line with that of their counterparts across the world. Consulting firm Capgemini carried out a survey for the 2020 edition of its World Retail Banking Report and found that 57% of consumers now prefer internet banking, as compared to 49% before Covid, and 55% prefer banking mobile apps, up from 47% previously. This change in customer behaviour has led to some banks putting branch expansion on hold.

In its annual report for FY20, [Axis Bank](#) said despite being focused on growing the retail business, it will have to put branch expansion on hold. “...given the uncertainty induced post Covid-19, we may delay branch network expansion in the immediate near term even as we continue to engage in optimisation of the branch formats to deliver enhanced productivity, led by automation and digitisation of service operations,” Axis Bank said in the report.

[HDFC Bank](#), the country’s largest private lender, has also spoken of the retail branch banking business “being re-imagined through the levers of digital paperless processes and big data analytics”. From choosing products based on consumption and spending patterns arrived at by using data analytics to going completely paperless with documentation, the bank said its focus is on leveraging technology to deliver “an omni-channel experience.”

The increasing reliance on digital channels is not without its risks, chief among which is the heightened threat of cyber attacks. Moody’s Investors Service recently said the growth in online banking and remote work since the onset of the pandemic have increased banks’ dependence on digital technology to serve customers. It has also expanded their use of virtual private networks (VPNs) and similar applications and services to support their remote work forces, all of these put these institutions at a greater risk of cyberattacks.

In order to mitigate this particular challenge, banks will also have to adopt a stringent set of norms, Moody’s said. Banks mitigate cyber risk through three primary mechanisms. “The first is strong corporate governance, including enterprise-wide cybersecurity frameworks, strategy

and policy enforcement and improved reporting. The second is risk prevention and response and recovery readiness. And the third is information-sharing with other banks, adoption of international standards and regulatory oversight,” the ratings firm said in its report.



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