Evolution of Banks’ Alternative delivery channels

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**ABSTRACT**

To meet competition, banks set up branches for wider reach. This necessitated huge investment in terms of building and manpower costs. Banks were looking for ways to cut costs. This led to development of innovative technologies like the ATM and Internet banking. These channels turned around the picture for private sector banks making them market leaders in innovative technologies. (Srikanth and Padmanabhan, 2002). Mobile banking costs 50 per cent of Internet banking, 10 per cent of ATM and just 2 per cent of branch banking, according to RBI. Banks discourage customers from visiting branches. This paper looks into the self-service technologies offered by the banks and their present status in India.

**Keywords:** Banking, Technology, Mobile banking, Internet Banking, Virtual banking

1. Introduction

Self-service technologies are the “technological interfaces that enable customers to produce a service independent of direct service employee involvement.” Dean (2008) suggests that services like automated check outs are not taken as services by the consumers. This is because the level of service is not the same as it is when dealing with bank teller. Banks shifted all their transaction based services with a nominal fee under the purview of Self-Service Technologies. Bankers can now focus on high-priority services like cross-selling. (Prendergast & Marr, 2006)

Earlier, the employee provided services to the customer. However, now services are viewed as something personal. SSTs have given a new meaning to the services. Service of delivery through technology has now been implemented in various sectors like banking, insurance, hotels and airlines. Customers use SST for customer service, transactions and for self-help. (Meuter et al. 2000). The nature of service encounters have changed due to self-service technologies. Beatson et al. (2007) suggests that this reduced contact with the bank teller can have an affect on the customer satisfaction and commitment. This can impact the customer- bank relationship in long run and therefore, it’s imperative to understand customer’s technology usage.

2. Self-service Technologies

SSTs are also known as alternative delivery channels. (Gupta & Gupta, 2013). It is the ‘what’, ‘why’ and ‘how’ of electronic delivery. These include all non-traditional means of banking (Gatto J.G, 1996; Sathy, 1999) like ATM, Internet banking, core banking, credit cards, debit cards, mobile banking, and electronic fund transfers. Banking transactions without a personal interaction with the bank personnel are called alternative delivery channels. These are the transactions done other than traditional physical branches. Customers can perform transactions without having to visit the branch. It is also called quasi-banking, branchless banking (Ivatury& Mas, 2010) or virtual banking. (Li &Zong, 2005). IBM Global Services describes alternative banking as a set of alternative delivery channels. Daniel (1999) describes electronic banking as a way of performing service through automated teller machine, kiosks or at a public location. These services are initiated through devices like cards or codes that lets account access happen. For this purpose, banks use ATM or debit cards and Personal Identification Numbers (PINs). In addition, digital signatures or scan is also used for allowing access to account. (Gurusamy S., 2009).

2.1 Uses of Self-Service Technologies

2.1.1 Round-the-clock Banking

ATMs are the electronic terminals. These helped banks to overcome time and geographical locations constraints. (Guru et. al., 2001). These provide round-the-clock access to banking services. A customer of a bank can withdraw cash, make deposits, or transfer funds between accounts by simply inserting an ATM card and entering the PIN even beyond banks office hours.

2.1.2 Direct Deposits

SSTs enable cheque deposit in the customers account on regular basis. It also allows payment of bills like utility, insurance etc. For availing of this facility the bank has to be authorized beforehand.

2.1.3 Pay-by-phone

This facility enables banks to transfer funds between accounts. Mobile phone payment system was introduced by banks in 2014. Money can be transferred electronically by registering the account and phone number with the bank. After logging in via mobile app using a password, a customer can send the money once he confirms the name of the recipient.

2.1.4 Point-of-Sale Transfer

Payment for purchases using the debit card are now one of the electronic services. The only condition for this is that the customer needs to have adequate funds in his account to meet purchase transactions.

2.1.5 Electronic Cheque Conversion

This e-banking service is generally provided in foreign countries. Electronic cheque conversion converts a paper cheque into an electronic payment. This can be done either at the point-of-sale or in situations where a company receives cheques in the mail. In a typical point-of-sale scenario, where a cheque is issued and sent to the shop cashier, it is processed through an electronic system. The system captures the
customer’s data and the amount of the cheque. Once processed, the customer signs a receipt authorizing the shopkeeper to present the cheque to the customer’s bank electronically. Funds are deposited into the merchant’s account. Issue of receipt marks the completion of the electronic transaction.

3. Benefits of Self-Service Technologies

Self-service technologies help the customer withdraw cash. The customer can perform the transactions 24x7. They can know the status of their account and account balance easily. Easy fund transfers are also possible via SSTs. Customer can use these services at a lower cost.

For the banks, SSTs reduce the cost of transactions through shared networks, reduce cost of human resource and improve the quality of services provided to the customers. Banks can boost profits by charging customers for the Self-Service technologies. There is a possibility of attracting more customers. Effective use of banking delivery channels can lead to increased customer satisfaction, customer retention and customer loyalty.

However, Ganesh et al. (2000) considered interaction with bank staff as important factor for customer satisfaction. As customers adopt more of these channels their visits to banks have reduced. But, this can act as major roadblock in customer satisfaction. (Anderson, Fornell, Lehmann, 1994).

