Banking the unbanked in South Africa: The practical implications on branch banking

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The Financial Sector Charter (FSC) requires South African retail banks to provide access of suitable retail products and services to the mostly rural-based previously-unbanked-mass-market (PUMM). With the Big4 using a multi-channel distribution strategy through branches, automated teller machines (ATMs), self-service-terminals (SSTs) and e-banking facilities, the challenge for the banks lie in their ability to extend their distribution networks to include previously unexplored rural areas where the majority of PUMM individuals live. With the range of e-banking products constantly increasing, the physical branch outlet has to some degree come under threat as to its relevance as a distribution channel. However, this paper indicates that the branch does have a role to play in future channel strategy of retail banks. Indeed, the branch, or derivatives of it including mini-branches, in-store branches or mobile banks, may well become more important than e-based or mobile distribution channels in that they enable bank staff to have a personal relationship with PUMM clients.

1. Introduction

The provision of retail banking products and services to the low-income market segment has in the past been somewhat neglected by the Big4[2] South African retail banks. However, with the advent of the Financial Sector Charter (FSC) and the resulting commitment to provide access of banking facilities to the previously-unbanked-mass-market (PUMM), the scene is set for change. Distribution channel strategy will become a key driver of a changing retail banking landscape for South African retail banks.

The FSC is, however, not the only driver of change facing South African retail banks. A recent entry of foreign banks to the South African banking scene has also occurred. In particular, the entry of UK based banks Barclays Bank plc and Standard Chartered plc via the acquisitions of ABSA bank and the only South African virtual bank Twenty20. The entry of foreign banks is indeed an issue local banks are considering more likely (PwC, 2005: 17), supporting their view that the strategies of retail banks in South Africa will experience fundamental change and strategic re-positioning in the near future (PwC, 2005: 11).

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[2] The Big4 South African retail banks are Standard Bank (SB), Nedbank, ABSA and First National Bank (FNB).

Major technological changes are also changing the manner in which banks offer their products. Multi-channel provision through electronic channels such as the Internet, telephone, automated teller machines (ATMs), and self-service-terminals (SSTs) has invoked a culture of innovation that attempts to make bank products more accessible to clients. This is perhaps more relevant today when considered that innovative ideas are quickly copied by competitors (Greenland, 1994: 22).

To this end, the decision on how retail banks decide to make banking products and services accessible to the PUMM will, and is already becoming an important strategic driver of retail strategies. This paper addresses in particular the branch outlet and how it can be expected to change to not only achieve the requirements of the FSC, but also adapt to changing ways that branch outlets are innovating in retail banking as a whole. The paper, however, does not neglect the importance of e-banking channels such as the Internet and cell phone banking. Therefore, the paper has the following outline: section 2 provides an industry overview of the South African retail banking industry; section 3 considers the role of the branch outlet; section 4 briefly considers the current distribution channels used by the Big4; section 5 identifies the possible changes to branch outlets to bank the PUMM; section 6 concludes the study.

2. The South African retail banking industry

2.1. Retail banking: Growing strategic focus by banks

The annual PriceWaterhouseCoopers (PwC) survey on *Strategic and Emerging issues in South African banking* conducts interviews with senior executives of banks competing in the South African banking industry. The 2005 survey was conducted with 8 locally-owned and 15 foreign-owned banks.

A peer review indicated how the respective banks viewed their competitors in different categories of banking activities. Essentially four categories referred to retail banking activities, including retail lending and deposits, retail mortgages (homeloans), Internet banking and vehicle financing. Of these four categories ABSA was rated first in the first three respective categories with FirstRand, through the Wesbank brand, was rated first in vehicle financing (PwC, 2005: 7). Private Banking is traditionally not considered part of retail banking activities per se, due to it being highly specialised in providing banking solutions to the very affluent. Taking this into account, Investec holds majority market share and focuses explicitly on the affluent Private (or Personal) Banking market segment.

Needless to say, ABSA does find itself with the second largest market share (PwC, 2005: 66) in this market segment.

Table 1 below indicates the growth in the number of retail accounts held by the Big4 South African banks since 2001. Although data is not available for 2004, the average annualised growth rate equates to 17.2% per annum and the cumulative growth rate over the 4-year period to 68.6%.

	2001	2002	2003	2005[3]
Number of retail accounts (in millions)	18.5	23.9	25.7	31.2
Percentage change from previous year	-----	29.2%	7.5%	25.2%[4]

Table 1: The growth of retail accounts of the Big4 (Source: PwC 2005 Strategic and Emerging issues in South African banking survey)

With the prime lending rate at a low level compared to previous years (in 1998 the prime lending rate was 25,5%), inflationary pressures are contained with the CPIX remaining within the inflation target of 3-6% since October 2003 (SARB, 2005b). Private-sector credit extension has grown significantly, driven primarily by growth (although lower than 4th quarter 2004 levels) in asset-backed credit to the private sector (SARB, 2005a: 30). Although the latest figures have indicated increasing CPIX from 3,5% in June to 4,2% in July 2005 (StatsSA, 2005) (due primarily to higher oil prices), all indications are that the current macroeconomic environment in South Africa are conducive to consumer spending and credit extension.

