

RBSC CASE STUDY WRITING COMPETITION 2011

CASE STUDY

ON

DEPLOYMENT OF AUTOMATED TELLER MACHINES (ATMs)

Prepared by:

SUPRIYO BHATTACHARJEE

AGM & MEMBER OF FACULTY

COLLEGE OF AGRICULTURAL BANKING

PUNE

Introduction

It was 8:45am on 1ST August, 2011. Kulvinder Singh was fine tuning his presentation with his deputy Sriram Iyer. He quickly ran through the presentation, gathered his laptop and headed towards the boardroom. Iyer wished him luck as he closed the door of his cabin. As the Chief Strategist of Universal Bank, he had an important role to play in the day's meeting.

He mentally reviewed the meeting he had with Vashista Rao Hegde, Chairman of the bank, a week earlier. Mr. Hegde had just returned from an interface with the top corporate clients of the bank and asked for Mr. Singh to meet him urgently. The Chairman's grim countenance had given Mr. Singh some idea about what was to follow and he was proved right by when the Chairman threw up his hands and said "If we do not solve these issues now, I am afraid that the bank may not survive!!"

The "issues" were well known to all in the senior management in the bank. There had been debates of and on for nearly 6 months on the issues and the ways to tackle them. A few committees had also been formed to go into the issues and they had submitted their recommendations, but the Board had yet to act on them.

"That's it "the Chairman had said. " We will take a final decision in the upcoming board meeting one way or the other. I want you to give a brief presentation to the board before we start discussing the issues."

Mr. Singh was now ready with the presentation. He had tried to ensure that they brought out the issues that mattered clearly and concisely. He had made his own recommendations of course, but had also taken care to provide other points of view to the board members. He prayed that the Board would arrive at a decision rather than kicking the can down the road.

UNIVERSAL BANK

Universal Bank is a small bank with operation spread over 5 states of the country. 50% of its branches are located in rural areas, 20% in semi-urban areas and 30% in Urban areas. The customer profile also differs among the 3 types of branches. While the Rural branches cater to farmers and small traders, its semi-urban branches deal mainly with small and medium sized businessmen. In the urban area the bank has a few major industrial customers.

The total deposits are spread over the 3 types of branches in the following ratio:

Rural:	30%
Semi Urban:	45%
Urban:	25%

The bank has been earning profits consistently for the last 4 years. However, over the years, there has been a change in its mix of earnings. While the share of non-interest based income has gone up significantly, the amount of interest income has remained almost constant.

The Board Meeting

Mr. Singh looked at the 11 Directors assembled in the Boardroom. It was a mixture of people from diverse walks of life and hence diverse interests. While this had its positive side in ensuring that no one group dominated the operations of the bank, on the flip side it often led to gridlock and indecision, especially on those matters on which the Board did not have expertise. Mr. Singh knew that the issues at hand were one where the majority of the Board members would not have any expertise. He hoped that they would trust his judgment rather than looking at the issues through the prism of their own interest groups.

Mr. Singh took a deep breath and started his presentation.

Of late, the bank has been facing significant pressure from other Private sector banks in holding on to its major Industrial customers in its Urban branches. These customers have been demanding facilities like Multicity cheque facility, Internet banking and Cash management facilities for some time. In response to the customer's needs the bank had entered into correspondent arrangement with some major banks in the 4 metros for faster clearance of cheques drawn on those cities. Although this satisfied the customer's requirements to some extent, they now wanted the same facility to be extended to other major cities.

However the cost for such an arrangement is prohibitive for a bank of Universal's size. So, the proposal has not yet been accepted. The branch managers of the respective branches have raised their concern that there was a distinct possibility of losing the customers in case the necessary steps were not taken immediately. The cost of introducing Internet banking was found to be prohibitive and was not considered as a viable option.

After laying out the problem, Mr. Singh recommended that the bank may extend the Correspondent banking arrangement to a few more cities for now. He opined that with the introduction of Cheque Truncation System (CTS) would considerably reduce the time taken for clearing of outstation cheques.

Cheque Truncation System (CTS)

Cheque Truncation System (CTS) is an online image-based cheque clearing system where cheque images and Magnetic Ink Character Recognition (MICR) data are captured at the collecting bank branch and transmitted electronically eliminating the actual cheque movement.

The benefits of CTS are:

- ✓ Realisation of proceeds of cheque possible within the same day.
- ✓ Data storage and retrieval becomes easy.
- ✓ Minimizes risks and introduce a secured cheque clearing system.
- ✓ Will result in cost savings due to lower cost in physical movement of cheques.
- ✓ Minimizing bottlenecks and delays between presentation and realization time.
- ✓ Provides shorter clearing cycles and a centralized image archival system.

To the considerable relief of Mr. Singh, almost all of the Board members concurred with the recommendations. He moved on to the next topic

Recently the bank had employed a consultant to map the technology strategy for the bank. Based on the recommendations of the consultant, the bank had invested in 30 ATMs to be installed at its urban branches and 15 ATMs to be installed at offsite location. This purchase had been justified on the basis of the following data on cost per customer transaction across the 3 mediums:

Branch transaction	:	Rs.25/-
ATM	:	Rs.8.33
Internet	:	Rs.2.11

The bank had been actively encouraging its customers to use the ATMs for their normal transactions like cash withdrawal /deposit etc. This effort has received good response from the customers with a significant number of them switching over to ATMs. In the initial periods, the number of transaction per ATM was around 130 per day, which was below the break-even point of 225 transactions. However, the number of transactions has been going up steadily and then now stabilized at around 250 transactions per day.

