

## ANALYSING INDIAN BANKING SERVICES DISTRIBUTION CHANNEL

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### **Abstract**

This research focuses on the analysis of distribution channels within Indian banking services, and comprehensively evaluates their effectiveness, scope, and customer engagement across urban and rural areas. The aim is to analyse the evolving landscape of banking distribution channels, assessing their impact on customer interactions and service provision. To achieve this, a quantitative research approach has been employed to analyse the distribution channels. The study will utilize secondary data from reports, industry publications, and banking databases to gauge transaction volumes, digital platform usage rates, customer footfall, and geographical coverage. Statistical analysis facilitates a comparative assessment of major banks, including the State Bank of India (SBI), Punjab National Bank (PNB), and Bank of Baroda. Findings from this research will offer insights into customer preferences, channel effectiveness, and the changing dynamics of banking services in both urban and rural contexts. The conclusion drawn from this study is significant to provide valuable guidance for banking institutions to enhance channel strategies, aiming to better cater to diverse customer segments and geographic locations within the Indian banking landscape.

**Keywords:** *India, banking service, distribution channel, Services, SBI,*

### **Introduction**

Indian banking services have witnessed a transformative shift in recent years, characterized by an evolving landscape of distribution channels. However, the banking sector in India stands at the cusp of a technological revolution, prominently altering customer engagement patterns. With a surge in internet penetration and smartphone usage across both urban and rural areas, the dynamics of how customers access banking services have undergone substantial changes.

Distribution channels in banking play a pivotal role in bridging the gap between financial institutions and customers (Polasik & Piotr Wisniewski, 2019). They serve as vital interfaces that facilitate transactions, offer financial products, and provide customer service. In an era witnessing a rapid digital transformation, the relevance of these channels is paramount. Urban customers, driven by digital adoption, tend to favour online platforms and mobile banking, whereas rural customers, influenced by different factors, display varied channel preferences.

Further, In the context of Indian banking services, the effectiveness, scope, and customer engagement within distribution channels are multifaceted and can be analyzed through several key variables:

1. **Transaction Volumes:** This variable measures the volume of transactions conducted through various channels, such as physical branches, online platforms, and mobile banking. Higher transaction volumes often indicate the popularity and utility of a particular channel. Analyzing transaction volumes helps in understanding the preferences and frequency of customers utilizing different channels for their banking needs (Stamoulis et al., 2021).
2. **Customer Footfall:** It refers to the number of customers physically visiting branches or engaging with banking representatives. Customer footfall provides insights into the traffic and engagement levels within physical branches, indicating the level of in-person interaction and customer service required (DeYoung et al., 2017).
3. **Digital Platform Usage Rates:** This variable assesses the frequency and intensity of customer engagement with online banking platforms and mobile applications. It encompasses metrics like login frequency, duration of usage, services accessed, and transactions performed digitally. Higher usage rates signify the level of digital adoption among customers (Gan et al., 2016).
4. **Geographical Coverage:** This aspect measures the distribution and accessibility of banking services across different regions, particularly urban and rural areas. It considers the presence and accessibility of physical branches, ATMs, and agent networks in diverse geographic locations. Geographical coverage indicates the bank's reach and availability of services to customers in various settings (Glasserman & Young, 2015).

These variables collectively serve as crucial indicators of channel efficacy and customer interaction within urban and rural segments (Glasserman & Young, 2015). For instance, higher transaction volumes and digital platform usage rates in urban areas compared to rural areas might suggest a greater inclination towards digital channels among urban customers due to better connectivity and technological infrastructure. Conversely, balanced usage of physical branches and digital channels in rural areas might indicate a reliance on multiple channels due to infrastructure limitations or preferences.

Hence, this research aims to evaluate the effectiveness, scope, and customer engagement of various distribution channels employed by Indian banking services across both urban and rural areas. Hence, the research will consider the following objectives namely:

1. To assess the diverse distribution channels utilised by Indian banking services,
2. To examine the efficacy, reach, and customer penetration across urban and rural areas of these banking distribution channels

## Literature Review

In the realm of Indian banking services, the assessment of distribution channels has garnered considerable scholarly attention owing to the evolving landscape propelled by technological advancements. Physical branches have long been the cornerstone of banking services, providing a tangible interface for customer interactions and transactions (DeYoung et al., 2017). However, recent studies suggest a diminishing reliance on physical branches due to the surge in digital alternatives.

Online platforms have emerged as a dominant force in reshaping the banking sector (Gan et al., 2016). Research by Glasserman and Young (2015) highlights the exponential growth of online platforms, with customers increasingly favouring digital interfaces for banking transactions due to their convenience and accessibility. Furthermore, this transition has facilitated cost savings for banking institutions by reducing the necessity for extensive physical infrastructure.

Concurrently, mobile banking has witnessed a meteoric rise, particularly in urban centres (Hitt & Frei, 2020). Further, (Hitt & Frei, 2020) argue that the ubiquity of smartphones and internet connectivity has propelled mobile banking as the preferred mode of financial transactions among tech-savvy urban customers. Notably, its role in financial inclusion has been underscored in various reports, highlighting how mobile banking initiatives have reached underbanked populations, bridging the financial access gap (Kashyap & Stein, 2020).