Customers are sometimes reluctant to use self-service technologies because of the risk of loss of data, fraud, lack of adequate information and password theft. (Kaleem&Ahmad 2008). Therefore, the customers expect a safe electronic environment.

4. Bank services through Self-Service Technologies

4.1 Automated Teller Machines (ATMs)

The electronic infrastructure that allows cardholding customers to perform routine banking transactions without interacting with a human teller is called ATMs in short. They were primarily set up by banks to achieve strategic competitive advantage over other banks. In order to use these, a card is issued to the subscriber. ATMs are usually used for withdrawal of cash, deposit taking, balance enquiry and dealing in loans. (Manoharan, 2007). Banks can focus on core services instead of mundane activities like customer cash withdrawal and fund transfers. (Guru et al., 2001).

Usually, banks have two types of ATMs. ATMs, which are located with the branch of the bank, are called Lobby ATMs. Through-the-wall ATMs are located outside the branches at strategic locations where branches cannot be set-up.

Functions of ATMs: This technology functions like a human teller, which helped the transition of the customers from the branch to the Kiosk easier. (Guru et al., 2001). ATMs provide good speed in performing basic banking transactions. Inter-branch sharing of cash withdrawal option made customers live easy. (Shroff F.T, 2008)

ATMs are used to check balance, withdrawing cash, requesting cheque book, deposit money in account (only if you using ATM of bank you have an account with), transferring funds between accounts (also for bill payments), Mini statement, request for PIN change and request for passbook update.

Automated teller machines were first introduced in India in 1987 by HSBC Bank. As, PSU banks had more branches so it was not possible for new private banks to reach out to large number of customers easily by establishing branches at a large number of locations. Private banks found the solution in cost effective ATMs. HDFC Bank, ICICI, UTI and IDBI together have half of the total ATMs in India. ICICI Bank reached a landmark when it became the first bank of the country to have 1000 ATMs. (Thamaraiselvan and Raja, 2007).

PSU banks, mainly the State Bank of India, Syndicate Bank and Corporation Bank, have speedily set up ATMs across India.

Table 1.1: Sector-wise deployment of ATMs of Scheduled Commercial Banks

<table>
<thead>
<tr>
<th>Banking Group</th>
<th>Metro Centres</th>
<th>Urban Centres</th>
<th>Semi-urban Centres</th>
<th>Rural Centres</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Banks</td>
<td>28644</td>
<td>36139</td>
<td>36481</td>
<td>27401</td>
<td>128665</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>20805</td>
<td>14768</td>
<td>11698</td>
<td>4219</td>
<td>51490</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>835</td>
<td>208</td>
<td>22</td>
<td>32</td>
<td>1097</td>
</tr>
<tr>
<td>Total</td>
<td>50284</td>
<td>51115</td>
<td>48201</td>
<td>31652</td>
<td>181252</td>
</tr>
</tbody>
</table>

Source: Data Releases, Reserve Bank of India

ATMs in private banks are half the number of ATMs set up by public sector banks. State Bank of India has the most ATMs. Rural areas lag behind and banks should have a close look at this.

About 50 to 80 per cent transactions are now done through these kiosks. Federal Bank, has managed to break-even within six months of installing its first ATM. The bank managed to reach out to the rural customer base within two years of having established its first ATM (Nair, 2006).

Banks are trying to offer more non-banking and non cash services through ATMs. (Mohanty, 2007). Some of the banks offer bill payment services including electricity and telephone bills, insurance premium and credit card dues payments through ATMs.

Technology has helped ICICI Bank reduce transactions done through branch banking considerably over the last few years. The bank, which was the first to introduce technology, now does only 15 per cent transactions happening through its branches.

New Age Banking, says the rural market still needs more ATMs. More than 70 per cent of ATMs are located in urban sites. However, according to Celent, a global research firm, the number of ATMs in rural areas will be up 50 per cent by next year. Villages have 37 per cent of the branches. The number is 26 per cent in the case of semi-urban areas. Nationalized banks are leaders in branch banking.

4.2 Internet banking

The term refers to banking transaction done on the website of a banking company. The advantage of Net banking lies in online access of banking and financial services to customers. The geographical constraints which makes the use of other SSTs also limited with regard to certain transactions like fund transfer is highlight of internet banking (Shroff F.T, 2008). Internet enables banks to offer home banking 24x7. (Möls, 1998).

At a basic level, Net Banking provides information about
its products and services on its webpage. At a more advanced level it provides access to accounts, funds transfer and purchase of financial products or services on the Net (Sathye, 1999). Sayarand Wolfe (2007) says the term Internet Banking is used to describe the case where banks’ customers conduct banking transactions on the Internet. In the contemporary context, this mainly means using computers, for accessing Net Banking branches.

Net Banking allows customers to access their account data via the Internet. In order to use Internet Banking, an account holder would need a personal computer with Internet connection. If these conditions are met Internet Banking can be performed from anywhere in the world.