Added to this, the unbanked sector is also seen as a profitable proposition for banks. Although perceived as being risky due to negligible knowledge on how bank products function, the mere size of the market (an estimated 14 million South Africans are currently unbanked (as referenced from FEASibility, 2005: 32)) holds promise as to the volume of untapped clients.

The majority of South African banks have indicated that fundamental changes have occurred in their retail strategies and positioning since 2004 (PwC, 2005: 11). In particular, South African banks anticipate that the retail market share of foreign banks relative to that of the Big4 will increase over

[3] Data for 2004 is not available.
[4] Due to the data for 2004 not being available, the percentage change of 25.2% pertains to the difference between 2005 and 2003.

the next three years (PwC, 2005: 23). Domestic banks have further indicated that the growth in market share by the foreign banks will most likely occur through further acquisitions of domestic banks, with possible foreign banks including Citibank, HSBC and Standard Chartered (PwC, 2005: 23). Standard Chartered in particular is regarded as the most likely contender (PwC, 2005: 28) to extend its operations beyond its current stake in Twenty20. In addition, prior to the Barclays takeover of ABSA in 2005, retail banking had not contributed *at all* to South African earned profits of foreign controlled banks. This is contrary to the Big5 (the Big4 plus Investec) where retail banking profits contributed 14% to overall bank profitability (KPMG, 2004: 104).

Interestingly, the majority of banks operating in the local retail market segment regard fee income as a priority over interest income (PwC, 2005: 38). By implication, the short to medium term could see banks offering more products and services that have fees attached to them. From a retail banking perspective, this could include increased focus to offer insurance related products, cross-sell additional products to existing clients and increase advisory and consultation services through, for example, personal financial planners charging fees. Ultimately, in an effort to increase fee income, a shift could be seen to where retail banks, in addition to offering traditional products for the individual, will offer service-related fee-generating offerings.

Without a doubt, the development area focussing on accessible retail products and services to the previously unbanked will have a marked effect on banks and in particular the retail strategies adopted by banks to provide accessibility. Added to this, the sentiment from both locally- and foreign-controlled banks in general indicate that the retail banking market segment will be rated very highly as a source of profit for banks in coming years.

2.2. The FSC and retail banking

The FSC requires that financial institutions improve access of affordable first-order (including basic savings, transactional, insurance and low-income housing credit products) retail financial services within the LSM 1-5 segments (paragraph 8.3, p9). With this in mind, the financial industry has committed to provide accessible physical and electronic infrastructure by 2008 and contribute 0,2% of post-tax profits to consumer education to empower consumers to make more informed financial decisions (paragraph 8.4, p10). Financial institutions have also committed to eradicating discrimination in the provision of financial services and "supporting the establishment of third tier community based financial organisations or alternative financial institutions" (paragraph 8.5, p10). In support of this, the Dedicated Banks Bill is aimed at improving the accessibility of financial services to low-income and historically disadvantaged communities. The Cooperatives Banking Bill is aimed at providing a regulatory framework for deposit-taking entities other than banks and mutual banks to enhance third-tier banking development and improve competition in the South African banking industry. This legislation is in line with the risk mitigating measures and risk sharing arrangements to be adopted by the financial industry and government as stipulated in paragraph 9.1.3.3 of the FSC. The Big4 have indicated that the importance of achieving the FSC objectives in all business units through 2005 (Nedcor, 2004: 17; FirstRand, 2004a: 6; SB, 2004: 7; ABSA, 2004: 317).

2.3. The unbanked: Who are they and how can they be banked?

Falkena et al (2004: 80) indicate that almost one half of South African citizens are unbanked and have no access to any form of financial services. The 2003 Finmark Pilot Study Banking Survey identified the behaviour of the unbanked South African market segment and focused specifically on the Living Standards Measure (LSM) 3-8 population groups (Finscope, 2003: 1). The study found that 37% of the LSM 3-8 segment are partially banked and 37% unbanked (Finscope, 2003: 1). The most prominent characteristics of the identified unbanked include the following (Finscope, 2003: 1,3; Falkena et al, 2004):

- They typically do not have any form of transactional account;
- Tend to be less well educated;
- Are resident in informal (rural) areas and townships;
- Are mostly black or coloured;
- Lack a steady cash flow;
- 19% have never had a bank account;
- 36% are indirectly banked through either their families or a stokvel;
- A large proportion of approximately 55% have no formal evidence of having any form of credit history;
- Have no prior interaction with banks;
- Are not banking product literate.

