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A COMPARATIVE ANALYSIS ON THE IMPACT OF ALTERNATIVE BANKING SECTORS ON PRODUCTIVITY OF PUBLIC AND PRIVATE BANKS

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A Comparative Analysis on the Impact of Alternative Banking Sectors on Productivity of Public and Private Banks

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Abstract – This study sought to establish the effects of alternative banking channels on profitability of public and private banks in India. This research espoused a qualitative research methodology that involved the collection and analysis of statistical data from primary and secondary sources. For purposes of this study, data for a period of four years was analyzed, examined and compared to manifest the rapport between alternative banking channels and profitability of public and private banks. The primary data was sourced from the books of accounts of the Public and Private banks of India and questionnaires distributed to staff, customers and bank agents to justify that the use of alternative banking channels really impacts on profitability of Public and Private Banking sectors.

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INTRODUCTION

Recent economic turmoil and increasing market complexity has placed unprecedented pressure on financial institutions. The demand for a digital lifestyle and the technological revolution it brings to homes and the workplace, coupled with a significant demographic shift and a new regulatory framework, are subjecting the finance sector to a host of new challenges in a time of severe market uncertainty. However, it is in times such as these that opportunities arise for companies to step outside their comfort zones, fueling innovation on the financial services landscape.

In an attempt to optimize services and minimize costs, banks are frequently migrating towards a 24-7 service and customers are enjoying the greater sense of freedom that this creates. Availability is the name of the game as we demand instant access to loans, deposits and our account status.

So what is the next step? In a bid to drive even greater differentiation from the competition, financial services institutes are now exploring alternative banking channels, including the internet, telebanking, self-service halls, cell-phone and fax banking.

Despite this trend, the call for branch services still remains significant although, as we will see, the type of service demanded there has changed considerably. The world banking sector has been revolutionized over the past 30 to 40 years by an onslaught of new technologies and a widespread change in the regulations governing the use of this technology.

As a result, many banks have started adapting their distribution channels and shifting from frontal personal service to direct sales and marketing via phone, email or electronic transactions. The general understanding is that this creates value both for the organization and its clients.

Development of main channels:

ATM: During the 1990s, the number of active units in Europe rose by a staggering 50%. Originally only used to withdraw cash, the ATM has evolved to support a wide variety of services, including deposits and account details. To counteract the impersonal impression of the so-called “hole in the wall”, the Spanish bank BBVA has developed its “future ATM”, an innovative touch screen interface with customized shortcuts to reflect individual user requirements.

Telebanking: the first call center was launched in 1983 in the U.S. by MCI. This marked a shift by many organizations towards centralized customer service centers, often with an automatic reply service (IVR) incorporating voice recognition systems. However, despite these efforts away from personal interaction, the majority of call center activities still involve human representatives, particularly when dealing with transactions.

Online banking: another channel to emerge in the 1990s but one which still showed low penetration by the end of the decade. Initially used to present an institute’s marketing platform, the websites are now enjoying a new lease of life as a door to the world of

24-hour online transactions. Some countries even prefer the instant access to online account information and transactions to that offered by traditional banking, as confirmed in a survey conducted at the end of 2009 by the American Bankers Association (ABA).

Mobile banking: this channel is relatively new but is already showing steady growth. Used in its early stages as a push/pull tool for information text messages, cell phone banking now supports personal account access and is forecasted to become the new mobile payment method or "digital wallet" of the future.

Alternative banking delivery channels are new conduits and techniques for providing banking services directly to customers. Recent economic crisis along with increasing market intricacy has placed extraordinary pressure on financial institutions. The demand for a digital lifestyle in addition to the technological insurrection it brings to residences and places of work, as well as the momentous demographic shift and a regulatory structure, are subjecting the finance sector to significant challenges in a time of rigorous market uncertainty. Conversely, times like this present opportunities for public and private banks to embrace change resulting in innovation over the delivery of financial services.

CONCEPTUAL FRAMEWORK

Five variables were isolated as the potential variables that influence the use of alternative banking channels by the customers as explained in the literature review. The variables were cost, revenue and convenience, subscription rate and speed. These were considered as independent variables. All the independent variables were expected to have positive effects on the profitability of the bank that was taken as the dependent variable. This was taken as percentage target for each branch under the study. Technology influences the cost, convenience, speed and the revenues from the ABCs services. Technology was therefore taken as an intervening variable.

