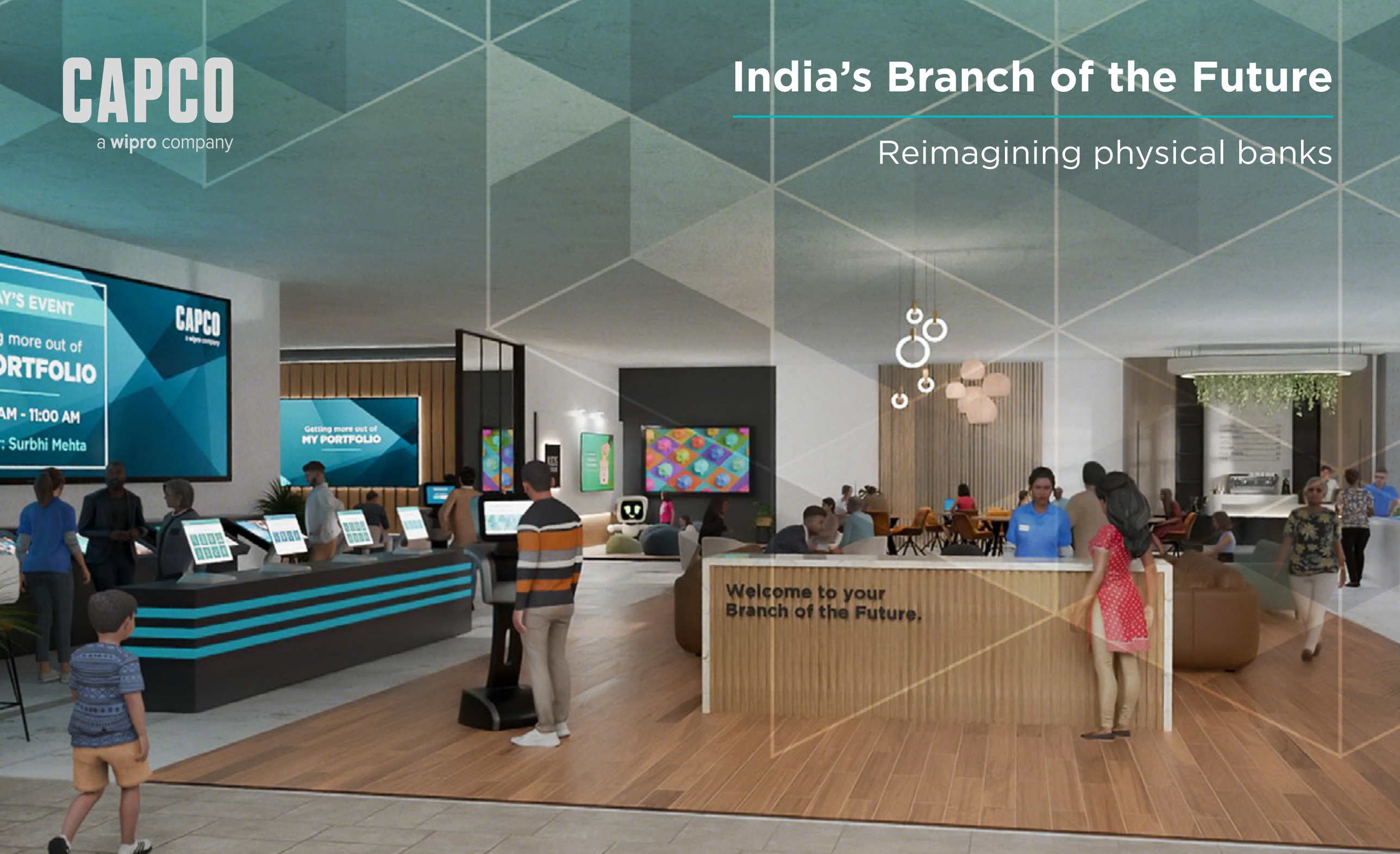
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India's Branch of the Future

Reimagining physical banks



Indian banks continue to expand their bricks-and-mortar networks by adding new branches, in stark contrast to banks in most developed economies around the world. The primary reason for this is the push for greater financial inclusion and deeper banking product penetration. However, given India's rapidly digitalizing banking and payments market, are India's bank branches equipped for success in the future?