Taking into account the intended role that 2nd and 3rd tier banks could play to bank the unbanked, the Big4 have indicated that previous attempts to bank the unbanked have not been successful and lacked creativity (Hawkins, 2004: 199; PwC, 2005: 18). Although barriers to entry to establish 2nd and 3rd tier banks will be lower, several non-bank institutions are likely to capitalise on extensive distribution infrastructures to bank the unbanked (Hawkins, 2004: 200) Possible entrants include retailers (such as Pick 'n Pay), telephony companies (including the major South African cellular providers such as MTN and Vodacom), micro-lenders, non-bank financial institutions (such as Sanlam and Discovery), smaller niche banks (including Capitec and Teba), and so-called 'anomalies,' such as Postbank or Easipay (FEASibility, 2005: 93). Possible competitive advantages these non-traditional providers (especially retailers) have include strong brands, large and loyal client bases, extensive branch infrastructures and more flexible trading hours (FEASibility, 2005: 95).

Currently it is proposed, by the Dedicated Banks Bill, that 3rd tier banks are established as "narrow" savings banks and 2nd tier banks allowed to offer credit based on suitable collateral (Hawkins, 2004: 202). It is suggested that these banks operate without adding noticeable risk of instability to the banking system (FEASibility, 2005: 4). The Co-operatives Bank Bill is also pending and aims to address the exclusion of the unbanked through applicable savings and credit co-operative banks (FEASibility, 2005: 72).

Although the proposed 2nd and 3rd tier banks may offer assistance to bank the unbanked, it seems unreasonable to believe that the Big4 will take a back seat and merely allow these banks to gain retail market share. Indeed, with three of five locally-controlled banks regarding the retail segment as extremely profitable (PwC, 2005: 39), it seems reasonable to assume that retail banking will remain a core contributor to Big4 profitability. ABSA, for instance, has indicated that its mass market product offerings, the Flexi Banking line, has exceeded expectations with reported return on equity recently exceeding 200% (FEASibility, 2005: 71; ABSA, 2004: 121).

3. Brick-and-mortar banking: Retail branch outlets

3.1. The rationale for the establishment of retail branch outlets

A branch outlet reflects, amongst others, the service culture, brand and image it wants to portray to the public. The primary rationale for the establishment of a branch outlet is to offer convenience to its clients (Rose and Hudgins, 2005: 645) and typically service both individual and small business clients. Branch outlets also represent a tangible reference for clients whereby they can associate themselves with and judge the bank (Greenland, 1994: 22). Ultimately, branches are service outlets for their clients and have in recent years developed a strong sales orientation (Rose and Hudgins, 2005: 658).

When the decision is made to build a branch, several considerations must take place. Alvarez (2005) indicates that a branch must "connect with the local community." New communication technologies, such as strategically placed plasma or LED screens, create the perception that the bank is technologically advanced. The usage of communication media within a branch could contribute to educating clients on the types of bank products and services offered by the bank and how they work. This is currently used by the Big4 in their banking halls and may become an integral component of retail strategy to educate clients on the usage or benefits of new products and services. In addition, branches should offer clients an atmosphere of confidentiality and privacy, as well as the internal design facilitating an efficient working environment (Rose and Hudgins, 2005: 654).

The establishment of new branch outlets require management to conduct a careful market analysis of the proposed site. Of vital importance is the necessity to have maximum visibility and accessibility to many clients. Rose and Hudgins (2005: 654, 655) list potential sites for new branch outlet those with a high traffic flow that are surrounded by numerous retail stores, business owners and managers either working or residing in the nearby areas. Rose and Hudgins (2005: 655) also indicate that branches focussing specifically on attracting either deposits or transactional type accounts should adopt a strategy that ensures that the clientele within the particular market are likely to use the specific type of product offered by the bank.

The choice of either a branch or electronic distribution channel must have the needs of the client at its centre. Besides brick-and-mortar structures such as branches and service centres, these include call centres, ATMs, SSTs, telephone and Internet channels. Management must determine the service outputs of the various channels as well as the correlating price clients are willing to pay for these service outputs. This allows banks to determine the financial feasibility of a particular distribution channel over another (Mols et al, 1999: 38; Stern and Sturdivant, 1987: 36).

In addition, a geographically dispersed branch infrastructure diversifies risk across different markets, thereby providing more stability to the financial system (Carlson and Mitchener, 2005: 1). As a result, asset composition and the deposit base are diversified (Koch and Macdonald, 2003: 48). Branch representation in a particular area also promotes competition amongst competing banks.

This is beneficial to clients as client bargaining power increases for lower fee and interest charges, ultimately reducing the risk of switching banks.

Ultimately, the branch outlet serves at the primary channel for retail banks to provide (and market) their products and services. In addition to this, the knowledge and expertise that bank consultants provide ensures that clients are able to use the products and services provided by the bank in a manner that is helpful to them. Especially in view of the sensitive nature of personal financial matters, face-to-face contact with skilled bank staff in a private and confidential setting such as a branch, contributes to a valuable relationship between the bank and client.

3.2. The internal structure of a retail branch outlet

A branch service outlet operates with both a front- and back-office. The sales and service function occurs through direct front-office interaction with clients. The back-office provides a support function to the front-office through operational and process management. Typically, client interaction does not occur with back-office staff, although branch tellers and enquiries personnel usually form part of back-office personnel. In recent years, however, back-office functions have been centralised to regional head offices. This is especially so due to banks continuously striving to make back-office operations and process management as paperless as possible (Greenland, 1994: 27).

