

Kishori J Udeshi: A BIT of tomorrow

Keynote address by Ms Kishori J Udeshi, Deputy Governor of the Reserve Bank of India, at the BFSI Conclave 2005 on Technology Solutions for Business Transformation, Mumbai, 7 June 2005.

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The topic for today's conclave is "Technology Solutions for Business Transformation" and I have chosen to speak on "A BIT (Banking and Information Technology) of Tomorrow". I do not consider myself as being even computer savvy. But one does not have to be an IT professional to think of how IT can bring about business transformation. For this, all that the banker needs is to have vision, conviction and the courage to change. It is for the IT professional to make it possible. The entire world is looking at India for its IT services. Let us take a harder futuristic look.

While Indian industry and agriculture contribute almost equally to GDP, industry gets four times the gross loans and advances from banking system than what agriculture gets. Is there no potential for a transformation here and can IT not provide the solution? India has around 6 lakh villages. Bank penetration is around 18 villages per branch. Imagine if a bank were to set up an Information Kiosk to cater to a cluster of say 2 to 3 villages, what would be the outcome?

There is no limit to the extent of usage of such a kiosk. The farmer can know, at the click of the mouse his bank balance, entries of debit and credit in his account, outstanding loan amount, interest rate, interest charged to the account, commodity price movements, weather, expected yield and income, direct credit of receivables into his account, direct payment for purchases without involving cash and lot of other value added services, all in his native language. Such kiosks could, through arrangements, even double up as vending machines. The possibilities are immense. The constraints only are adequate and quality power supply. But we have to be optimistic.

And if you think that farmers are uneducated and this is grandiose thinking let me quote from C.K.Prahalad¹:

"The most telling comment was from a farmer captured on video by the researchers:

"I did not know how to hold a mouse"

Four months later:

"Even if they take away the computer, we will buy one. We need net connectivity".

That summarises it all.

Also, ITC's e-Choupal would not have been such a huge success and almost replaced the local mandi if this were not true !!

What would the bank gain from this?

- i) Only customers i.e. either as depositors or as borrowers would get the service and there is no gainsaying the fact that banks would benefit from both.
- ii) It would free the farmer from the shackles of the ubiquitous moneylender and the avaricious middle man and most importantly banks would be providing service to the farmer and the common man, through the use of IT.

A win-win solution for both!

If the Railways can change the entire environment of booking of tickets, checking of reservations and so on and provide wholesome service to the common man, why can't our banks harness technology to do so?

The future holds exciting promises for those institutions which can quickly recognise the opportunities, harness their strength, seize the initiative and flow across hitherto uncharted areas of activity. Banks and FIs have proven themselves upto this task. We are moving from the use of MICR technology to

1 The Fortune at the Bottom of the Pyramid (Wharton School Publishing)

image based cheque processing and have successfully gone forward from ECS & EFT to RTGS. The INFINET system set up by the RBI for use by banks has demonstrated that PKI based messaging system surpasses international standards and also meets the legal requirements pertaining to electronic data transmission in a safe and secure manner. Banks have leveraged technology to provide most sophisticated services to customers without their having to visit the bank. No doubt, every change brings it's own concomitant irritants. This is not the forum to deal with this except to say that these need to be addressed on a priority basis.

Consolidation of knowledge leveraging technology is the real key to success and would put a bank one step ahead of the competitor. The new generation software which has excellent data warehousing and data mining techniques, bordering on neural network, can link all data relating to a customer right from the savings to fixed deposit habits, loans, credit/debit card usage, internet usage etc., to not only have a customer's financial profile but also draw behavioural profile. This can be classified into group profiles that would enable a bank to offer products to the target groups giving the look of a customized product offered to each customer. The same can be replicated to the corporate segment. Using technology to the hilt is the mantra and I believe data warehousing and data mining are more in the nature of knowledge management rather than connecting disparate data elements. This is being done successfully by banks overseas. Why cannot our banks do so in India? As a typical central banker, I would add just one word of caution here. While transferring data for data warehousing banks may remember that compliance to Basel II requires voluminous past data and therefore banks would need to ensure that integrity of data does not get affected through data transfer operations like data cleansing.

The high rate of technology obsolescence along with requirement for constant upgradation and adoption of newer technology has necessitated higher capital and revenue expenditure. Therefore, there is tremendous pressure to achieve higher rate of returns on investments within lesser time periods than before. Already banks are in the mode of co-operation and co-existence as seen from the sharing of ATMs. Is it, therefore, not possible that in the years to come when complex modeling techniques would have to be used by banks, banks may share with other banks the IT system whereby they could thread their data and churn the output and yet maintain individuality and confidentiality? This is a thought for bankers and IT professionals to pursue. This is all the more necessary if you consider the dimming of business territories as another stark reality of the future. More industries and organisations would converge their services resulting in a hybrid approach towards service delivery offerings. Banking and institutions is a visible activity of this kind.

Service providers have, therefore, become an extended arm of financial organisations. Outsourcing services has its own challenges. Drafting such legal contracts, giving details of service level, etc., requires expertise not readily available with banks and implementing or enforcing them is difficult. Thus the relationship is legal and short term in law but that of dependence and long term in reality. The Joint Forum of BCBS has published a paper on Outsourcing in Financial Services which deals with the risks, issues and principles in outsourcing. It also captures the regulatory developments in outsourcing and the cross-country measures. The Reserve Bank has constituted an internal group on outsourcing and based on its recommendations, regulatory guidelines would be issued.

Security is the top most concern of a banker. IT security is all the more important. The risk arises out of security inadequacies or indifferent attitudes towards security issues. With regard to the former, the Reserve Bank has issued guidelines on various issues such as internet banking, IS Audit, Business Continuity Plan etc.

As regards the latter i.e. the attitude towards security issues, this is an HR challenge and not one which can be addressed so easily but is one which is the core challenge. The work force of tomorrow would be a more enlightened lot, functioning in a more educated environment. Continuous skill enhancement and regular training, apart from good compensation, will lead to better employee retention and motivation in a highly challenging and changing environment. I have said this before and I repeat that traditional HR systems in banks would need to undergo rapid changes in the manner of recruitment, motivation, performance appraisal and compensation package. The sooner this is done the better it would be.

India is recognised as the ultimate destination for IT talents and firms from the world over are seeking IT solutions from India. Our banking system too has matured and proved its resilience and capabilities. A combination of these two professionals i.e. banks and IT should be able to lift not just the banking industry but the entire economy, especially the rural sector onto a higher trajectory of growth.

Permit me to end my address with a quote from the book “The World is Flat” by Thomas L. Friedman which makes one proud to be Indian. I quote, “If I have a grand daughter one day and I tell her that I am going to India she will say grand pa is that where software comes from”. Perhaps, a decade ahead it would be a little kid in Switzerland pointing to the signboard of an Indian bank and saying “Look dad – our bank” !

Thank you.