European Journal of Accounting Auditing and Finance Research

Vol.2,No.8,pp.1-8, October 2014

Published by European Centre for Research Training and Development UK (www.eajournals.org)

BRANCH BANKING TO VIRTUAL BANKING -UTILIZATION OF DIRECT BANKING CHANNEL IN INDIAN BANKING SECTOR

Mr. Prashant Singh
Assistant Professor, Department of Management
Waljat College of Applied Sciences
In academic Partnership of Birla Institute of Technology,

ABSTRACT: *The rapid growth of Information Technology (IT) has tremendously changed the way banking is done worldwide. For obtaining service the customers need not to visit Brick and mortars structure of the Bank. All the services of the Bank can be utilized by alternate channels sitting at any location away from Bank. The influence of IT on banking enables the customer to get all major operations/decisions with regard to deposits, withdrawals, and investments by just clicking of a mouse on a computer or at an Automatic Teller Machine (ATM) or mobile. Direct Banking channels or alternate banking channels can be utilized by banks for acquiring, tracking and serving customers through multiple channels. An entire range of services including account opening, fund transfers third party transfers, utility payments can be done through using direct banking channels. This paper will try to evaluate the usage of Direct banking channels for managing CRM of Bank with special reference to the banking sector in India*.

KEYWORD: Virtual Banking, Direct Banking channel, CRM, Customers satisfaction.

INTRODUCTION

The rapid growth of Information Technology (IT) has tremendously changed the way banking is done worldwide. For obtaining service the customers need not to visit Brick and mortars structure of the Bank. All the services of the Bank can be utilized by alternate channels sitting at any location away from Bank. The influence of IT on banking enables the customer to get all major operations/decisions with regard to deposits, withdrawals, and investments by just clicking of a mouse on a computer or at an Automatic Teller Machine (ATM) or mobile. A customer having an account with bank in city x can operate from anywhere in the world through internet. Mobile banking application has made the banking services available on the finger tips of customer. Those who do not want to use Internet or mobile can transact through IVR on phone which connects the customer to his/her account. Customer of a bank x can withdraw money from the ATM of bank Y which was impossible to withdraw from branch.

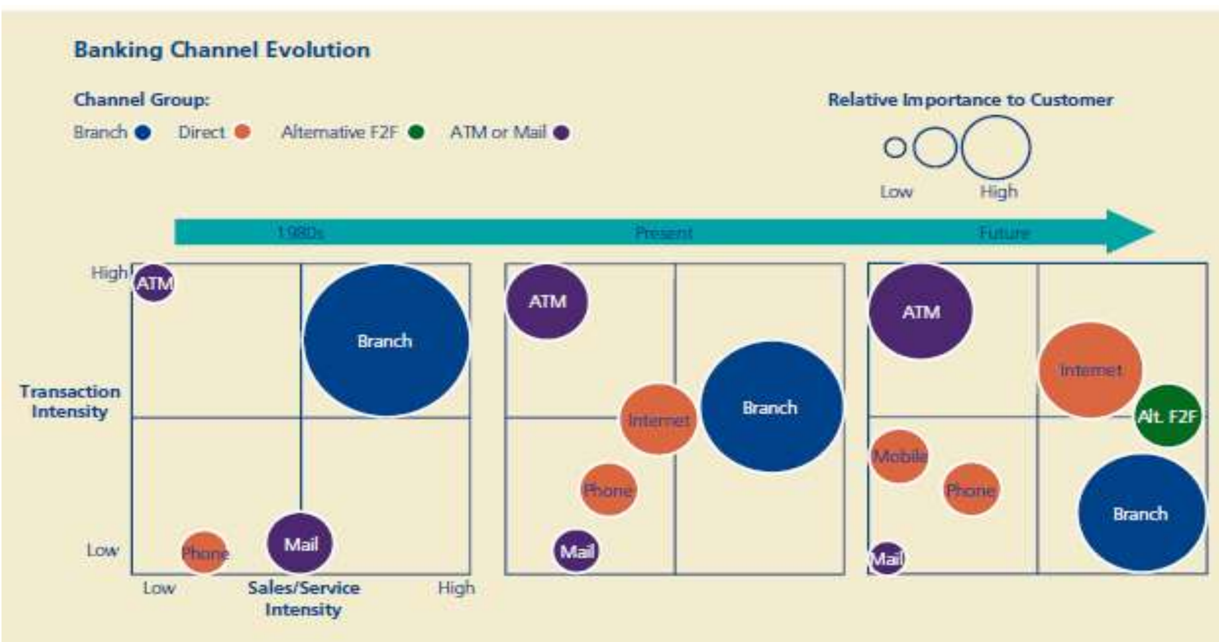
Changing Trends:

- Transactions processing and customer service becoming increasingly independent of the branch channel.