Revenue is a very significant indicator of the effect of alternative channels on the profitability of Public and Private banks. Due to the novel avenues of revenue, the public and private banks have achieved higher profits from the alternative banking channels. The convenience associated with alternative banking channels in accessing and delivery of financial services is noteworthy in the profitability of public and private banks. Alternative banking channels have made it so easy to access financial services thus motivating more clients to subscribe and use of banking services. The enhanced access and subscription to public and private banks has led to higher profitability. One very significant feature of alternative banking channels is the reduced costs associated with banking. This is achieved by the reduction of staff through self-service channels since the number of staff is drastically reduced. The diminished cost impacts on the profitability of banks since it erases the avenues of expenditure and creates fresh fields of revenue.

IDENTIFYING THE SUITABLE CHANNEL TECHNIQUE

Before a company adds alternative channels to its overall portfolio, it is essential that it defines a common channel strategy to avoid conflicts or confusion when dealing with the customer. This channel strategy must support the bank's corporate strategy and create value for both the organization and the customer. Furthermore, since banking services are generally similar between the institutions, the strategy must ensure that each channel is intelligently positioned to optimize its contribution to the bank's differentiation from the competition.

The strategy-defining process can be broken down into three stages: segmentation, channeling and service matrix. The challenge is to find out which customer groups the organization wishes to address and through which channels and services it aims to accomplish this. When considering alternative channels, customers generally fall into four main groups: those who prefer human interaction; those who are open to new channels; those who are unsure and therefore undecided and those who have differing preferences, depending on the individual services in question.

The second group is generally made up of younger, wealthier and highly educated clients, who have less time to visit a branch (a situation often exasperated by a lack of branches in their vicinity) and who feel at home with the new technologies used in the alternative channels. The "anywhere, anytime" availability and accessibility of alternative channels, coupled with the time saving and lower costs involved, makes life easier for them and therefore increases their customer loyalty.

The customers from the other three groups tend to focus on the risks posed by the alternative channels and therefore need to be reassured by the banks before they will feel happy using these channels. The complexity of some services and the technology used make them worried about possible mistakes and the problems these may cause. This is where the banks need to emphasize the security safety net behind such transactions and the continued availability of human interaction when necessary.

It is important that the bank addresses each group of customers with the channels they require and then actively sell these alternatives to those customers. This process is made easier if the organization already has a good reputation for handling its various channels and is well trusted by its customers. The technology employed should also be perceived as reliable and simple to use. Indeed, customer perception of the channel is a key success factor.

Once the customer segmentation and channeling procedures have been completed, the individual services to be provided by different channels can be defined. Some services lend themselves easily to alternative channels. For example, customers seem to have few qualms about ordering a credit card or a short-term loan online or even about renewing already established insurance policies. However, the more complex a service is and the more importance, risk or cost that customers attribute to it, the greater their reservations will be and the more likely they are to prefer human interaction and a personal meeting with a consultant. It is one thing to view your investment status online and quite another thing to enter into a perceived high-risk, long-term commitment without professional advice and support.

Services such as mortgages or life insurance therefore tend to remain a branch activity or at least one requiring some form of greater human interaction.

OBJECTIVES

The study on effects of alternative banking channels on profitability of commercial banks in Kenya is aimed at evaluating the various parameters that influence the profitability of commercial banks. Therefore, the study will analyze the definite effects of alternative banking channels on profitability of commercial banks in Kenya with special reference to the Co-operative bank of Kenya. The objectives of the study are;

- To examine effects of alternative banking channels on profitability of public and private banks in India with the Co-operative bank of india as a point of reference.
- To ascertain the effect of revenue from alternative banking channels on profitability of public and private banks in India.
- To assess the effect of convenience of alternative banking channels on profitability of public and private banks in India.
- To evaluate the various ways in which cost influences alternative banking channels on profitability of public and private banks in India.

CONCLUSION AND FURTHER RESEARCH

Alternative banking channels have a direct effect on the profitability of public and private banks because various studies indicate that these channels enhance the profitability of banks. An evaluation of published literature on the subject points to a strong connection between alternative banking channels and the profitability of public and private banks. Through reduced costs, convenience, high subscription rate, higher speed of transactions and increased streams of revenue, alternative banking channels enhance the profitability of banks.

The objective of the research paper was to find the effect of ABCs on the profitability of a bank. The study limited itself on effects of ABCs on the profitability of a bank. However there is need for research to be done in the following areas:

- Challenges facing banks in implementing ABCs in their operations
- How safe are ABCs to customers

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