Front-office branch staff have direct face-to-face interaction with clients (Mols et al, 1999: 41) and include sales consultants selling retail products and services, such as cheque accounts, the purchase of foreign exchange and the provision of credit facilities. Essentially, the front-office builds the relationship with clients (dealt with in the next section). The building of relationships enhances the ability of banks to offer a more comprehensive product and service offering. As such the branch outlet is the primary channel used by banks to offer their products. In addition to having face-to-face contact with consultants, electronic channels are constantly being added in banking halls. These include ATMs, SSTs and Internet banking within the branch. Visits to the branch therefore allow a client to decide whether they want to interact directly with bank staff, or alternatively use e-banking facilities.

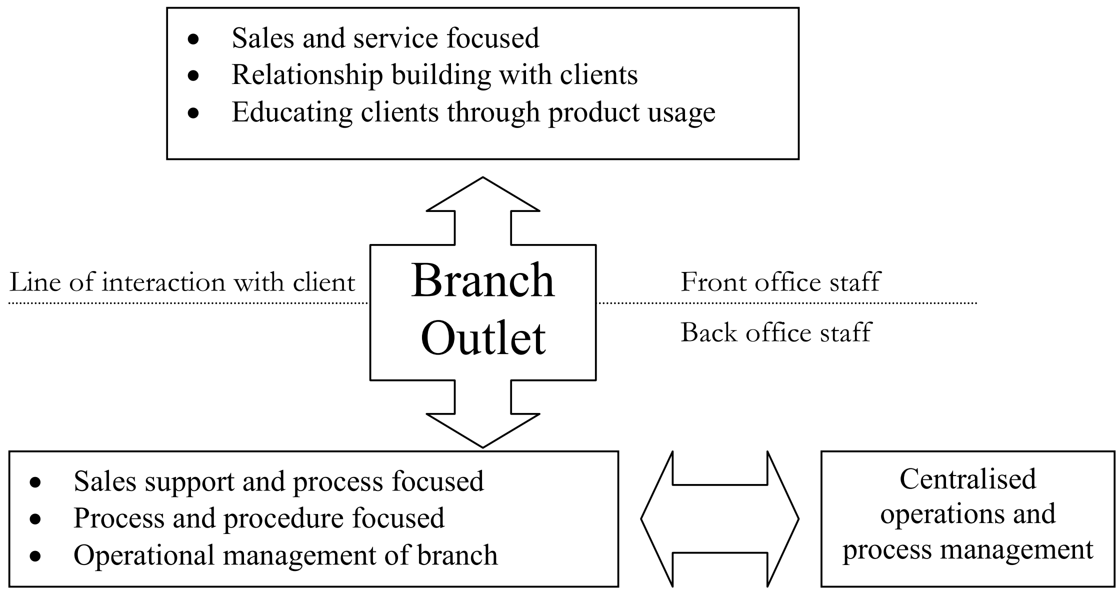

Figure 1: The internal focus areas of a branch outlet

Figure 1 above provides an overview of the internal focus and client interaction of a typical branch outlet. Front-office staff interact directly with clients to build relationships. They are explicitly sales focussed and gather as much information as possible on clients so as to identify cross-selling opportunities, while at the same time educating clients on how bank products work.

Back office staff do not typically interact with clients. If they do, they predominantly perform a support role (such as enquiries clerks or tellers) for the sales function performed by the consultants. Sales support is provided through ensuring that sales staff adhere to the necessary processes and procedures required to have sound operational management within the branch outlet.

While front- and back-office staff address the needs of clients, poor service levels could cause clients to switch to other banks. Client satisfaction is therefore important and occurs if an efficient relationship exists between front- and back-office staff. As such, retention strategies promote client loyalty which, in turn, ensures that the bank has a lower cost of servicing the clients through cross-selling opportunities. Evidence suggests that customer satisfaction depends on improving service quality, service features and customer complaint handling (Levesque and McDougall, 1996: 12; Zeithaml and Bitner, 2003: 189).

Levesque and McDougall (1996: 13) indicate that convenience, competitive product offerings, pricing, and accessible locations of service (branch) outlets contribute to customer satisfaction. This in turn indicates that a speedy response and resolution to client problems may indeed improve the client-bank relationship to levels better than before the problem or complaint. Needless to say, the interaction amongst front- and back-office staff plays an important role in ensuring good levels of service, which in turn results in client retention.

3.3. The branch as a conduit for relationship banking

Relationship banking requires information transfer between the bank and client. The bank is able to gather information on the client through multiple interactions. This enables the bank to address the needs of the client and to ensure client satisfaction and retention (Levesque and MacDougall, 1996: 14). Relational factors play an important role in ensuring satisfied retail banking clients and promote common understanding between the client and bank with regard to bank product and service offerings (Levesque and MacDougall, 1996: 15, 19). The skill and knowledge of bank staff to successfully identify, address and resolve client problems and complaints improve the bank-client relationship and are more likely in a branch than a non-branch environment (Greenland, 1994: 21).