- New technologies are gaining widespread adoption, allowing customer relationship management to become channel independent
- Changes in the regulatory environment are altering the playing field.
- Shifting of customer demographics ; Generation Y gaining importance

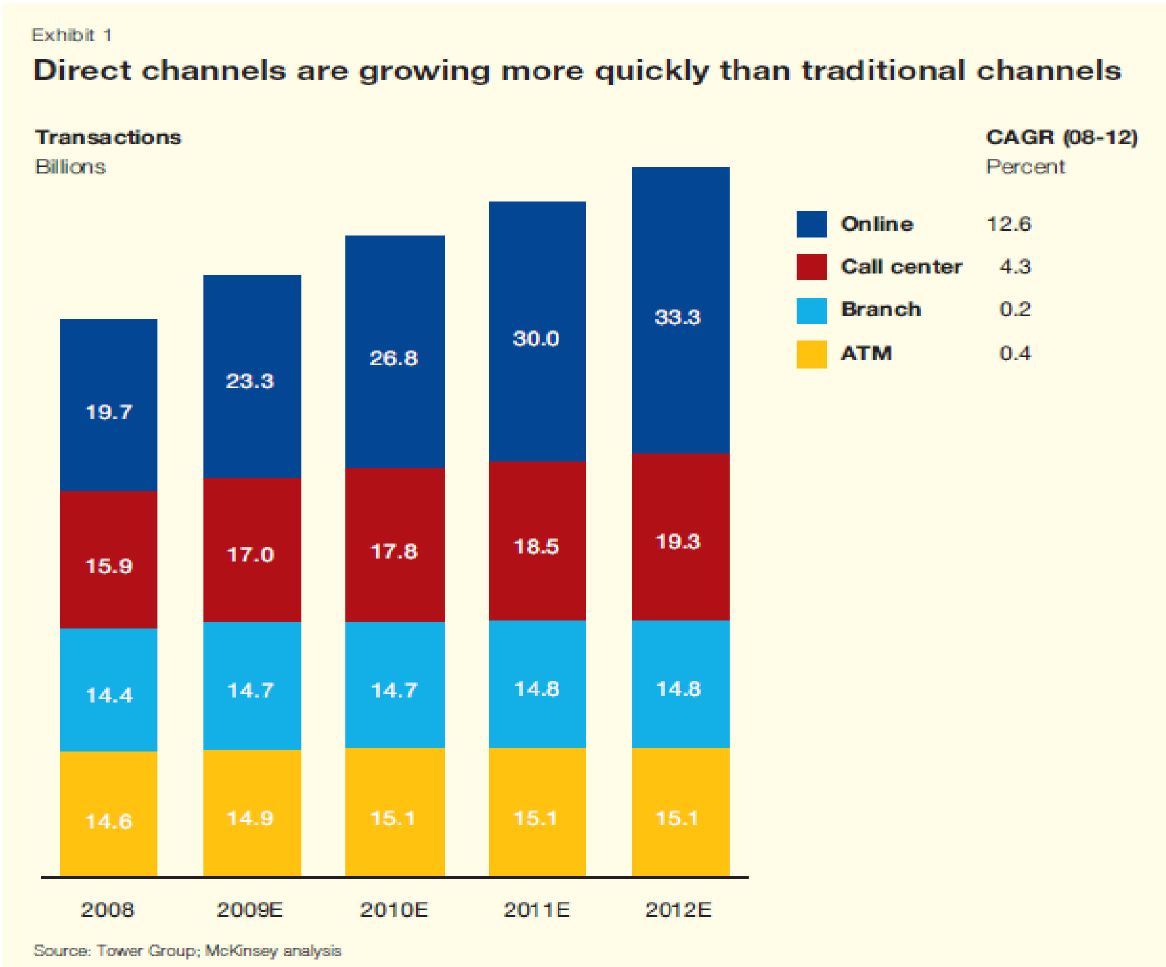
Direct Banking Channels and its importance:
Direct Banking channels or alternate banking channels can be utilized by banks for acquiring, tracking and serving customers through multiple channels. An entire range of services including account opening, fund transfers third party transfers, utility payments, Cash deposits can be done through using direct banking channels. Anywhere any time banking privilege can best be utilized by customer as per their preferences. Direct Banking channels eliminate the middlemen between banks and the customer resulting into direct involvement of customer with bank. The first experience for the customer of direct banking was the usage of ATM, where in customer does not require a teller to withdraw or deposit money and further visiting the branch. This first step has been followed by introduction of Internet banking, mobile banking, RTGS, NEFT and CTS. Thornton and white in their research paper have identified the seven channels (ATM, EFTOPOS, Credit card, Cheque human teller, telephone and internet) . According to Howcroft (1993) alternate channels provides convenient alternatives to branch banking.
The much talked Delloite report for reinventing retail banking indicates the widespread importance of direct banking channels.