Private sector branches in India grew from 34,794 branches in FY2020 to 37,872 in FY2023, in an expansion that contrasts with the global trend.[1] Across much of Europe, the banking sector continues to cut branches, with Spain, Germany, Italy and the UK among the countries experiencing large contractions.[2] In the US, physical networks have broadly stopped growing or declined. However, banks in parts of Asia, helped by higher rates of economic growth, continue to enhance and expand branch networks, with this especially true in India.

The reasons that Indian branch networks are still growing so rapidly include the sheer size of the country, combined with a sovereign push to solve the problem of the unbanked and underbanked. Financial inclusion is a high priority for the Reserve Bank of India (RBI), which applies several measures to encourage banks to open physical branches in underbanked areas. Branches remain critical to building and preserving trust, with Indian consumers retaining a strong preference to visit branches for various interactions.[3]

Branch banking therefore remains central to the customer relationship and to deposit-gathering strategies, especially in semi-urban and rural areas. Even so, Indian banks will soon need to confront a fundamental question. What exactly is the role of a costly physical branch, as the country accelerates towards a cashless digital future?[4]



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The case for change: Why transition to a Branch of the Future?

At present, the key purpose of Indian branches – including new ones – remains facilitating transactions such as account opening/closure, withdrawing cash, organizing a demand draft, taking out a loan, making deposits and checking balances.

But most of these transactions can now be more efficiently accomplished online, including more advanced functions such as transferring money overseas and arranging a loan. Even transactions that cannot be fully virtualized, such as depositing cheques and cash, can now be automated in the branch using modern ATMs.

Today's demand for on-site transactional banking is likely to ebb in the face of several trends:

- Changing customer profiles and preferences, as millennials and Gen Z banking customers turn towards more convenient and seamless digital banking services
- A continuing rise in the number of internet users in rural India – soon to reach half a billion and already exceeding the number of urban internet users – with rapid improvements in digital infrastructure and connectivity reducing the need for in-person transaction banking[5]
- Improving financial literacy and confidence in segments that until now have been less exposed to financial services, such as senior citizens.

Meanwhile, the rising cost of staffing and maintaining physical branches is likely to increase the pressure to justify future branch expansions.

None of these trends signify the end of branch banking in India. However, to survive and thrive, branches will need to look beyond the transactional to consider how they can play to the strengths of a physical space and create deeper and more valuable relationships with customers.

In particular, India's fast-growing wealthy and affluent segments are often still not exposed to a broad range of financial products. This segment continues to rely on relationship managers or branches for financial advice and could offer significant revenue growth for the branch of the future.



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What could the Branch of the Future look like?

The branch of the future will need to be designed around a free-flowing and personalized approach that offers customers valued experiences, integrates the physical with the digital, and drives financial literacy and awareness. Banks can think about this shift away from the transactional in terms of three key imperatives: **Personalization, Community-driven and Education.**

Personalization

The shift to a more personalized approach is being driven by how millennial and Gen Z customers prefer to engage. Rather than entering a branch to perform a specific transaction, they want branches that offer a welcoming, open format where they can explore and learn through informal, engaging, self-exploratory and personalized experiences.

This 'experiential' format has been pioneered outside the banking industry by leading global retail brands such as Apple, Nike, and Samsung, as well as by certain banking brands internationally. Examples of the latter in the US include Capital One's growing chain of café banks and Chase's community branches, which respectively offer welcoming 'lounge' formats for customers and non-customers, as well as workshops and mentoring on financial topics such as budgeting and credit health.[6]

Branches can offer a welcoming, open format where customers explore and learn through personalized experiences.

Banks today know an increasing amount about their customers including their demographics, life stage, recent and upcoming milestones, spend/transaction behavior, income levels, and preferences. They can use this data to enrich the branch experience by offering relevant nudges to branch ambassadors during their interactions with clients.

Data-driven personalization can help build the trust and intimacy needed to deepen relationships, while the information gathered during person-to-person exchanges could be used to further elevate the bank's understanding of the client's goals (and then be fed back to the relevant product teams).