At the time of introduction of the ATMs it was assumed that the number of Tellers per branch could be reduced as many of the transactions handled by them like Cash withdrawals & Deposits etc. would now be handled by ATMs.It was planned to redeploy such excess staff to other areas like Marketing of banks product after providing suitable training. However, this assumption had not proved correct. Only a few tellers, mostly in Urban Branches, had been found to be excess.

An internal cost-benefit analysis has revealed that the overall cost of transaction for the bank as a whole has gone up due to the increase in the usage of ATMs.

Mr. Singh was expecting the reaction that some of the Directors now gave. These Directors had initially opposed the introduction of ATMs calling them an “unnecessary extravagance” for a bank of Universal’s size. It was the Chairman, along with a few supportive Board members who had pushed through the proposal. The criticism thus concentrated both on the Chairman as well as Mr. Singh. Some of the Directors even suggested that the decision be reversed and the ATMs sold off.

As Mr. Singh listened to the criticisms he realized that the reason that their assumptions were so far off the mark was due to the fact that they had misread the mind and the habits of their customers. “But” he wondered “Is there a way of finding out how the customers will react before introducing a product? “.

The Chairman intervened and tried to pacify the Board members. While accepting the fact that the introduction of ATMs did not go as well as planned, he urged the members not to pull the plug on the project at this stage. He assured the members that the necessary efforts would be made to educate the customers about the ease of use and security of ATM transactions. He proposed that the matter be relooked at in the next Board meetings scheduled 3 months hence. The members agreed, although a few of them were clearly not convinced.

Mr. Singh came out of the Board room. It was an experience he did not wish to go through ever again. He promised himself to learn the techniques for gauging customer reactions, so as not to face the same embarrassment ever again.

Questions for discussion

- 1) What steps can the Bank take to retain its major Urban customers?

- 2) Why do you think that the overall cost of servicing the customer has gone up despite the increase in ATM transaction volume?

- 3) Can you help Mr. Singh by outlining the techniques for identifying customer preferences and habits?

Possible Learning Points

The above case study is expected to make the participants consider the multiple aspects before deciding on a technology solution or be for rolling out a new customer channel . While cost of the outlay is certainly an important factor in driving such decisions, qualitative factors like customer preferences, ease in adoption of technology etc. also play a major role in the success or failure of the process and hence must be given due consideration.

The major learning points would be as follows:

1. Understanding Customer Requirements

2. Understanding Customer Preferences & Choices

3. Integrating the knowledge of Customer preferences and choices in decisions regarding designing of products and choice of technology.

Faculty Notes

Topics for which the Case may be administered:

The above case study may be administered to the participants in the following programmes:

- a) IT Project Management (To demonstrate the need to consider non-technical factors in deciding about IT Projects)

- b) IT Strategy Management (To make the participants aware about the strategic considerations to be made in choice of technology and products)

Process of Administration of the Case

- a) At the first stage the participants may be asked to go through the case study. Sufficient time may be provided for the participants to completely read and understand the various issues raised in the case study.
- b) The questions for discussion may now be introduced and the participants be given time to frame their answers. The participants may be encouraged to consider a wider frame of reference e.g. practices in other industries, while taking their decisions.
- c) The participants may be asked to present their answers (either individually or in groups). The Faculty should not try to point out the right or wrong answers at this stage. Rather the emphasis should be on encouraging the participants to think out of the box in arriving at solutions.
- d) At the final stage the Faculty may provide the answer to the questions as follows:

1) What steps can the Bank take to retain its major Urban customers?

Ans.) Netbanking facility may be provided by getting into consortium arrangements with other banks and sharing of datacenters. E.g. Cosmos Co-op Bank etc.

2) Why do you think that the overall cost of servicing the customer has gone up despite the increase in ATM transaction volume?

Ans.) The customers were using the ATMs mainly for non-cash transactions like balance enquiry, printing of statements etc. The majority of the cash deposit and withdrawal operations were still being handled by tellers. The Bank should have considered this possibility while making its calculations. For now, the bank has to undertake customer education programmes to convince the customers that operating ATMs was as safe as branch operations and more convenient.

3) Can you help Mr. Singh by outlining the techniques for identifying customer preferences and habits?

Ans) The following techniques may be discussed

a) Preference Mapping

The preference mapping methods are commonly used in the fields of market research and R&D and are gaining in popularity in other fields as well. This set of multidimensional methods can be used to explore and understand the structure and tendencies of consumer preferences, to link consumer preference information to other data and to predict the behavior of consumers in terms of acceptance of a given product.

b) Concept testing

Concept testing is the process of using quantitative methods and qualitative methods to evaluate consumer response to a product idea prior to the introduction of a product to the market. It can also be used to generate communication designed to alter consumer attitudes toward existing products. These methods involve the evaluation by consumers of product concepts having certain rational benefits, such as "a detergent that removes stains but is gentle on fabrics," or non-rational benefits, such as "a shampoo that lets you be yourself." Such methods are commonly referred to as concept testing and have been performed using field surveys, personal interviews and focus groups, in combination with various quantitative methods, to generate and evaluate product concepts.

c) Factor Analysis

Factor analysis is a set of techniques for determining the extent to which variables that are related can be grouped together so that they can be treated as one combined variable or factor rather than as a series of separate variables. Perhaps the most common use of factor analysis in the social and behavioural sciences is to determine whether the responses to a set of items used to measure a particular concept can be grouped together to form an overall index of that concept

Further reading:

In conclusion the participants may be requested to enhance their knowledge by going through the following websites:

1. Preference Mapping

www.sensorysociety.org/ssp/wiki/External_Preference_Mapping/

2. Concept Testing

http://www.lucintel.com/concept_testing.aspx

<http://mnav.com/focus-group-center/concept-testing/>

3. Factor Analysis

<http://www.psych.cornell.edu/Darlington/factor.htm>