Investors Perception towards Selected Models of Branchless Banking

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Abstract

Branchless banking is a distribution channel strategy used for delivering financial services without relying on bank branches. While the strategy may complement an existing bank branch network for giving customers a broader range of channels through which they can access financial services, branchless banking can also be used as a separate channel strategy that entirely forgoes bank branches. According to a 2011 survey, 62% of respondents said the Internet is their preferred banking method. Only 20% selected branch banking - a sharp decline compared with 2007 when 40% of respondents preferred to bank at a branch. Banks has to upgrade the service quality, efficiency due to Internalization, liberalization and progress in IT, the traditional branch banking module may not ideal for every target market and even it is not viable also by comparing the risk and returns is concerned, and banks are facing pressure to cut down their cost and due to competitions .in the course of implementing branchless banking banks has introduced some of the models like Internet, automated teller machines (ATMs), POS devices, EFTPOS devices and mobile phones. Each of these technologies serve to deliver a set of banking services and are part of distribution channels that may be used either separately or in conjunction to form the overall distribution channel strategy. This exploratory study revealed some important findings about awareness, usage and frequency of usage of branchless banking services of respondents. Purpose of this study is to measurement of perception on selected models of branchless banking based on 250 valid respondents of banking customers.

Key words: POS devices, EFTPOS, Internalization

Introduction

Branchless Banking (BB) is a strategy of distribution channels which are used to provide financial services and seeks to expand the concept of the traditional bank branch. This is done through the growth and development of technology. Currently, clients' everyday life demands transactions to be available everywhere, enabling them to carry them out from an interactive terminal in a wide spectrum of locations, such as a train station, an airport, a hospital, or a supermarket, without time restriction or the need to own an electronic device or have personalized support.

Thus, the banks' operating costs are reduced to the minimum, allowing them to cover more time slots with their excess resources, this new way of operating is known as "Branchless Banking. Notwithstanding the fact that the Branchless Banking concept can be applied to any client segment, its first experiences have focused towards capturing the retail banking segment, trying to make financial services more accessible to a greater number of people, and to people

who do not usually go to a bank or are currently outside the system. The benefit provided by this segment is the volume of transactions they carry out, typically small amounts, and in opposition to corporate segments, which carry out a smaller number of operations, but for higher amounts. All this comes together with the technological advance that allows an increasing connectivity among the institutions and their clients.

Scope

The study is mainly focuses on the branchless banking models. The purpose of the study is to understand the awareness level, usage of banking services, perception on selected models of branchless banking based on 250 geographically dispersed citizens of Karnataka State which covers rural as well as semi urban citizens.

Research Methodology

The research is both exploratory and conclusive in character. Exploratory is non-conclusive design used in the initial part of the research problems and design suitable data collection instrument, under descriptive study extensive data's are collected using a cross section survey.

Data Sources

The research uses primary data. Primary data is collected from the respondents with the aid of designed questionnaires. For the purpose of adequacy of the primary data a cross section survey was undertaken. The sample respondents are selected by using cluster sampling method. The important geographical clusters in the state of Karnataka are treated as a sample unit. Four regions like Northern Region, Southern, Coastal Region and Central Region are considered as sampling clusters.

Objectives

1. To study the awareness, usage and Frequency of usage of services of branchless banking models.
2. To measure the service perception of respondents about selected models.
3. Understand the Respondents response on selected attributes.

Review of Literature

The financial lives of the poor have been amply and vividly described in Collins et al. (2009). Their income is precariously small and often irregular. For instance, they may be smallholder farmers with seasonal income or day laborers without guaranteed employment. With more than 2.6 billion people in the developing world living without a bank account of any sort and less than 30 percent of this population having access to finance, banking is simply not a mass

market proposition (CGAP, 2010; Chaia et al., 2009; Demirguc-Kunt et al., 2008). Branchless banking is about building a general payments infrastructure that allows people and businesses to deposit and withdraw funds and make electronic payments from everyday retail stores, thus eliminating the need for bank branches or other bank-specific infrastructure.

"Branchless banking" is a term coined by the Consultative Group to Assist the Poor (CGAP; Lyman et al., 2006) to refer to "new distribution channels that allow financial institutions and other commercial actors to offer financial services outside traditional bank premises." Branchless banking allows customers to conduct basic financial transactions such as deposits and withdrawals at everyday retail stores.