This relationship-based function implies that consultants (also referred to as relationship bankers) perform two functions. The first is an information gathering function. This entails front-office staff attending to the queries that clients have on their accounts and monitoring the management of their accounts. At its core, this function is directly related to ensuring and enabling clients to better utilise and understand their products with the bank. For example, relationship bankers advise clients to use certain facilities on their accounts that they might not have been aware of or were not able to use because they did not know how it worked. As a result, clients gain knowledge of how bank products work through either product usage or relationship bankers explaining usage.

The consequent relationship built up with clients ensures that problems associated with asymmetrical information are reduced (Boot, 2000: 7). The branch outlet facilitates this relationship and allows information to be shared between the bank and client. The five C's of credit, for example, are easier to evaluate when a client has a bank account. Banks can determine spending patterns, quality of collateral and the clients historical account relationship (Koch and MacDonald, 2003: 653). In effect, while reducing asymmetrical information, the relationship at the same time facilitates the monitoring and information gathering function.

The second function of a relationship banker is a direct result of the information gathering function. The monitoring of the clients' management of bank products and services enables the relationship banker to identify problem areas that the bank would directly be able to solve through additional bank products or services. Put differently, through the monitoring of the behaviour of client accounts, banks can identify any cross-selling opportunities. The sales function performed by relationship bankers therefore occurs either through selling new products to new clients, or selling additional products and services to existing clients.

These mentioned factors must be evident in branch outlets. For instance, branches must ensure that any problems that clients experience must be addressed as quickly as possible. This can be done through providing accessible channels for the client to refer problems to senior level branch personnel (for example the retail manager) or, alternatively, to a client complaints and resolution call centre. Retail consultants should also be suitably trained and well acquainted with internal processes, turnaround times of applications and queries, and have product knowledge. The personal face-to-face interaction between bank staff and clients also ensure that clients are offered individual attention that addresses their specific needs. Clients benefit from the relationship with the bank as cost savings and increased revenue for the bank eventually result in the bank rewarding loyal clients (Zeithaml and Bitner, 2003: 176). In effect, the relationship with the client enables the bank to identify problems that bank products and services can provide solutions for. This implies that the sales motive of retail consultants is central to their client relationship.

In the end, the Big4 could be faced with two core choices on how to bank the unbanked. The first refers to need of the PUMM clients for financial guidance by the banks regarding the usage and benefits of using banking products and services; the second is the need for retail banks to provide low cost, accessible banking products that are financially viable for both the PUMM and the retail bank to offer. If possible, a cost effective combination of both would be ideal – improve financial literacy through a branch presence and an element of personal (relationship) contact through constant bank official/client interaction that allows improved learning from the client, while at the same time offering low-cost, low risk retail product offerings. It is arguable, though, that for banks to improve the financial literacy of the PUMM, a costlier approach (besides the 0.2% post profit revenue contribution to consumer education), through for example a branch, or at least a form of face-to-face interaction, would be needed to minimise information asymmetries.

In summary, servicing the PUMM could require an inherent trade-off: either a costly physical presence (such as a branch) that facilitates relationship building through consultants interacting directly with PUMM clients; or a cheaper electronic-based presence (such as ATMs or mobile ATMs) that does not facilitate any interaction between bank consultants and PUMM clients. It would appear, therefore, that ideally a combination of both would be beneficial to both PUMM clients and the bank. Where a branch provides an opportunity for the bank to gain valuable information from clients through face-to-face interaction, e-based facilities such as ATMs do not allow this. The direct interaction identifies the needs of clients, while at the same time enabling bank staff to educate clients on the workings of bank products.

3.4. The integration of e-banking facilities as a norm in branch offerings

Although a branch outlet offers face-to-face contact between bank staff and clients, ATMs, SSTs, Internet and telephone banking facilities also feature in banking halls. Indeed, branches are moving towards being a one-stop financial services channel, via retail consultants, personal financial planners, tellers, and on-site electronic channels – referred to as a "click-and-mortar" model by Turban et al (2002: 86). Needless to say, face-to-face contact between bank consultants and clients is important even for technology-savvy clients and ensures that bank products and services can be customised to the needs of clients (Alvarez, 2005).

The integration of e-banking facilities as a core product offering by retail banks is well documented. Ernst and Young (1994) indicate that the integration and introduction of new technologies should follow a step-by-step process due to it being safer. This enables the testing of new technologies and the introduction of human resource policies in a structured manner; Mols et al (1999: 39) indicate that electronic channels save time for clients; Greenland (1995: 12) that technological advancements have reduced branch sizes and thus costs; and Watkins (2000: 65) that technological advancements have necessitated banks to search for strategic leaps in technology implementation due to constant threat from non-bank competitors such as retailers.