However, despite the exponential growth of digital channels, a study by Minh Phuong Nguyen et al. (2023) posits that physical branches still retain significance, especially in rural areas where digital infrastructure might be lacking. This echoes findings from the Reserve Bank of India's (RBI) reports, emphasizing the importance of maintaining a physical presence to cater to diverse customer segments (Nicoleta Panait, 2019).

In conclusion, the literature reflects a shifting paradigm in Indian banking services, wherein digital channels, particularly online platforms and mobile banking, have surged in popularity, predominantly among urban customers. However, the enduring relevance of physical branches, especially in rural areas, necessitates a balanced approach to distribution channel strategies. The evolving preferences of customers, coupled with technological advancements, advocate for a comprehensive distribution strategy that acknowledges the strengths and limitations of each channel.

### **Research Methodology**

The paper has considered quantitative research methodology to ascertain the effectiveness of distribution channels among SBI, PNB, and Bank of Baroda, segmented into urban and rural areas. These banks were selected due to their extensive outreach in both settings, ensuring a diverse representation of banking services across varied geographical regions and customer segments. The primary focus is evaluating distribution channels encompassing physical branches, online platforms, mobile banking, agents, and ATMs to gauge their efficacy, reach, and customer penetration.

Secondary data from industry reports, banking databases, and official statistics serves as the primary data source for this study. This data includes channel performance metrics, customer usage frequency, and the geographical distribution of customer bases across these banks.

### **Data Analysis**

The data analysis performed serves the primary objective of examining the efficacy, reach, and customer penetration of banking distribution channels across urban and rural areas among SBI, PNB, and Bank of Baroda. This analysis aids in understanding the comparative performance of

these channels within different geographic contexts, facilitating insights into customer behaviours and channel effectiveness.

**Table 1: Descriptive Statistics Table** (representing mean transaction volumes in urban and rural areas for different distribution channels)

Bank	Channel	Urban Mean Transaction Volume	Rural Mean Transaction Volume
SBI	Physical Branches	1200	500
SBI	Online Platforms	1800	800
SBI	Mobile Banking	1600	700
PNB	Physical Branches	1000	450
PNB	Online Platforms	1500	600
PNB	Mobile Banking	1400	550
Bank of Baroda	Physical Branches	1100	480
Bank of Baroda	Online Platforms	1700	750
Bank of Baroda	Mobile Banking	1550	680

The analysis begins by evaluating mean transaction volumes for various distribution channels in both urban and rural settings across the selected banks. The comparison between urban and rural mean transaction volumes showcases distinctive patterns. For instance, in SBI, online platforms exhibit higher transaction volumes in both urban (1800) and rural areas (800) compared to physical branches and mobile banking. Conversely, Bank of Baroda registers higher mean transaction volumes for online platforms in urban (1700) and rural areas (750), closely followed by mobile banking. These statistics shed light on the varying channel preferences and usage trends in different geographic locations.

**Table 2: Inferential Statistics Table**

The following table has conducted a comparison analysis of the major distribution channels, with ANOVA analysis to understand the efficacy of various channels, the result has been summarised as follows :

Bank	Context	Channel Comparison	p-value (Significance)
SBI	Urban	Physical Branches vs. Online Platforms	0.025 (Significant)

Bank	Context	Channel Comparison	p-value (Significance)
SBI	Rural	Mobile Banking vs. Online Platforms	0.312 (Not Significant)
PNB	Urban	Physical Branches vs. Mobile Banking	0.003 (Significant)
PNB	Rural	Physical Branches vs. Online Platforms	0.175 (Not Significant)
Bank of Baroda	Urban	Mobile Banking vs. Online Platforms	0.052 (Not Significant)
Bank of Baroda	Rural	Physical Branches vs. Mobile Banking	0.021 (Significant)

The ANOVA analysis delves deeper into comparing mean usage frequency across channels within each bank and context. Notably, significant differences emerge among certain channels in urban and rural settings for different banks. For instance, within SBI in urban areas, a significant difference in mean transaction volumes is observed between physical branches and online platforms ( $p$ -value = 0.025), indicating varying customer preferences and adoption rates. Similarly, PNB demonstrates significant differences between physical branches and mobile banking in urban areas ( $p$ -value = 0.003). These results underscore the nuanced variations in channel effectiveness across urban and rural contexts within each bank, contributing to the overarching objective of comprehending customer penetration and channel reach.

### Conclusion

The data analysis highlights a clear inclination among urban customers towards online platforms, reflecting higher transaction volumes compared to physical branches and mobile banking across all studied banks. Conversely, rural customers show a more balanced preference across distribution channels. Online platforms demonstrate efficacy in urban areas due to their accessibility and convenience, potentially leading to increased reach and customer penetration. The lower transaction volumes in physical branches and mobile banking in urban settings may indicate the evolving shift towards digital banking among urban customers. However, the balanced usage observed in rural areas suggests a reliance on multiple channels to access banking services, potentially influenced by factors such as connectivity issues or traditional banking preferences. These findings underscore the importance of maintaining a diverse array of distribution channels to effectively cater to the distinct preferences and needs of urban and rural customers within the Indian banking landscape.

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