Community-driven

India's branch of the future is likely to transition towards a more informal community hub offering trusted financial advice, knowledge and services. Branches can act as 'town squares' and host in-person gatherings, such as the business networking that young entrepreneurs and local businesses desire.

Gen Z and millennial consumers tend to be more influenced by peers and friends than by professionals in formal settings. Branches can turn this to their advantage by enabling social interactions, for example, by allowing community members to share financial or business strategies with like-minded people.



The branch can also help banks to build and preserve trust in the integrated 'phygital' banking model. One aspect of this is to reassure customers that the branch will be there to sort out complex banking issues and problems that are not easy to address on a digital channel.

Another consideration is the growing concern over fraud in remote banking, with scammers increasingly posing as bank representatives. This problem is likely to intensify as AI technology enables the simulation of voices, images, and documents. While various methods can enhance digital security, only physical branches can provide customers with complete confidence that they are engaging with the right person.

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Education

India needs to increase financial literacy and improve how each customer approaches financial well-being throughout their life. At the same time, banks are keen to educate and attract younger prospects, perhaps even before they enter the formal workforce.

Branches can leverage their physical presence by hosting focused events and workshops to promote financial literacy and well-being, which can then be amplified through sharing on social media. They can help both younger and older customers to become digital natives and show them how to personalize their digital banking experience through customizing their banking services.

Meanwhile, bank ambassadors within the branches can help customers plan their financial aspirations and tailor the right set of banking products around their lifestyle and life goals – helping them to negotiate tricky ‘moments that matter’ in their lives such as buying property or setting up a business.

The branch of the future will also offer ‘one stop’ banking marketplaces to help customers access the right product at the right time. The branch can bring products to life through a mix of virtual learning experiences around financial wellbeing, visual simulations of product outcomes, and in-person support.

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Reinventing the branch: Physical formats and levers for change

The shift towards a branch where people congregate to engage, share experiences and improve their financial well-being – rather than simply conduct transactions – means that many branches will need to adopt an upgraded, free-flowing, open and flexible physical format.

The branch layout should reflect the new roles the branch will play. For example, it can be organized around the three drivers of the bank's branch strategy: personalization, community and education (see Figure).

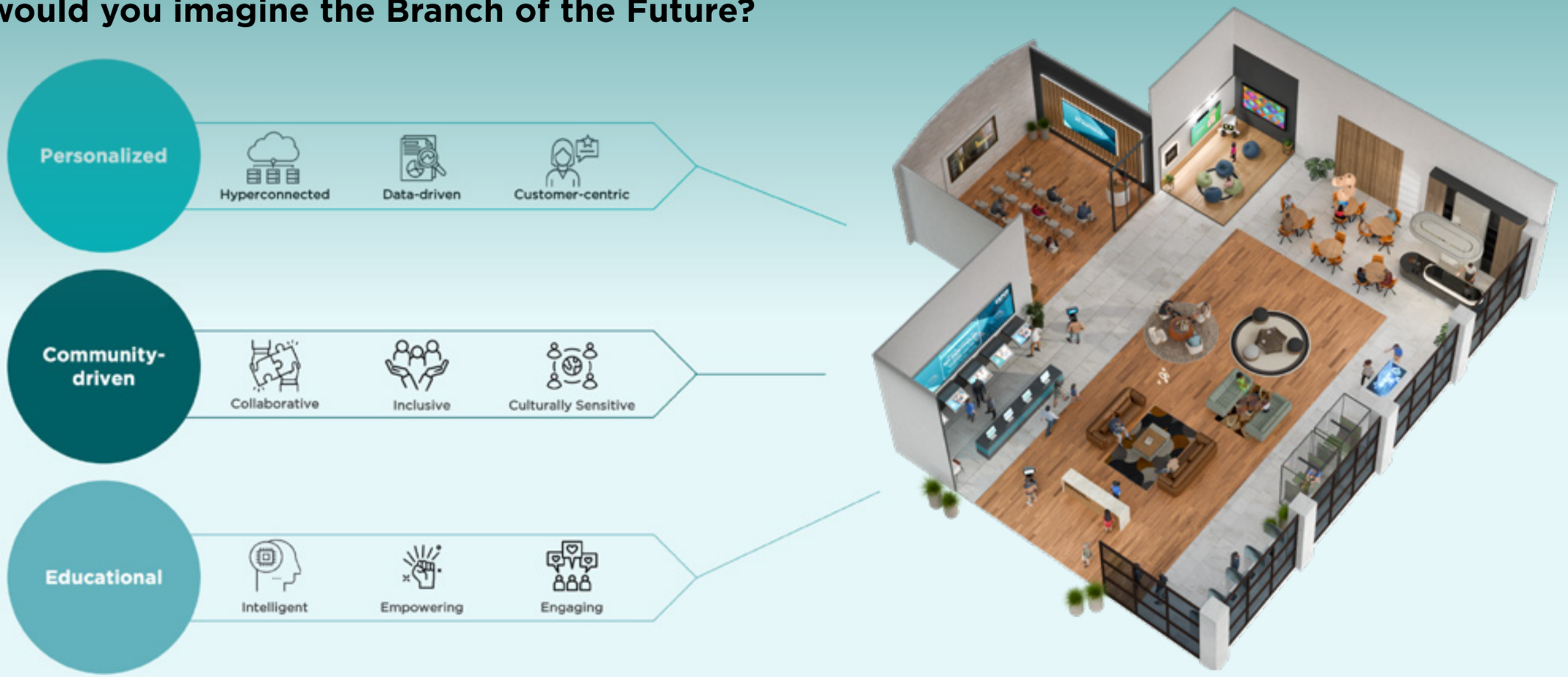
The exact format will vary but might include social and educational spaces, event spaces, marketplaces where customers can explore the full range of financial products, and dedicated zones that make financial tasks and financial literacy efforts more fun through gamification.