Alexandre et al. (2011) prefer the term "banking beyond branches" in recognition of the fact that bank branches still play a fundamental role in supporting the liquidity of the cash-in/cash-out network in branchless banking schemes: "In the new cash ecosystem, retail outlets handle the last mile, but banks still do the longhaul. Bank branches will thus retain a role as cash distribution nerve centers in support of non-bank retail outlets located in their catchment area". While the key innovation of branchless banking is the use of everyday stores to capture customers' cash transactions, the key enabling factor is the existence of innovations ubiquitous communications networks that permit financial service providers to transact securely through these third-party outlets (Ivatury, 2006; Lyman et al., 2006).

Moreover, the spread of mobile phone use represents a large installed base of virtual cards and point-of-sale terminals that branchless banking providers can leverage. Mobile banking is thus a subset of branchless banking that has the advantage of using people's own mobile phones, instead of having to distribute new cards to customers and point-of-sale terminals to stores (Porteous, 2006). Porteous (2006) and Lyman et al. (2008) further distinguish between bank based and non-bank-based models, depending on the nature of the organization promoting the scheme. Non-bank-based models represent the entry of players with strong competencies in technology and/or retailing—as epitomized by mobile phone operators—into the distribution of financial services. Transformative non-bank-based branchless banking schemes represent innovative market disruption at several levels: entry by a nontraditional player, leveraging nontraditional channels, at scale.

Branchless Banking

The global banking industry has seen significant changes in its competitive and regulatory environments in recent times. The most significant of these is the change in mindset of their customers. A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets.

A bank is the connection between customers that have capital deficits and customers with capital surpluses. The types of banks is as follows

Type of Banking	Characteristics
Traditional	1. The client has to go to the branch within its working hours. 2. Few branches. 3. Geographic restriction for operating.
Traditional + ATMs	1. Addition of ATMs. 2. The client can carry out certain transactions at any time. 3. The number of ATMs is higher than the number of branches. 4. Continued geographic restriction for operating (reduced operation).
Telephone	1. The client can carry out operations from any phone. 2. The Customer Service time is lengthened. 3. Continued geographic restriction decreases.
Electronic	1. Client can choose from a wide range of operations 2. Operating costs are reduced for banks. 3. Geographic restriction is eliminated.
Mobile	1. Client can carry out some operations from his mobile phone.

Technology can enable banks and their customers to interact remotely in a trusted way through existing local retail outlets. Customers can be issued bank cards with appropriate personal identification number (PIN) - based or biometric enrollment security features, and the local store the "banking agent" can be equipped with a point-of-sale (POS) device controlled by and connected to the bank back end system using a phone line or wireless or satellite technology. With appropriate technology, the costs of bank service distribution can be reduced, while still effectively controlling banking risks. While the physical bank branch has not been replaced completely, newer modes of customer interaction like mobile and internet banking have evolved. The selected models are as follows.

Selected BB Models

EFTPOS	EFTPOS electronic funds transfer at point of sale — is an electronic payment system involving electronic funds transfers based on the use of payment cards, such as debit or credit cards, at terminals located at points of sale.
Mobile Banking	SMS banking Banking operations via SMS messaging ,Smart phone app For Android, Iphone, Windows and Blackberry phones, IVR (Interactive Voice Response) Operations for mobile phones and landlines ,USSD module Menu based operations supported by high and low end mobile phones

On-line banking	On-line client profile (client information, images) Payments (normal, installments, scheduled, authorization levels) Payment request to mobile user (requires confirmation by SMS) Loans (view open closed loans, repay loan) Loan groups (micro finance) Account summary / history, print & export payments lists Personal alerts & notifications On-line request forms (e.g. loan request) Personal documents, group documents) Manage account operators
Cards / POS	Debit / credit card support , Different security options PIN, security card code , On-line card management (activate/cancel/block card, reset/block PIN) ,POS (Point Of Sale) cash-in cash-out payments , Daily transaction overview & print on POS ,Receipt printer support for WebPOS ,Print transaction reports for specific POS operators ,Manage POS devices on-line (activate, deactivate, block)
Business Facilitator'	Under the Business Facilitator'; model, banks may use intermediaries, such as, NGOs/ Farmers' Clubs, cooperatives, community based organisations, IT enabled rural outlets of corporate entities, Post Offices, insurance agents, well functioning Panchayats, Village Knowledge Centers, Agri Clinics/ Agri Business Centers, Krishi Vigyan Kendras and KVIC/ KVIB units, depending on the comfort level of the bank, for providing facilitation services.
BC Model	Under the 'Business Correspondent' Model, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents. Banks may conduct thorough due diligence on such entities.

The table mentioned below represents the name and microloan amount disbursed by different countries.