Evolving Model of Banking Channels:



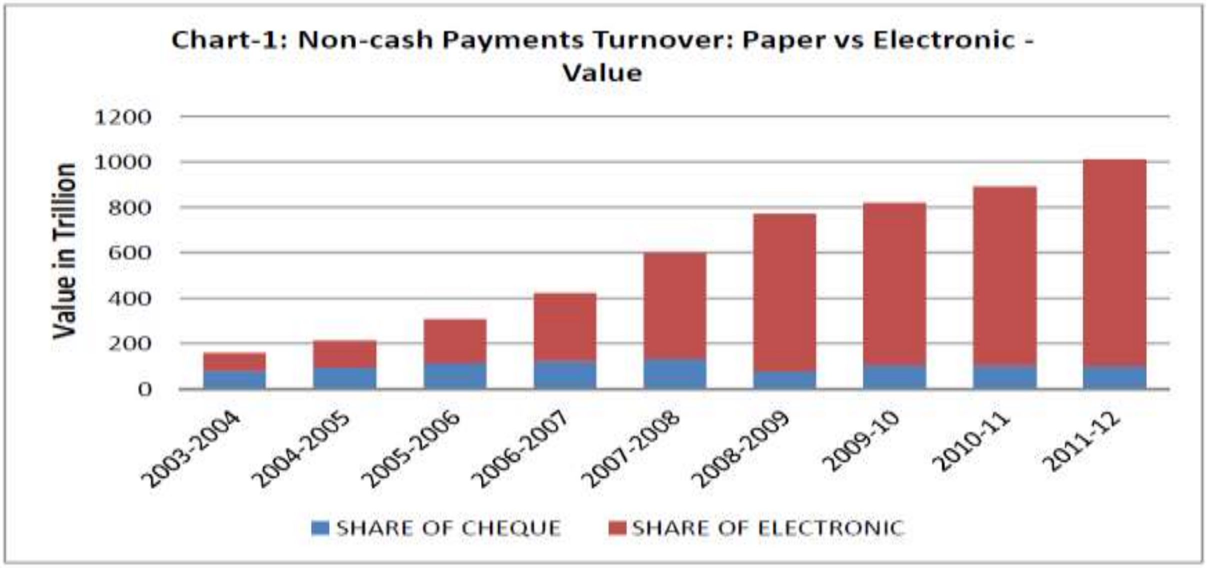
Source: Deloitte Centre of Banking Solutions

Direct Banking Channel are growing quickly than traditional channels a report published by McKingsey group for USA banking system is validating the theory . A four year comparison chart will provide the increasing share of direct banking channel.

