

# MicroSave Briefing Note # 38

## Serving Depositors: Branch Infrastructure

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A key challenge for financial institutions serving the low-income market is how to optimise branch networks to serve high volumes of depositors - to provide high quality financial services at a low unit cost. This Briefing Note examines branch infrastructure for serving depositors. Briefing Note #39 considers managing for efficient transactions.<sup>1</sup>

### The Importance of the Branch

The branch is one of the most critical components of any savings product – simply because it is so central to many aspects of delivering savings services. Products are usually delivered through a branch network. The extent, type and nature of the branch network sets operating cost parameters that must be covered through charging appropriate prices. The majority of staff are located within branches. Promotions occur through the branch network where customers and staff meet. The branch provides the clearest evidence of institutional stability - a strong corporate brand evidenced at branch level positively influences the position of the institution in the customers' mind, driving positive Word of Mouth. So what factors must the institution consider when determining its branch structure and locations?

### Delivery Strategy

The institution first needs to assess which delivery strategy should be adopted for different locations. Strategies can include full branch, sub branch, an agency or a mobile banking service. A sub branch usually operates under the management of a full branch with significantly fewer staff. It performs the most common types of transactions and loan origination. An agency typically operates a restricted range of services one or two days per week, often on market days. Mobile banks can either be used to support agencies or can operate completely independently from vehicles. For example Equity Bank uses mobile banks to run agencies and to disburse loans to tea farmers.

Transforming micro-credit institutions face a particular challenge as credit based institutions select branch locations on the basis of very different criteria than deposit taking institutions. Older PRIDE offices in Uganda and Tanzania serve many thousands of borrowers every year. To control costs, many of these offices are located upstairs or in converted residential space. FINCA Uganda, located its offices out of town – to enable field staff to operate its peri-urban and

rural Village Banking groups. However, deposit-taking branches need to be located for the convenience of depositors. They must be located to provide frequent, accessible, convenient service for existing and potential customers.

### Branch Location

Determining where to operate is often a carefully considered compromise, in terms of which town and street.

*Which Town:* Selecting where to operate is usually done through conducting a macro level feasibility study that determines high potential towns that match the institution's mission and vision. The survey considers likely demand for financial services and proximity to existing branches. It examines the provision of competing financial services. Teba Bank in South Africa conducted a detailed survey using published socio-economic data to determine where their target customers lived and were underserved by existing financial institutions. Branch based costing can help determine which delivery best suits different locations.

*Which Street:* In determining exact branch location the financial institution must assess multiple factors. It must assess the quality of the physical infrastructure of the branch (see below). It must study foot traffic flows around the town, the local transportation network to ensure that clients can reach the branch easily, the availability of utilities and the security of the surrounding area. Branches should be selected and designed to have potential for expansion. Equity Bank in Kenya negotiated with tenants who occupied the floor above their Nakuru branch, obtained their premises and converted them into a second banking hall.

Once branch location has been selected, the search is on for appropriate premises. This can be difficult outside regional centres due to the quality of construction: there may be a limited supply of buildings that are well located and physically strong enough to become a branch.

### Appropriate Premises - Regulatory Requirements

The branch itself must meet the requirements of regulators if the branch is to be licensed. The following points have been abstracted from the Questionnaire on Premises in Uganda's Microfinance Deposit Taking Act.

*Ownership of Premises:* Is the property owned or leased, and if leased is the lease sufficiently long to produce economic returns? Has the landlord's approval been obtained for alterations?

<sup>1</sup> This Briefing Note is based on Cracknell, “[Serving Depositors: Optimising Branch Based Banking](#)”, *MicroSave* (2005). It can be downloaded from *MicroSave*'s website [www.MicroSave.net](http://www.MicroSave.net) from the Studies section.

**Approvals:** Have approvals been provided from local authorities, security companies and the electricity-company?

**Banking hall:** Does the banking hall suit the type of business to be undertaken in the premises?

**Staff Operating Area:** Is the space for each staff member adequate? Does the branch have appropriate toilets?

**Lighting and Ventilation:** Are these appropriate throughout the premises?

**Outer Doors / Walls / Windows:** Are the outer doors heavy duty, secured with two or more locks of good quality? Are the windows and glass partitions reinforced or made of anti-burglar or bulletproof glass?

**Strong Room:** If there is a strong room is it conveniently situated? Does it border outside walls? Is there sufficient space to cater for the need of the institution? Are duplicate keys stored off the premises? Is there dual control for entry?

**Free Standing Safe:** Is it fire proof? Is access to the safe and the room kept under the control of more than one person?

**Cash loading area:** Is it protected from public view and access? Is cash in transit protected by police / security firm? Are there security guards at the premises at all times?

**Cashiers till:** Is it restricted to individual cashiers during working hours?

**Alarm System:** Is there an alarm system installed in the premises? If yes, is it connected to the police/security firm? Are switches located in the strong room, cashiers' cubicles and manager's office?

**Emergency Plan:** Is there an emergency plan? Is it documented? Are there fire extinguishers at appropriate places? Are they of an appropriate water/non-water type?

## **The Banking Hall**

Crafting a customer focused banking environment is essential to the successful delivery of mass-market deposit taking services. However, because most financial institutions operate from rented premises it can be difficult to create an ideal banking environment.

**Space Allocation:** A customer focused banking environment requires careful consideration of the allocation of space. The banking hall must be sufficiently large to accommodate peaks in transaction volume, during the day, month, or year. It should be

large enough for queue management systems should these become necessary. There should be a sufficient number of teller stations to manage current and anticipated future transactions. There should be writing space for customers. There should be space to position customer service, account opening and sales desks in larger branches. The branch manager's office should be accessible to both staff and customers. Space requirements should be carefully integrated with the business processes of the bank. Where possible credit officers should not sit in the banking hall in order to offer privacy to customers seeking loans.

## **Customer Communications**

A banking hall should be designed and managed to communicate with customers. Signage should be clear and concise and should be provided in a language that customers understand. Name tags should be worn – as this identifies bank employees and enables staff to be held accountable for their actions.

Posters and brochures should be used to prominently display product information and prices. Where possible photographs and graphics should be used to assist semi literate customers. Banking halls should be regularly inspected for out of date information.

Two-way feedback should be encouraged through well-promoted suggestion boxes with responses to customers' suggestions clearly displayed nearby. Suggestion box responses should be supplemented by focus group discussions and customer surveys.

## **Facilitating Branch Based Sales**

A branch should be a key focal point for sales – given that this is where customers and potential customers congregate. Sales desks placed in banking halls increase the visibility of highlighted products and can be especially important in the case of complex products that require detailed explanation.

## **In Conclusion**

Infrastructure choices are critical long-term institutional decisions, which affect current and future service delivery. Making the right choices contributes to brand building, growth, customer service and profitability.

