

P E R S P E C T I V E

The Future of Branchless Banking  
in the United Kingdom



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The dotcom phase ushered in an electronic alternative to brick and mortar banking, starting with direct online payments. Now, banking has gone vastly electronic, offering full-fledged services from online account opening to remittances. Customers have turned cautious in the wake of the global financial crisis, spending more time monitoring their savings - understandably, the convenience and ease of Internet banking makes it an attractive channel for the tech-savvy. Analysts predict that the penetration of online banking will reach nearly 40% among all adult UK customers to take the number of users to 22 million by 2012. They have also found that although UK customers still use the branch more than most of their European neighbors, the increased adoption of online banking has reduced the number of walk-ins.

Besides the Internet, mobile and self-service kiosks are driving financial behavior and the distribution of such products. In fact, mobile banking has gone one step further to emerge as a real alternative for those who are not comfortable using the Internet, but can operate a mobile phone nonetheless, and has thus become the channel for financial inclusion in many parts of the world. With the banking customer base being dominated by younger generations in many parts of the world, branchless banking delivery, via Internet, mobile and other emerging channels, is set to gain further momentum. One in four customers banks over multiple channels, amongst the young, educated and high salary earners of the UK.

### Bringing many Benefits

The benefits of branchless banking are perhaps best illustrated by direct banking, which has evolved from an online payments model into a complete suite of banking services, whereby customers can upload their account opening forms and subsequently be KYC verified and on-boarded, without the intervention of bank staff. They can go on to acquire a full range of products online, from simple deposits and mortgages to bundled insurance and complex structured products. For instance, a leading bank offers multiple product originations such as bundled home loans and insurance. Another leading bank has everything from credit cards to travel services in its suite. From

the customers' point of view, the experience and convenience of direct banking is hard to match elsewhere.

Banking institutions too have reaped the benefits of branchless banking in several ways. Direct banking has emerged as a viable market entry strategy, enabling banks to test the waters in new geographies before going the distance with a full-blown brick and mortar infrastructure.

Channels of branchless banking, including the Internet, mobile and IVR have improved reach at much lower cost. Employing an aggressive customer acquisition strategy, banks have attracted customers by passing on the advantage of low channel costs as higher interest on deposits originated online. The increase in their online customer base has given them an opportunity to cross-sell other products.

Perhaps the greatest advantage of branchless banking is its capability to serve the un-banked and those in far-flung locations. Traditionally, financing institutions have depended upon a network of field agents to deliver banking services to remote areas and help their un-banked populations open accounts online. But the emergence of mobile banking has enabled even these users to perform simple banking transactions independently, using simple icon-based menus. Besides fulfilling their financial inclusion agenda, state agencies are also helping banks in cutting operational costs by making salary payments through non-branch channels.

### New Opportunities

Previously, customers could open accounts online, totally unassisted, using an Internet banking service. But now, with the availability of additional non-branch channels such as the mobile, call centre and IVR, they can use a channel that they are comfortable with, or a combination of several, if required. Online banking has also become feature-rich, providing tools and aids to help users make informed financial decisions. A prospective customer wanting to understand popular opinion about a certain product can review the feedback of other users posted on blogs, public forums and online communities. Indeed, web 2.0/3.0 tools even allow financial consumers to interact and transact

from a collaboration perspective with their peers over social lending and banking platforms. Another form of branchless banking could be retail outlets, servicing online and instant loan approvals for purchasing electronic goods/automobiles, popularly known as 'in-store banking'.

Customers, who would still like to interact with a representative before taking a decision, can use their bank's remote advisory service to seek "long-distance guidance with a human touch", over an otherwise self-assisted channel.