4. The current situation: The Big4 and their distribution channels

The South African retail market is dominated by ABSA, Nedbank, SB and FNB. The Big4 hold approximately 31,2 million retail accounts in 2005, which is expected to grow to 35,4 million by 2008 (PwC, 2005: 10). The Big4 have indicated that physical locations will be important in future retail market strategy, as indicated that the level of branches and ATMs are expected to grow by 8% and 15,5% in 2005 and 2008 respectively (PwC, 2005: 10). This is in line with the charter requirement stipulated in paragraph 8.3.1 indicating that the financial sector requires the financial sector to provide first-order retail products and services "through appropriate and accessible physical and electronic infrastructure."

The Big4 have all indicated the importance of branch banking. For instance, FNB Retail regards branch banking as a major priority for organic growth within the FirstRand Group (FirstRand, 2004a: 26); SB constantly strives to improve branch service quality (Standard Bank, 2004: 15); Nedbank is rebranding the Peoples Bank branches to Nedbank in order to capitalise on the rural presence of these branches (Nedcor, 2004: 36); and ABSA prides itself in having an extensive branch and electronic network (ABSA, 2004: 116). The following section identifies how the Big4 have adapted their distribution channels to cater for a changing retail market segment.

4.1. First National Bank

FNB explicitly regards the innovation of product and product delivery as a key differentiator in its retail banking strategy (FirstRand, 2004a: 24). FNB Retail offers its products and services through branches, call centres and e-banking channels, which include Internet and cellphone banking (FirstRand, 2004a: 23), with a total of 646 branches and 2230 ATMs (FirstRand, 2004b: 7). In rural areas lacking presence, FNB has installed over 1200 mini-ATMs and introduced 6 Portable or Mobile banks (FirstRand, 2004a: 24; 2004b: 7). The Mobile bank offers services typically found in a branch and FNB expect to increase the number of Portable banks to 32 in the 2005 financial year (FirstRand, 2004a: 24). The Mobile branches are powered by generators and linked to the national communications network of FNB. They offer two tellers, two customer and service consultants, two ATMs (FirstRand, 2004b: 6) and are also used to test the viability of previously unexplored rural areas by FNB (FirstRand, 2004a: 24). Furthermore, from an operations perspective, FNB Retail has centralised credit into regional hubs (FirstRand, 2004a: 23).

FNB realised in the mid-nineties that a total revamp of their branch operations was necessary. This resulted in the so-called Banking2000? approach that realigned FNBs retail strategy to focus on branch operations conducive to the 21st century (Remenyi and Cinnamond, 1996: 293). Banking 2000? eventually resulted in FNB reorganising the layout and structure of retail branches and introducing innovative information solutions (Remenyi and Cinnamond, 1996: 314). FNB regards its innovative culture as a key differentiator in Group strategy.

4.2. Standard Bank

SB has an extensive branch network with 741 physical outlets in South Africa and 234 in Africa (Standard Bank, 2004: 1). The South African physical outlets include 171 branches, 414 service centres, 19 Banks-in-a-Box units, and 137 AutoBank Es (Standard Bank, 2004: 15). The Bank-in-a-Box unit is cost-efficient, relocatable point of representation that SB uses to test previously unexplored rural markets (Standard Bank, 2004: 15). In addition, the SB Group has 3289 ATMs in South Africa and 314 in the rest of Africa (Standard Bank, 2004: 1). The utilisation of SB distribution channels increased in 2004. In particular, a 9% increase in ATM-based transactions; customer contact centre call volumes increased by 15%; new Internet-based client registrations increased by 24%; and Internet-based transactions rose by 45% (Standard Bank, 2004: 15). The notable increase in transaction banking due to increased distribution channels contributed substantially to the increase in non-interest revenue of the Group (Standard Bank, 2004: 54).

SB regards client service as very important. Service levels of SB branches are measured by the Customer Evaluation of Branch Service score, which was maintained during 2004 (Standard Bank, 2004: 15). Indeed, the 28% increase in headline earning by SBs Retail Banking division was mainly due to efficient operational performance and enhanced customer focus (Standard Bank, 2004: 51).

4.3. ABSA

ABSA is currently regarded as the leading bank in the retail banking segment. The bank has adopted an explicit proactive client centric strategic approach and caters for the diverse South African population by communicating to clients in five of the eleven official languages in their electronic channels (ABSA, 2004, 7; 2004: 166).

ABSA Personal Banking has achieved marked cost reductions through centralised decision-making and back-office operations (ABSA, 2004, 10). This is in line with ABSAs strategic objective of reducing the Groups' cost-to-income ratio to the mid-fifties (ABSA, 2004: 8). The ABSA Group has approximately 5, 7 million retail banking clients with the Flexi Banking Services (FBS) SBU aimed specifically at the mass market (ABSA, 2004: 116). ABSA Retail Banking Services (RBS) uses a multi-channel distribution channel through physical outlets (branches), a call centre, mobile (or roving) sales teams (and ATMs) and digital channels (ABSA, 2006: 120). RBS has explicitly stated that the black Personal Banking segment is a major strategic driver and will be targeted through an optimal mix of roving sales teams, branch and e-channels (ABSA, 2004: 120). ABSA has also used the roving sales teams in FBS to open Flexisave accounts in remote rural areas (ABSA, 2004: 121).