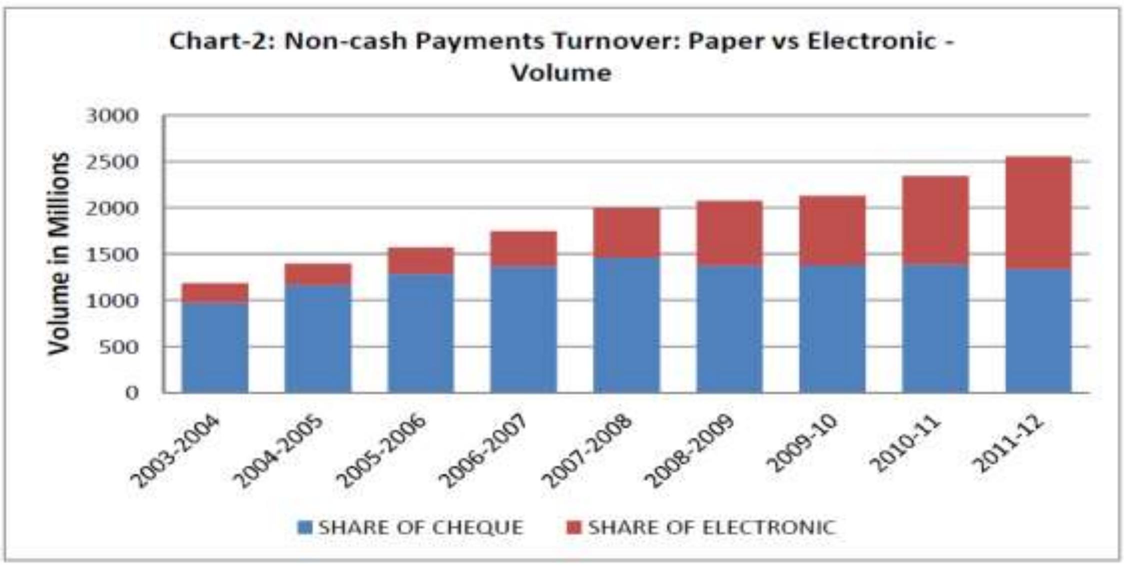


Source: Tower group ;Mckinsey analysis

As per RBI report on payment and settlement system in India. The share of electronic transaction (value wise) is more than that of paper and the volume is also increasing, that clearly indicates the increasing usage of direct banking channel by individual customer. Since the value factor is contributed by Corporate /HNI and the volume is by individual customer



Source: RBI Annual Report



Source: RBI Annual Report

Managing Customers Relations through Direct Banking Channel

Customer Relationship Management (CRM) which is a combination of methods, technology and e-commerce used by companies to manage and enhance customer relationships. The traditional marketing gathers customer information including demographic and psycho graphic which can be used by the them to build up fitting broad marketing strategy, forecast demand, and determine type and worth of service required by customers.CRM unites the potential of relationship marketing strategies and IT to create profitable, long-term relationships with customers and other key

stakeholders. However by using direct banking channels customers of banks can directly manage their account and pass instructions.
RBI in its annual report 2012-2013 highly emphasized on customer empowerments through enhanced dissemination of information. This is aimed towards providing more efficient and transparent services to customer. RBI has taken number of measures which includes the involvement of direct banking channel. The policy document of RBI for its member banks advises the usage of direct banking channels such as informing customer online for debits and credits, ATM withdrawals. Further RBI has commissioned a survey to assess the customer satisfaction on alternate channels which shows the growing interest of RBI in alternate channel.

Gardeners, E and Howcroft proposed that in latest years banking has seen changes not only in customers stipulate for perceived service quality but also new technological innovations and entry of players from other business. Alternative banking or direct banking is the method of banking operations which provides access to customer without stepping into physical structure (Burns, 2002). It includes the medium without the human interference and non traditional methods of banking such as Internet banking, Mobile banking, ATM, Debit cards, POS etc.

A recent report published by Mecrator advisory group suggests that alternate banking channels are a strong tool for keeping customer connected to their bank. ATM was the first alternate channel which was used by CITI bank long ago in 1939 in New York. Since then banking services has witnessed the drastic growth in terms of usage of alternate banking channels. In India HSBC bank was the first bank which introduced ATM. As per RBI report the Indian may become the third largest in the world in terms of assets size by 2025 which lead to increase in depth and breadth of financial products as well as high level of service delivery. This will require shifting of cash transaction to non cash and through alternate channel. (RBI Report 2012-2013).

A close scrutiny of RBI Indicator on payment and settlement systems (SIPS) will further provide insight on same. High value clearing which involved paper base transaction has been replaced by RTGS that can be induced by customer themselves. There is significant increase in retail electronic clearing and enormous increase in debit and credit card clearing. This indicates the involvement of customer directly doing the transaction.