Some of the benefits of Internet banking to the customer are:
- Transaction convenience- tracking of money without actually have to visit the bank;
- Any time transactions;
- Personalization;
- Saves time. Customer does not have to stand in queues or visit branch;
- Environmental friendly. Cuts down on paper and fuel.
- It costs the customer much less compared to visiting a branch;

Banks benefit from Internet Banking by:
- Internet banking cuts costs on setting up a branch. Brick and mortar branches require more manpower and higher cost of providing services. Compared to this, Net Banking reduces workload as transactions are automatically reconciled and posted in all required data tables.
- Branch banking enables banks to focus on selling while Internet banking can be used for carrying out basic transactions from the convenience of home.

Internet banking delivers services to the customers are of three types. Dinz (1998) made this classification in a model on Net banking. These include the informational role of providing information, the transactional role of making transactions and relationship role of developing and strengthening customer relations with the bank.

A report on Internet Banking (2001) by the Reserve Bank of India, said the level of Net Banking services can be categorized into three types: Bank websites offering only product related information for the customers is the basic level service; Bank websites offering services like loan application, requesting cheque book etc but not allowing fund transfers. Such websites are called simple transactional websites. Bank websites, which allow funds transfer and stock trading are full transactional websites.

Internet banking was introduced in India by ICICI Bank in 1996. ICICI was followed by some private and foreign banks. With the increase in usage of personal computers, technology became more popular. The reduced cost of online services made technology adoption easier. As a result Net Banking gathered speed from 1999 onwards. HDFC Bank was another early bird. (De R. and Padmanabhan, 2002).

Initially, Net Banking facility was used by the customer to get account related information. Later, customers could do a lot of other transactions through it like fund transfers and bill payments.

Malhotra and Singh (2004) in a study revealed that very few banks had transactional websites. But, public sector banks including SBI and the PNB, have fully transactional websites.

**Internet Banking-Some Concerns.**

Internet banking faces some problems. Banks need to understand and address these to build customer trust within Net banking (Kumar et al., 2007). There is lot of threat to customers’ data online. Therefore, it is imperative for banks to provide foolproof technological shield to unauthorized access to customer’s data. Banking transactions must be carried out via digital signatures. Money laundering can be a major risk associated with Internet Banking as there is no face-to-face contact with the customers. Customers education on combating the risks associated with Internet security is also must. (Schaechter A., 2000). These measures are essential as there is increased threat of phishing or online identity theft according to a study by Gartner, as cited by Balaraju and Balakrishnan (2008).

**4.3 Mobile banking**

The latest banking trend in India is mobile banking. The kind of banking and financial service that gives a real-time mobile access to customers on their move is called ‘mobile banking’, (Gurusamy S, 2009) the service being offered through ‘mobile telecommunication devices’ or ‘mobile phones’ (Meena, 2012). In the 90’s the use of the mobile phones also became widespread. Banking had already expanded from physical banking to self-service technologies by then. Mobile banking also helped in taking along the financially excluded. (Kashyap, A.K, 2014)

With the rise in mobile phone penetration and its growth in India, mobile banking is becoming popular. Banks are pushing this service as it saves cost. This can help banks reach rural markets. In view of the convenience it offers, it is also easy to tap the left out population. Most of the private sector banks are offering the service while public sector banks have started implementing this service.

**Mobile banking services**

Mobile banking services are either alerts sent by the banks or the request generated by the customer. When information of a customer account is sent out to the customer, as he has asked for it, it is dubbed as an alert. Customers’ requests are implemented at customers’ end like request for a new cheque book and information about the recent transactions. A request for balance enquiry is enquiry based service while fund transfer is a transaction based service. Such a classification is on the basis of nature of the service being provided.

Most of the banks in India are just offering SMS banking or insta alerts as offering them is economical for the banks. Also, most of the customers are just using SMS banking. SMS banking does not offer the broad range of services offered through the transactional services. In this, the request generated by the customer is sent to a pre-specified number and the request is completed with the customer getting a message from the bank. No Net connectivity is required for this service. It offers customer benefits of checking their balance or the last few transactions.

For using WAP, the customer has to download the bank application and can continue doing transactions on the phone using Internet. It is very similar to Net banking. WAP banking also enables customers to verify their account details. A host of banking transactions are offered through WAP and the customer can also do trading.
Mobile banking is an evolutionary step. Its considered more safe than internet banking as customers account number is not exposed in any transaction. This makes it difficult for the hackers as the functions that can be performed on the cellphone are limited.

With the rise in ICT, banking industry is expected to grow. As customer is rapidly adopting technology in every sector, banks are also trying to lure customers with beneficial and user-friendly services via self-service technologies.

5. Conclusion

The increased use of computers has led to introduction of electronic banking and has changed the banking scenario forever. This papers looks into what self-service technologies are, their uses, services offered by banks through self-service technologies. Self-service technologies bring in lot of benefits for not just the customer but also for the banks. It is win-win proposition for both provided banks figure out which self service technology is best for it to choose from and to implement. Similarly, customers have to understand the services that these technologies provide to make the best use of them. Not all self-service technologies get the same response. Customers are quick to adopt some of these while struggle to use others. Therefore, it is important the type of services put forward by banks through these delivery channels and their present status.

References