ABSA has 668 outlets and 4502 ATMs, of which 54 and 133 are in previously disadvantaged areas respectively (ABSA, 2004: 166). Interestingly, the number of staffed ABSA outlets has decreased since March 1998 with the delivery network increasing in previously disadvantaged areas (ABSA, 2004: 166). ABSA has also indicated that new outlets in rural areas will be achieved through the development of innovative outlets (ABSA, 2004: 166). ABSA has in particular increased the ATM presence in rural areas and offer prepaid facilities on ATMs through alliances with all the major cell phone providers, Eskom and Telkom (ABSA, 2004: 166). ABSA has indicated that of the new ATMs planned, 70% will be in areas that support the black market segment (ABSA, 2004: 166).

4.4. Nedbank

Nedbank has had to undergo dramatic strategic realignment to address a changing South African banking environment and a poor retail-focussed strategy in the past. This resulted in Nedbank changing focus from "niche elite to mass aspirational" (Nedcor, 2004: 1). These changes were driven by the Strategic Recovery Programme that was implemented in 2004 (Nedcor, 2004: 35). Nedbank Retail has identified the need to increase its presence to a wider sector of the population (PUMM), the youth market and SMEs (Nedcor, 2003: 83) as opposed to past strategy focussing predominantly on the more affluent upper-end of the retail market in urban areas (Nedcor, 2003: 46).

Although Nedbank has a strategic alliance with retailer Pick 'n Pay through the Go Banking initiative (Nedcor, 2003: 38), it openly admits to lacking a branch network in rural areas due to past retail strategy focussing on branch infrastructure in urban metropolitan areas (Nedcor, 2003: 46). The rebranding of approximately 150 Peoples Bank branches to Nedbank branches as well as 25 new branches in growth areas (Nedcor, 2004: 36) will, however, attempt to address the lack of Nedbank presence in rural areas. Nedbank has 501 branches, 1210 ATMs, 327 SSTs, and 262 retail outlets (Nedcor, 2004: 37).

4.5. The Big4 distribution channels: A summary

The Big4 retail banks have all indicated the importance of a presence in rural areas. Although mobile ATMs are offered by all four banks, SB and FNB, in particular, have introduced channels that offer the convenience of mobility. FNBs Mobile bank offers the benefits of face-to-face contact with PUMM clients, while ensuring that the mobility of the unit allows the bank to test the viability of certain areas. Effectively, the cost implications of full-scale branch constructions are avoided, yet the bank is able to interact directly with clients.

The number of electronic channels are also increasing, within both banking halls and rural areas. The number of ATMs and SSTs are rapidly increasing with expected growth to increase even further. In-store and mini-branches are not as popular as say in the US, but there is reason to believe that the concept of a 'mini-branch' relates as much to a mini-mobile-bank as it does to a smaller, mini brick-and-mortar branch. Having said this, it appears that of the four banks, Nedbank is the only one explicitly focussed on increasing brand awareness in rural areas. Although it could be argued that the Nedcor Group has had rural presence in the past through the Peoples Bank brand, the challenge for Nedbank is to successfully change its image from the perceived 'elite niche' focus to that of the low-to middle-market retail client.

The Big4 have also ensured that they keep up with technological advancements in their distribution channels and product offerings. E-banking facilities all promote convenience through allowing, for example, third party account payments via Internet and cellphone banking. Banking halls are geared toward offering the choice between personal interaction with bank staff or using e-banking facilities.

5. Changing branch outlets: What to expect

Disregarding the possible impact of the proposed 2nd and 3rd tier banks, retail branch outlets of predominantly the Big4 are being forced to adapt to a changing retail market. As such, retail bank branches can be expected to change, or be affected, as follows:

- *Larger existing branches surrounding rural areas could become area (or regional) service hubs:* Due to the excessive costs associated with building branches, existing branches could become service hubs for the surrounding rural areas. As such, mobile branches will service the surrounding rural areas where the unbanked are situated and be stationed at the existing branch. This ensures that a mobile presence (for example mobile- ATMs or branches) in rural areas occurs, while enabling these mobile branches to not travel large distances;