European Journal of Accounting Auditing and Finance Research
Vol.2,No.8,pp.1-8, October 2014
Published by European Centre for Research Training and Development UK (www.eajournals.org)

Table IX.1: Payment System Indicators - Annual Turnover

Item	Volume (million)			Value (₹ billion)		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
1	2	3	4	5	6	7
Systemically Important Payment Systems (SIPS) through RTGS	**49.3**	**55.0**	**68.5**	**484872.3**	**539307.5**	**676841.0**
Total Financial Markets Clearing (1+2+3)	**1.7**	**1.9**	**2.26**	**383901.3**	**406071.2**	**501598.5**
1. CBLO	0.15	0.14	0.16	122597.4	111554.3	120480.4
2. Government Securities Clearing	0.36	0.44	0.70	69702.4	72520.8	119948.0
3. Forex Clearing.	1.20	1.30	1.40	191601.5	221996.1	261170.1
Others (4+5+6)	**1387.4**	**1341.9**	**1313.7**	**101341.3**	**99012.1**	**100181.8**
4. CTS	160.4	180.0	275.1	14391.2	15103.7	21779.5
5. MICR Clearing	994.6	934.9	823.3	68621.0	65093.2	57504.0
6. Non-MICR Clearing	232.3	227.0	215.3	18329.1	18815.1	20898.3
Total Retail Electronic Clearing (7+8+9)	**406.3**	**512.3**	**692.8**	**11944.9**	**20574.9**	**31876.8**
7. ECS DR	156.7	164.7	176.5	736.5	833.6	1083.1
8. ECS CR	117.3	121.5	122.2	1816.9	1837.8	1771.3
9. EFT/NEFT	132.3	226.1	394.1	9391.5	17903.5	29022.4
Total Cards (10+11)	**502.2**	**647.5**	**865.7**	**1142.1**	**1500.4**	**1972.9**
10.Credit Cards	265.1	320.0	396.6	755.2	966.1	1229.5
11.Debit Cards	237.1	327.5	469.1	386.9	534.3	743.4
Total Others (4 to 11)	**2295.9**	**2501.7**	**2872.2**	**114428.2**	**121087.4**	**134031.4**
Grand Total (1 to 11)	**2346.9**	**2558.6**	**2942.9**	**983201.8**	**1066466.1**	**1312470.9**

Source: RBI Report on SIPSS, 2013-2014

Fjermestad ,J and Romano Nicholas (2003) have concluded that the goal of CRM is to enhance customer service and retain valuable customer. The main objective to employ alternate channel in banking is to reduce operating cost and provide superior service to customer. The online banking electronic payment system is giving new dimensions to a more efficient payment and settlement system. (Kelly,S.W(1989) Efficiency in service delivery). Direct banking channel are reducing costs as well as attracting new customers (Kimball and Gregor, 1995. Plastine (2009) defined as ‘’ It is conducting financial transaction electronically without physically interacting with bankAccording to K Ahmad (2008) E- Banking minimizes cost of transaction and saves time provides timely information, Increases operational efficiency and provides quick response. As Peppers and Rogers (1999) proposed, CRM as tool is developed for one to one customer interaction responsible for improving customer relation.

Research points out with the progress of technology the direct banking channels like online banking, ATM, Mobile Banking and other delivery channel of banks have become the service enabler to customer. (Gwinner, K.P., Gremler , D.D and Bitner , M.J , 1998). According to McKinsey report ‘’ The last decade has seen many positive developments in Indian banking sector. The policy makers, which comprise the Reserve Bank of India, Misnistry of finance and related government and financial sector regulatory entities , have made several notable efforts to improve regulation in the sector’. (McKinsey Report (2009) India Banking 2010: Towards high performing sector.) Moody ‘report (2008) ‘’Indian Banking system challenges remains ‘’ has indicated the shifting preference of Indian customer towards multinational banks because of their multi faceted services. Polatogu and Ekin, (2001) found that Internet banking not only reduces operational cost to bank but also increases customer retention. Al-Ashban and Burney (2001) from their study of

Saudi Arabaian customers using tele-banking have found that tele-banking has contributed in significant cost saving for the banks. (Khare Arpita, 2010) in her research paper has concluded that there is an immense potential of online banking in India and this can be used as strategy for improving banks operations and services. (Uppal RK, 2008) in his research paper has indicated that there is a scope of research towards per transaction cost in traditional banking and in E – Banking

