BRANCH OPERATING EFFICIENCY

- It refers to the **effectiveness and productivity of a branch** or location within a company's operations.
- It measures how efficiently a **branch utilizes its resources to generate revenue**, control costs, and deliver services to customers.

STRATEGIES FOR IMPROVING EFFICIENCIES OF BANKING OPERATIONS

Business Realignment

Banks can analyze their **business processes, organizational structure, and product offerings** to realign them for better efficiency and effectiveness.

Channel Optimization

Banks can optimize their customer touchpoints and channels by identifying **the most cost-effective and convenient channels** for customers, such as **online banking, mobile banking, and self-service kiosks.**

Process Costs

Banks can identify and streamline i**nefficient processes, eliminate duplication,** and **automate manual tasks** to reduce costs and improve efficiency.

Staff Productivity

- Banks can enhance staff productivity by providing **training, improving communication and collaboration, and implementing** performance measurement systems.
- **Automation tools can help improve staff productivity**, enabling banks to handle **more transactions and greater volumes of activity** with the **same number of personnel.**

Technology and Automation

Banks can leverage **technology and automation** to **streamline operations, improve accuracy, reduce processing time**, and enhance customer experience.

Vendor Management

Effective vendor management helps ensure that **third-party vendors meet service level agreements**, **deliver quality services, and support the bank's efficiency goals.**

Product Bundling and Relationship Pricing

Banks can **bundle products and services to encourage** cross-selling, increase customer loyalty, and improve profitability.

Sophisticated Customer Segmentation

Banks can segment customers based **on their needs, behaviors, and profitability** to tailor **products, services, and communication, optimizing resource allocation**.

Real-Time Cross-Selling/Up-Selling

Using data analytics and customer insights, banks can identify opportunities for real-time **cross-selling and up-selling during customer interactions.**

Innovative Reward Design

They need to design a system that **lets profitable customers enjoy premium benefits and redeem rewards points** easily and in various ways (for gift cards, merchandise, events, experiences, or cash).

Automating Customer Care

Implementing **chatbots, self-service options, and AI-powered customer care systems** can reduce customer wait times, provide instant support, and improve efficiency.

Big Data

Banks can leverage **big data analytics** to gain insights into **customer behavior,** fraud detection, risk management, and operational efficiency improvements.

FACTORS AFFECTING THE PROFITABILITY OF BANKS IN INDIA

MACROECONOMIC FACTORS

GDP Growth

Banks' profitability responds **positively to GDP growth, indicating increased demand** for loans and credit facilities.

Inflation

Inflation has a **negative effect on bank profitability** due to its impact on purchasing power, loan defaults, and increased operational costs.

INDUSTRY-SPECIFIC FACTORS

Non-Performing Assets (NPAs)

High levels of NPAs reduce profitability **by increasing operating costs and decreasing interest margins**.

Credit Quality

The quality of a bank's loan portfolio affects profitability, **with lower credit quality leading to higher provisioning and potential losses**.

OTHER BANK-SPECIFIC FACTORS

Deposits Higher deposit levels positively impact profitability by providing more funds for lending and investment.

Non-Interest Income Income from non-interest sources, **such as fees, commissions, and foreign exchange profit**, contributes to a bank's profitability.

Competition Stiff competition among banks can lead to lower lending rates, putting pressure on interest margins and profitability.

Regulatory environment Regulations imposed by the RBI and other authorities can **impact banks' operations, capital requirements, and risk management practices, affecting profitability**.

STEPS TO IMPROVE BRANCH PROFITABILITY

Focus on balancing profit, growth, and risk

- Branch profitability should be achieved by finding the **right balance between** generating **profits, driving growth, and managing risks**.
  - This requires strategic **decision-making that considers** revenue opportunities, cost management, and risk mitigation.

Assess the strategy fit and unique role for each branch in the network.

Evaluate each branch's **strategic fit within the overall network** and **define its unique role** based on its **market potential, customer base, and competitive landscape.** This assessment helps allocate resources effectively and identify areas for improvement.

Analyze the current customer base for each branch.

Understand the **customer segments served by each branch, their needs, preferences, and profitability.** This analysis enables **targeted marketing efforts and personalized services** to enhance customer satisfaction and increase profitability.

Identify your best new prospect opportunities.

Identify **potential customers** who **align with the bank's target market** and have the **potential to generate profitable business**. acquisition.

Analyze the competition.

Conduct a competitive analysis to **understand the strengths and weaknesses of other banks** or financial institutions **operating in the same market.** This helps identify competitive advantages and develop strategies to differentiate and attract customers.

Execute effective marketing campaigns.

- Develop and implement marketing **campaigns tailored to each branch's target market segments.**
- These campaigns should aim to drive **customer origination, retention, and expansion**. Utilize various marketing channels, such as **digital advertising, social media, direct mail, and community engagement**.