It could include café lounges, restful areas, co-working spaces, and collaboration zones, as well as individual offices to preserve confidentiality. In many branches, there would be areas where modern ATMs help customers to rapidly perform a wide range of in-house transactions.

The need to fulfil multiple purposes suggests that the branch of the future will be an open and visually engaging environment that is flexible enough to adapt around customer footfall and physical events. Some branch networks may adopt a scalable, modular approach to branch design, allowing them to adapt to local/regional settings.

Branches will need to fully integrate the in-person services they offer with the bank's digital offerings, for example by using touchscreen panels to interact with customers while avoiding paper brochures and forms.

How would you imagine the Branch of the Future?



In addition to the branch layout, branch location and technology integration, the levers of change include measures to steer customer behavior, refocus staff, and develop a tiered, flexible approach:

- **Help customers move to self-service for low-value transactions.** Branches need to improve the customer experience and cut costs by accelerating the shift towards automated self-service. They can do this by transforming time-consuming processes such as account opening/closing and by using branch ambassadors to help customers learn how to use digital channels and sophisticated in-branch ATM facilities to perform a wide range of transactions ('assisted digital' strategies).

- **Grow higher-value activities and personalized services.** Tech-enabled branch staff, equipped with 360-degree views of customers, will be empowered to assist clients in more meaningful, higher-value ways. This includes guiding them through the selection and customization of financial products, providing reassurance during high-value transactions, identifying cross-selling opportunities, and focusing on value-added services such as wealth management and insurance. However, this shift will require re-defining roles and re-training staff to manage these new responsibilities effectively.

- **Recognize the need for a tiered, flexible approach.** The branch of the future will not look the same in different locations. It should be tailored to its locality, community and target segments and the more radical interpretations are likely to appear first in Tier 1 cities. Elsewhere, branches will also adopt a more personalized and experiential approach, but with larger areas reserved for automated self-service transactions. Service usage patterns can be digitally tracked across local networks to help banks and their staff adapt each branch's flexible layout around evolving customer habits and preferences.

The branch of the future should be tailored to its locality, community and target segments.



Next steps to building the Branch of the Future

Customer segments, habits and preferences continue to evolve in an increasingly digital world.

To prepare for the transition to the branch of the future, Indian banks need to begin by asking themselves key questions about the role they want their branches to play, and how this resonates with trends in customer behavior.

They then need to consider the physical formats, footprints, technology integrations and change management programs that will help them equip branches to attract, engage, educate and retain their target customers.