CGAP Analysis

Country	Branchless banking institutions (BBIs)	BBI: active, previously unbanked clients	Largest microfinance institution in market	MFI: active microloan clients
Brazil	Banco Postal	1,461,850	Banco do Nordeste	528,792
Cambodia	WING	56,000	Amret Microfinance	226,262
India	FINO	6,050,667	SKS	5,300,000
Kenya	Safaricom	1,866,896	Equity Bank	700,000
Philippines	Globe	247,500	CARD	987,435
Philippines	Smart	1,320,000	CARD	987,435
South Africa	WIZZIT	27,375	Capitec Bank	638,616
Tanzania	Vodacom	108,820	PRIDE Tanzania	106,082

Source: Bosch and Anson (2008), Bowen and Goldstein (2010), Consulta (2010), FSD Tanzania (2009), Jack and Suri (2009), Leishman (2009), Morawczynski et al. (2010), Morawczynski and Pickens (2009), Pickens (2009), MIX for active microcredit borrowers, and CGAP interviews with senior managers of Banco Postal, FINO, and WING.

Source: Claudia McKay, Mark Pickens

Key Facts

I. On average, branchless banking is 19% cheaper than banks
II. The lower the transaction value, the cheaper branchless banking is in comparison wi th banks. For example, at a transactional value of $23,
III. Branchless banking is on average 38% cheaper than commercial banks.
IV. Branchless banking is 54% cheaper than informal options for money transfer.

Why branchless banking

1. The cost of a traditional banking branch would have been almost thirty (30) times greater,
2. There are analyses on transaction costs in Asia which indicate that a typical physical transaction in the Philippines has an average cost, for the bank, of $2.50, while the same transaction, done electronically on a mobile phone, can be $0.50.
3. More and more, clients want to be able to carry out their banking errands in simpler, faster, cheaper way, at any time and, if possible, at any place.
4. BB allows for cost reduction in the delivery of financial services, including the costs for the bank of building and maintaining the distribution channels. This, in turn, has an impact on the reduction of costs for the client,

Table 1: Demographic Profile of Respondents

Attributes	No of Respondents	Percentages	Cumulative %
Gender			
Male	127	63.5	63.5
Female	73	36.5	100
Education Level			
High School or lower	49	24.5	24.5
Some College	74	37	61.5
College graduate	56	28	89.5
Graduate School	21	10.5	100
Age			
16-24	56	28	28
25-34	49	24.5	52.5
35-44	41	20.5	73
45-54	26	13	86
55-64	19	9.5	95.5
65 or over	9	4.5	100
Single	67	33.5	33.5
Married	116	58	91.5
Divorced	6	3	94.5

Widowed	11	5.5	100
Occupation			
Student	34	17	17
Private Service	71	35.5	52.5
Public Service	26	13	65.5
Professional	14	7	72.5
Business	19	9.5	82
Retired	8	4	86
Housewife	28	14	100
Monthly Income:			
Below 5000	53	26.5	26.5
5001-10000	68	34	60.5
10001-20000	37	18.5	79
20001-30000	28	14	93
Above 30000	14	7	100

Source: Tabulated Data

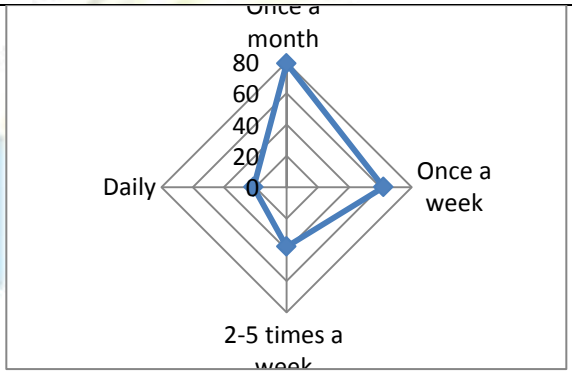
Table 2: Frequency of Usage of Banking Services

Table no:

Particulars	*NOR*	*%*
Once a month	*79*	*39.5*
Once a week	*62*	*31*
2-5 times a week	*38*	*19*
Daily	*21*	*10.5*

NOR : No of respondents

Source: Tabulated Data



The above table represents the frequency of usage of banking services of respondents in which 39.5% of respondents use once in a month, 31% are using once in a week and only 10.5 % of respondents are using daily banking services.