ESSENTIAL FACTORS TO MAKE CONTINUOUS IMPROVEMENT IN PROFITABILITY

- **Locating areas in your business** that could be **improved or made more efficient**, e.g., general business processes or administration.
- Using key performance indicators (KPIs) to **analyze your strengths and weaknesses**, e.g., rising costs or falling sales.
- Assessing your **general business costs**, e.g., **overheads, how discounted deals with loyal customers** affect your profits, how productive your staff are.
- Reviewing your **areas of business waste and reducing them**, e.g., power supply costs.
- **Regularly reviewing** the **pricing of your products**.

- **Testing the prices of any products** you review before making the changes permanent.
- Improving your profitability through your best customers - **use up-selling, cross-selling**, and diversifying techniques to improve your profit margins.
- Long-term deals with **suppliers to negotiate a better price on products.**
- Researching new opportunities in your business sector and **identifying where you could expand the market.**
- Put monitoring systems and **processes in place, e.g., benchmarking.**

CUSTOMER REQUIREMENT

RETAIL PRODUCTS OVERVIEW

The target customers for retail products are **generally individuals or a group of individuals** whether **employed or self-employed** having a regular income.

APPROVAL PROCESS FOR RETAIL LOANS

- The first step is the **collection of applications and information that is necessary to evaluate the customer** as to whether he/she is eligible for the product.
- The primary step is the **verification of the KYC documents of the loan applicant.**
- KYC should not be done by a **third party (agents) and it should not be relaxed**. Also, wherever there is a **dispute or any suspicion about details,** banks should take extra care to verify the details.
- Most of the banks follow a s**coring model in the form of a standardized template** which is **prepared for the borrower** and usually items are checked off to see if a **prospective borrower qualifies or not.**

Due Diligence

The next step is due diligence where the **application details are thoroughly verified.**

The details to be verified are as under

- Verification of KYC with **relevant documents with proper cross-verification of information** in various documents as well as personal visits or inspections reports
- Verification of **PAN number from the IT website**
- Verification of the income documents including **IT, salary slips, bank statements, etc.**
- **Credit Report verification** from Credit Information Companies
- House visit to ensure the **residential address is correct.**
- **Telephonic verification** of the individual at the **office/business phone numbers.**

- Verification and inspection of **immovable property offered as security/collateral**
- **Title investigation of the property** offered as security/collateral valuation of such property by a bank-appointed valuer.

Quantum of loan

- The Quantum of the loan is either related to the **product or to the income of the individual.**
- The quantum is expressed as **12 times the monthly income** in the case of **loans for personal expenses**.
- **4 times the annual income** in the case of **vehicles,**
- **48 to 60 times the monthly income** for the purpose of **housing, etc**.
- Margin may vary from **15% to 30% of the value of an asset, depending on the type of loan/Scheme.**

Repayment period

- The repayment period may vary from **3 years to 30 years depending on the purpose.**
- Loans for personal expenses are to be repaid within 3 to 5 years.
- **Auto loans** are given for the duration of **5 to 7 years**
- Housing loans for 5 to 30 years.

Customer Segmentation

- Customers are segmented based on their **income levels as their need pyramid will vary** with the rise in their income levels.
- Banks develop and m**arket their products based on this segmentation** and target the **relevant segment for maximum conversion of business.**

Income Levels (Rs. Lakhs)		Customer Segment
2-10	2 lakhs to 10 lakhs	Mass Market

10-50	10 lakhs to 50 lakhs	Mass Affluent
50-400	50 lakhs to 4 Cr	Super Affluent
400-4000	4 Cr to 40 Cr	HNW
4000-120,000	40 Cr to 1,200 Cr	Super HNW
Above 120,000	Above 1200 Cr	Ultra HNW

MASLOW'S THEORY AND CUSTOMER REQUIREMENTS

- This Motivation Theory has defined **the five needs of individuals in their various stages of life.**
- The needs start from the **basic requirements and move up the value chain** during the life stage progression.
- If the bank's structure products and services **match the different stages in the need spectrum,** banks will achieve

the twin objectives of **customer satisfaction and business conversion**.

Physiological Needs:

- Core Savings Accounts
- Personal Accident Cover
- Housing Loans

Security/Safety Needs:

- Recurring, Fixed Deposit Products.
- Life Insurance Products - Endowment Products with a low premiums, long tenors, and high maturity amounts.
- Tax Planning Banking, Insurance, and Mutual Fund Products.

Social Needs:

- Consumer Loans and Personal Loans
- Home Loans and Car Loans
- Insurance Cover tagged to above loans.
- Retail Gold Coins.
- Health Policies for self and family.
- Investment Products like Mutual Fund Schemes.
- Systematic Investment Plans of Mutual Funds.
- Unit Linked Insurance Products.