Once they have developed the right strategy, banks can begin transforming physical branches to offer engaging banking experiences that are more closely tailored to the emerging needs of both individuals and local communities.

Key Takeaways

- The role of the branch is shifting away from the transactional and towards the experiential, including becoming a more community-driven social hub
- The in-branch experience needs to be personalized through a better use of data and improved integration with digital channels
- Branch transformation may mean equipping branches with free-flowing and flexible physical formats, improved technology integrations, and appropriately trained staff.



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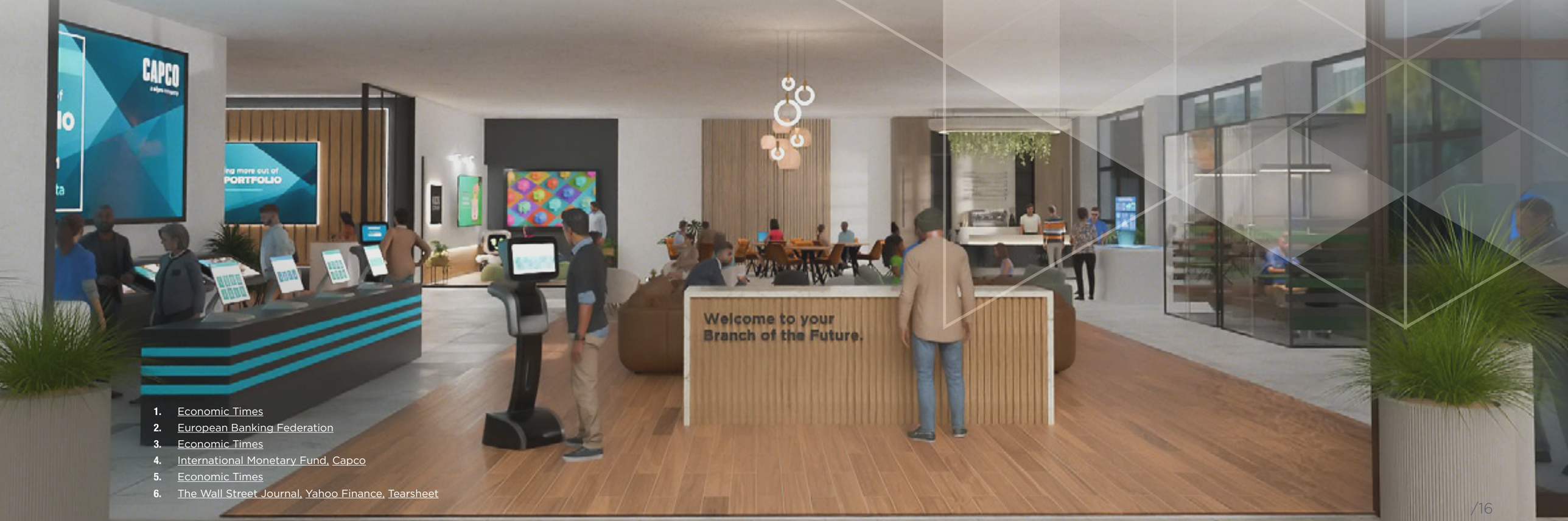
Capco is helping banks shape and implement their Branch of the Future.

Banks exploring the strategic role that their branches will play in the future must answer a series of questions. Can our branch network drive the next phase of our growth story? How do we leverage the power of our physical footprint to maximize revenue? Can our branches become a key differentiator that helps attract our target client base?

If you are thinking through these questions and their implications for your branch networks, physical formats, and technology innovations, please get in touch.

Our experts can help you to define your vision of the phygital bank of the future, including branch, digital and alternate channels. We work alongside your operations, branch banking, strategy, product and channels teams to guide you through every stage of your transformation journey.

Contact us to find out more.



1. Economic Times
2. European Banking Federation
3. Economic Times
4. International Monetary Fund, Capco
5. Economic Times
6. The Wall Street Journal, Yahoo Finance, Tearsheet

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About Capco

Capco, a Wipro company, is a global management and technology consultancy specializing in driving transformation in the energy and financial services industries. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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