- *In areas where branches do not exist, limited service branches such as in-store or mini-branches could be favoured to full-scale branches:* Where regional or area service hubs are not offered, smaller service outlets could be favoured to large full-scale branch outlets. This is due to the lower maintenance and erection costs of these limited-service outlets. In particular, in-store branches typically situated in retail supermarket stores, might be favoured. Evidence suggests that in-store branches have indicated a tendency to attract deposit funds rather than loan requests (Rose and Hudgins, 2005: 659) and offer convenience through operating hours being later than that of larger traditional branch outlets. US bank Wachovia Corp, for example, has adopted more flexible two-track retail banking strategy where smaller branches are operated in rural areas (Boraks, 2003);
- *Longer trading hours to compete with non-bank competitors such as retailers:* Following from the previous point, competition from retailers, especially their operating hours extending beyond those of normal banking hours, might cause banks to extend banking hours. Nedbank has already experimented with longer hours during selected weekdays and Saturdays. In-store branches situated within large retail stores usually offer extended banking hours and might become preferred alternatives;
- *Mobile banking channels will be used to test new markets and bank the rural unbanked:* Due to the costs associated with building new branches, retail banks will favour using mobile banking channels to bank the unbanked. These mobile distribution channels also allow banks the opportunity to test the viability and growth potential of entering a certain rural areas. FNB and SB are already using such channels through the Mobile Bank and Bank-in-a-Box units. Mobile ATMs are also used by all four banks. These mobile banking facilities will in time also offer rural clients the opportunity to open new accounts without actually entering the branches – a feature of FNBs Mobile bank;
- *Marketing, promotional and educational multimedia will become more evident within branches as an informative tool:* Branches can be used to educate clients on how banking products and services function through the usage of informative brochures and interactive technology such as televisions. Although this applies to all retail clients as a result of an evolving technology-based society, this could be particularly relevant to informing PUMM clients about the benefits, usage and types of products the bank offers. In-store and mini-branches un rural areas would be ideal channels;
- *Aggressive marketing campaigns aimed at promoting transactional products:* As a forerunner to future low-income-type accounts, the Mzansi account has been the result of the FSC attempt to bank the PUMM. As such, and also due to banks indicating that fee income is a key priority over interest

income in future strategy, branches could be used to aggressively market transactional product lines such as savings and cheque accounts;

- *Whether directly or indirectly, consultants will be required to monitor account activity of PUMM clients:* Due to a large proportion of PUMM clients not having any past exposure to banking products and services, retail bankers will be required to monitor the manner in which the accounts are managed. This will ensure that early detection occurs of non-performing or badly managed accounts so as to avoid administrative losses of holding the client on the books of the bank;
- *E-banking facilities will be part and parcel of branch service offerings:* The growing usage of e-banking facilities such as Internet and telephone banking, has required retail branches to offer these facilities within the banking halls, and is already being offered by the Big4 in their banking halls;
- *Security will be upgraded:* In view of the increase in mobility of banking facilities through mobile-branches and ATMs, heightened security measures will have to be implemented both with these mobile facilities and within the regional/area hub branch.

A changing retail banking landscape as well as a commitment to achieve the requirements of the FSC, are therefore be major drivers of retail strategy. As a result, retail branch outlets will have to reflect these changes.

6. Conclusion

A changing retail banking environment has ensured that the Big4 South African retail banks adapt their strategies accordingly. With the Big4 themselves regarding the retail segment as a profitable proposition in especially the foreseeable future, the entry of foreign banks may be an added threat to market share. Furthermore, the FSC requires that bank products and services become accessible to the PUMM. The challenge for banks is *how* they achieve this and also the decision on which distribution channel is more viable than another.

Although banks are increasingly adopting a multi-channel distribution approach through branches, Internet, ATMs, SSTs, and cellphone banking, the branch outlet facilitates relationship building between clients and bank staff. This reduces assymetrical information sharing, which benefits both parties: the bank, by gathering information on the client regarding their usage and understanding of bank products and services; the client, by learning how products work so that they can benefit from using them. This relationship aspect is not present with electronic channels such as ATMs and SSTs, albeit the client having access to call centres that address problems should they arise. Banks are also placing added importance on building relationships with clients to identify cross-selling opportunities. As such, front office staff are primarily sales orientated. FNB in particular has identified the importance of face-to-face interaction with PUMM clients with its Mobile banks offering opportunity to interact directly with bank staff.

It appears as if the South African retail banks regard face-to-face interaction crucial to bank the unbanked – FNB uses the Mobile banks; ABSA uses roving sales teams; and Nedbank is rebranding approximately 150 rural based Peoples Bank branches to Nedbank branches. The banks have also realised the importance of testing the viability of certain areas, such as FNBs Mobile bank and SBs Bank-in-a-box.

Taking all of this into account, branch outlets in rural areas have to address the challenges posed by the unbanked and provide solutions in banking halls. For example, banks currently use television screens to 'teach' clients how accounts work and also indicate the types of accounts offered by the bank. If branches are not suitably situated in rural areas, existing branches in areas outlying major rural areas may well be used as area service hubs where roving sales teams (in ABSAs case) or mobile banks (in FNBs case) are stationed. The role of these 'mobile bankers' would then be to 'educate' and acquire new PUMM clients.

In conclusion, the importance of branch outlets in retail strategies of the Big4 will not diminish. To bank the unbanked, smaller branches might be considered from a cost perspective, but banks seem to realise that the face-to-face aspect is increasingly important to counter information asymmetries that exist with PUMM clients due to limited knowledge of bank products and services. The Big4 must also ensure that branches of the future offer e-based facilities in addition to interaction with staff.

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