Esteem Needs:

- Special Term Deposit Products.
- Term Insurance Products.
- Second Housing Loans/Home Improvement/Home

Self-Actualization Needs

- Pensioners Loans
- Retirement Solutions in Banking & Pension Plans in Insurance
- Senior Citizens Term Deposit Products

CUSTOMER REQUIREMENTS FOR SERVICE QUALITY

- Customers have **specific requirements and expectations** when it comes to **service quality in the banking sector**.
- These requirements can be categorized into various dimensions that collectively determine the **overall satisfaction of customers**.

DIMENSIONS OF SERVICE QUALITY

Reliability

- Customers expect banks to provide **reliable services consistently**. This includes **accurate and error-free transactions, prompt processing of requests**, and dependable availability of banking services.
- **Customers want to feel confident that their financial transactions will be executed accurately and securely.**

Responsiveness

- Customers expect prompt a**ttention and assistance when they approach** the bank for any **queries, complaints, or requests**.
- Efficient response times and effective communication play a vital role in **meeting customer expectations**.

Accessibility

- It refers to the **ease with which customers can access banking services.**
- Customers expect **convenient and user-friendly channels** to interact with their banks, including online and mobile banking platforms, ATMs, and customer service centres.

Personalization

- Banks should aim to **understand their customers' preferenc**es and offer customized **financial products and services** accordingly.
- **Personalized interactions**, such as addressing customers by their names and understanding their financial goals, can significantly enhance the customer experience.

Tangibles

- It refers to the **physical and tangible aspects of the banking service**. This includes the **appearance and cleanliness of bank branches.**
- Banks should maintain a **professional and appealing physical presence** to create a positive impression on customers.

Empathy

- Bank employees should display **empathy, patience, and a willingness to assist customers** in resolving their issues.
- Treating customers with **respect and understanding** their concerns can significantly improve customer satisfaction.

Assurance

- **Competence** - Possession of required skills and knowledge to perform services.
- **Courtesy** - Politeness, respect, consideration, and friendliness of the contact personnel.
- **Credibility** - Trustworthiness about the service provider.
- **Security** - Freedom from risk and doubt.

Value Customer, his business, and time

- Welcome and greet the customer when he walks in.
- Respect his/her time and attend to him/her at the earliest.
- Do not trivialize the customer's problem.

Customer Requirements and Satisfaction Levels

- Fulfilment of the customers' requirements **can be measured only from the satisfaction level of the customers.**
- The satisfaction will emanate out of the customers' experiences of the products and services offered by different banks.
- The experiences may vary across banks like **public sector banks, private sector banks** (old and new generation private sector banks), and **foreign banks.**

Research on Customer Satisfaction

A recent study conducted by a leading research agency to measure Customer Service Quality as a reflection of **the meeting of customers' requirements revealed the following interesting findings:**

- The study covered about **20000 customers** across **Metro, Urban, Semi-Urban and Rural Branches** of Banks having **Savings Accounts**, about **4000 customers** who have availed of **Home Loans,** and about **3500 customers** who have **availed credit cards**.
- The objective of the study is to measure the **customer service quality of the banks** by creating **Key Performance Indicators (KPIs)** on service quality and measuring the quality based on the benchmark.
- The measurement of satisfaction was made on the **three basic parameters** viz., **Overall Satisfaction, Advocacy, and Loyalty**.

- The ratings show **healthy overall performance by the industry**. Ratings on **the 3 overall measures are above 80%** (satisfaction) for **all 3-product segments**.
- When asked how their experience with their **banks has changed, in the last 1-2 years, 2/3rd of customers said it has improved** a lot/somewhat improved.
- Almost **9 out of 10 Savings Account** and **Home Loan customers** find **excellent value in the respective bank** offering. This score is significantly **lower for Credit Cards**.
- On the **satisfaction index**, **Private banks lead in Savings Accounts and Credit Cards**; whereas **public sector banks lead in Home Loans** and **Foreign banks in Home Loans and Credit Cards**.

SERVICE QUALITY IN PUBLIC SECTOR BANKS SAVINGS ACCOUNTS

- **The branch layout and cash transactions perform better than the bank's average.**

- **There are no serious concerns regarding savings accounts, and the parameters are at, or above par compared to private banks.**
- **The branch's non-cash transactions are on par with the bank's average.**
- **Communication channels and information flow meet average expectations.**

HOME LOANS

- Home loan parameters also perform **above the bank's average.**
- **Communication channels** and the received communication score **above the bank's average**.
- **Loan disbursement time is faster than the industry average**, within a 14-day window.

CUSTOMERS' REQUIREMENTS FROM BANKS

- **Right product mix** to satisfy **different customer segments**.
- **Right channel mix** (both direct channels and e-channels).
- **Structured process time** across products and adherence to the time prescriptions.
- **Delivery of the promises** about products/services and channels.
- Effective Communication about the **different products and services.**
- **Transparent service charges.**
- Effective and time-bound **grievance redressal mechanism**.