CONCLUSION

Banks are moving from traditional banking to modern banking and the focus is shifting from earning interest income to non-interest income. A larger chunk of money is coming by selling 3rd party products. The other area where banks are facing fierce competition is to retain and satisfy customer by delivering quality service and minimizing customer complaint. In order to sell third party products efficient CRM practices are required. Enhanced customer satisfaction can lead to higher non interest income. Other area where banks are striving is to save cost. Transaction through direct banking channel is always a cheaper alternative compared to transaction done involving branch channel. Further if banks can successfully migrate customer from traditional channel to direct banking channel they can utilize their man power for cross selling of other products as well as Third party products wherein they can generate additional income. Direct banking channels attach the customer to the bank directly; carry out transactions on the customers command and in real time. This saves customer's time as well. Further for carrying out these transactions customers are not required to visit the bank but simultaneously having greater degree of satisfaction by doing the error free fast secure transaction.

We may observe the difference by simply comparing two situations of cash withdrawal one is by visiting the branch other is through ATM. Withdrawal through ATM is fast anytime and without any human interference where in the withdrawal from branch will require the use of instrument physical presence of holder of the cheque during banking hours. The satisfaction level of customer is much more in case of doing transaction through direct banking channels compared to doing transaction manually as the customer's involvement is more in case of former. The greater degree of customer involvement will lead to greater degree of relationship with bank and a smooth customer relationship management.

REFERENCES

Deloitte report. (2008). Evolving Models of Retail Banking Distribution, www. Deloitte.com/US/banking solutions.

Sheth , J.N. and Parvatiyar, A. (2000). *Handbook of Relationship Marketing* . Thousand Oaks, CA: Sage Publication.

Gardener, E., Howcroft , J. and Williams, J. (1999). The new retail banking revolutions . *The service industries Journal*

Mercator advisory Group Report(2013) Extending the reach of banking channels , http://www.mercatoradvisorygroup.com/index.php?doc=banking

RBI Annual Report. (2010-2011) Report on Trends and Progress of Banking in India. *www.rbi.org.*

Fjermestad ,J and Romano Nicholas (2003) Electronic Customer Relationship Management, revisiting the general principle of usability and resistance –An integrative implementation framework . *Business process Management Journal, 9(5):572-591.*

Kelly,S.W. (1989) Efficiency in service delivery: Technological or humanistic approaches? Journal of service Marketing 3(3):43-50

McKinsey Report (2010). Banking on Multi Channel, www.mckinsey.com/clientservice.

Harden,G(2002) E-banking comes to town: Exploring how traditional UK banks are meeting the challenge of technology and virtual relationships. *Journal of financial service marketing 6(4):323-332*

Gwinner ,K.P.,Gremler ,D.D. and Bitner , M.J. (1998) Relational benefits in service industries :The customer's prospective . *Journal of Academy of marketing science 26(2):101-114*

Moody's Reports (2008)Indian Banking system challenges remain, www.ebasco.com

McKinsey Report. (2009) India Banking 2010: Towards the high performing sector, www.mckingsey .com/india/mckinseyonindia/india_banking_2010.pdf.

Khare, Arpita. (2010) online banking in India: An approach to establish CRM. *Journal of Financial services Marketing15(2):176-188*

Joshua, A.J and Moli, P.K. (2009) Usage patterns of Electronic Banking service by Urban Educated customers : Glimpse from India. *Journal of Internet Banking and Commerce 16(1)*

Kumbhar V.M (2011) Envisages the History of Alternative Banking

Khurana ,S. (2009) Managing Service quality : An Empirical Study on Internet Banking. *IUP Journal of Marketing Management.*

Uppal,R.K (2008) Customer Perception of E Banking services of Indian Banks: Some Survey Evidence. *ICFAI Journal Bank Management*

Moles, N (1998) The Behavioral Consequences of PC Banking. *International Journal of Bank Marketing 13(3), 295-201*

Lockett, A. and Littler, D. (1997). The adoption of direct banking services , *Journal ofMarketing management ,13(8),791-81*

Al-Ashban , A.A and Burney, M.A . (2001) Consumer adoption of tele-banking technology: The case of Saudi Arabia, International Journal of Bank Marketing, 19(5),191-200.