Table 3: Response on awareness, Usages and Frequency of Usage

Model	Awareness		Usages		Frequency of Usage (%)			
	NOR	%	NOR	%	Daily	Weekly	Fortnightly	Monthly
Online banking	43	21.5	39	19.5	21.00	43.0	19.0	17.0
Mobile Banking	38	19	34	17	16.00	36.0	21.0	27.0
Mobile Vans/ATMs	149	74.5	139	69.5	19.00	42.0	26.0	13.0
Phone banking	37	18.5	33	16.5	11.00	26.0	28.0	35.0
Business Correspondents'	51	25.5	47	23.5	19.00	29.0	24.0	28.0
POS	41	20.5	37	18.5	8.00	15.0	21.0	56.0
ETFO Services	33	16.5	29	14.5	9.00	32.0	23.0	36.0
Business Facilitator	27	13.5	23	11.5	12.00	29.0	31.0	28.0
Others	21	10.5	17	8.5	6.00	25.0	32.0	37.0

Source: Tabulated Data

Users awareness and usage and frequency of usage is evaluated based on the data supplied by the respondents.

Table 4: Perceptions on Service

Model	Service attributes (Wighted Average Score)					
	Reliable	Attentiveness	Ease of use	Access	Security	Credibility
Online banking	125.15	126.18	98.26	112.21	109.15	111.18
Mobile Banking	120.65	121.68	93.76	107.71	104.65	106.68
Mobile Vans/ATMs	132.15	133.18	105.26	119.21	116.15	118.18
Phone banking	114.65	115.68	87.76	101.71	98.65	100.68
Business Correspondents'	140.15	141.18	113.26	127.21	124.15	126.18
POS	132.15	133.18	105.26	119.21	116.15	118.18
ETFO Services	131.15	132.18	104.26	118.21	115.15	117.18
Business Facilitator	146.15	147.18	119.26	133.21	130.15	132.18
Others	103.65	104.68	76.76	90.71	87.65	89.68

Source: Tabulated Data

Table 5: Ranking of selected models based on following attributes

Attributes	Selected Models							
	1	2	3	4	5	6	7	8
1	3.27907	3.21053	3.67785	3.21622	3.509803922	3.390243902	3	3.03704
2	2.55814	2.60526	3.7047	2.59459	3.058823529	3.219512195	2.7878788	3.03704
3	3.16279	3.21053	3.68456	3.21622	2.784313725	3.585365854	3.4848485	3.62963
4	2.90698	2.94737	3.67114	2.94595	3.039215686	2.951219512	3.1818182	3.03704
5	2.93023	2.84211	3.67785	2.81081	2.549019608	3.414634146	3.030303	3.07407
6	3.37209	3.39474	3.66443	3.35135	3.019607843	3.512195122	3.1515152	3.33333
7	3.11628	3.21053	3.67785	3.18919	2.941176471	3.268292683	3.0909091	3.51852
8	2.90698	3	3.66443	2.97297	2.784313725	2.975609756	2.969697	3.07407
9	3.11628	3.34211	3.67785	3.2973	3.529411765	3.268292683	3.5757576	3.48148
10	3.16279	3.15789	3.69128	3.21622	3.431372549	3.195121951	3.4848485	3.85185

Source: Tabulated Data , Models 1 Online banking, 2 Mobile Banking, 3 Mobile Vans/ATMs, 4 Phone banking, 5 Business Correspondents', 6 POS, 7 ETFO Services, 8 Business Facilitator and Attributes: 1 Cost, 2. Transparency, 3. Accessibility, 4. Ease of Procedure,5 Security, 6 Processing Time,7 Support from service provider, 8 Image,9 Assurance 10 Accountability.

Suggestions and Conclusion

The concept of branchless banking will be instrumental in achieving the mammoth task of gaining 100 percent financial inclusions by 2015 in India. To set the momentum right, there have been regulatory relaxations and initiatives such as mobile payments and third party business correspondents.

With the increasing penetration of telecommunications in the country and greater reach, mobile based business models (also referred to as M-Banking) will prove to be instrumental in realizing branchless banking and taking it to higher grounds by enabling low cost and real time transactions over secure networks.

It is necessary for the financial institutions to run a campaign of education, both internal and external, to allow the development of the paradigm and thus exploit the advantages of BB and to promote its use by remote clients.

The BB concept could be broadened (in service variety and modality) and strengthened (in security) even more when boosted by currently existing technologies and that have reached a level of development which has made its building costs cheaper. For example, biometric sensors can be used together with other security measures, to validate the users' identity. A human contact with bank tellers can also be maintained or developed, if those human tellers work remotely, which would allow them to cover broader time ranges.

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