### Role of Technology

Branchless banking, which started with the launch of the ATM years ago, has changed immeasurably with the emergence of other technologies. Now, banks can leverage SOA capability to speed up product rollout and make unique and customized offers. Portal servers make it possible to bundle multiple web applications from various providers, and offer them under a single window. Token and biometrics-based technologies improve security through second and third factor authentication. Mobile phones, acting as digital wallets, do away with cash and plastic in most transactions. Unified communications and Web 2.0/3.0 tools help render personalized assistance over self-service channels. Going forward, new technologies will continue to enable the branchless banking philosophy, which is the delivery of great customer experience with least human intervention.

### The Way Forward for Niche Players

The arrival of branchless banking has given birth to a new category of niche financial service providers in the UK that conduct their business purely online, for example - Egg and Zopa. The remarkable success of these players, achieved in a very short time, is a testimony to the potential of the business. Leading banks also stand to gain if they can introduce seamless online banking services to take advantage of new opportunities and compete against such disruptive players.

These firms need clear differentiators in order to compete successfully against established banking institutions, which have both brick and mortar and

online delivery channels. Some of these could be:

**Customer experience:** Since quality of experience is the foundation of branchless banking, any online banking platform must be simple and quick to transact on. Smaller players can wean customers away from their rivals by providing greater user convenience.

**Financial aids:** The provision of modeling, selection and comparator tools adds value to customers by helping them arrive at the right product decision. In fact, customers in the UK use comparator tools more than their European counterparts, in order to distinguish between the offerings of multiple direct players operating in a highly competitive market.

Niche players can also improve transparency and confidence in their products by providing social applications such as blogs, online communities, ratings and reviews etc., through which prospective customers can seek feedback from existing users.

**Security and scalability:** Risk of ID theft and financial fraud is one of the biggest barriers to online banking adoption, and is of particular concern when dealing with relatively new or unknown agencies. Hence, niche players must adopt best in class security measures including multi-factor authentication, alerts, fraud detection practices etc. to convince their users that it is safe to transact on their platform. They must also ensure that their infrastructure is capable of delivering consistent performance under rapidly increasing load.

**Risk mitigation:** Being loosely regulated, emerging funds transfer mechanisms such as peer to peer lending and mobile payments are more vulnerable to attack by hackers or those with outright criminal intent. However, the success of platforms such as Zopa and Smartypig, and the entry of Facebook and others into the social lending space is an indicator that this trend is here to stay. Early movers can gain advantage by proactively adhering to the KYC, AML, data privacy and protection regulations existing in their countries of operation.

**Supervision:** Niche branchless banking providers must employ analytics to gain deeper insight into their operations and leverage that knowledge to

meet their customers' expectations better.

**Complaint resolution:** Having an effective complaint resolution mechanism is the next best thing to complaint-free operations. The ready availability of help through SMS, toll-free number, online helpdesk or remote advisor will go a long way in reassuring prospective customers and retaining existing ones. An effective customer service mechanism can be established outside of the branch by providing a call back request facility to customers seeking support. A German bank allows visitors to its website to schedule a meeting with a branch advisor. A global bank allows customers dropping out of an online application process to resume it under the guidance of a bank representative over phone.

**Marketing and promotion:** Given that 40% of the entire population in the UK actively uses Facebook, niche branchless banking providers must leverage their online presence to attract as many customers as possible through online marketing promotions, loyalty campaigns and other techniques such as viral marketing. For the latter, they must provide a space in social media where satisfied customers can talk about their experience with the products and recommend them to their peers.

## Conclusion

The cost effectiveness and convenience of online channels makes branchless banking in the U.K. an irresistible option for both banks and their customers, just as it is in other parts of the world. Although the branch network will endure, future growth will clearly be driven by mobile, Internet and newer forms of delivery. Banking organizations must leverage their multi-channel network to the fullest, ensuring that online channels are used more and more as a sales vehicle, while branch capacity is reserved for performing an advisory role.

That being said, financial service providers must fully address their online customers' principal concerns, regarding security risk and impersonal service, by deploying appropriate technologies that safeguard and humanize transactions as required. In particular, niche online banking players must differentiate themselves from their more established

rivals by providing best in class security and customer service.

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