

## V Leeladhar: IT for business excellence

Address by Mr V Leeladhar, Deputy Governor of the Reserve Bank of India, at the Banktec (India's Bank Tech Summit), Mumbai, 21 September 2006.

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Ladies and Gentlemen,

It gives me great pleasure to be present here to share a few thoughts on one of the important drivers of banking business in the world. Information Technology or IT has made substantial inroads into the financial sector, it has in fact transformed the way banking operations are conducted. The benefits brought about by IT in handling large processing volumes, in providing for quick, safe transaction processing, economies of scale and in expanding the reach and coverage of banking services, and above all product innovation have all been enormous.

Today's banking business has become most challenging with customer expectations rising as each day passes by. This calls for substantive changes in the way in which banks do the business and in the nature of products they offer. If the well accepted principle of Six Sigma that signifies excellence in business processes will have to happen in the Indian financial sector, I have no doubt that the IT has to play a crucial role.

Let me commence by flagging some issues which stem from extensive use of IT. Organisations that understand and tackle these issues (being very common perceptions let me call them "premises") will be in a better position to harness the opportunities. This may well differentiate a winner from a loser.

- The most common premise is that for successful technological improvements, people with the right aptitude are required; many organisations even conduct aptitude tests to select the 'right' type of personnel. My own experience is that attitude is more important than aptitude. A person who is willing to learn is a better asset than one who is technology savvy but refuses to change.
- Another premise is that if technological changes are implemented at lower levels, these can be replicated at all tiers of the organisation. This may not be always the case. Most successful technological updations have followed the 'Top-Down' approach, where the changes are not merely triggered from the Top but are followed religiously by the top most official in the hierarchy. Most organisations which have effective Information Security (IS) policies are those where the commitment and implementation levels commence from the top and percolate downwards.
- A common premise about technology is that technology provides solutions for all problem situations. While this may be generally true, it is very often the case that there are technological solutions for operational problems, but operational restrictions cannot come to the aid of technological problems. In other words, problems and issues relating to the technology have to be sorted by means of changes in the technological solution itself. All of us must have experienced vendors who have provided technology solutions suggesting that some procedures or that some of the environmental aspects could be modified to suit the technological process which has been implemented. This is a case for certain failure. The case of a new bank which commenced its operations by dispensing away with the savings bank pass books had to beat a hasty retreat and give the option to its customers by providing a technological solution - customers could take print outs of their statement of accounts at any time from their own system!
- Yet another premise is that the process of change can be forced upon people. It is now widely accepted that change has to be from within and external forces only facilitate or accelerate the process of change. The old adage of 'You can take the horse to the water but cannot make it drink' is relevant in this context. A case in point pertains to the use of cards by customers of banks. A decade ago, banks had to offer incentives to customers to use cards for their transactions, and there was general reluctance to use the card by even the discerning customer. Today, customers have realised that the cards offer better convenience and have changed over to large scale usage of the cards, based on their conviction. That the Direct Selling Agents employed by banks hastened the process of migration is an accepted fact, but this was not the major factor in the change process.

- Perhaps the most important premise relating to change pertains to the relationship between security and stability. If a change process has to be successful, there has to be a harmonious balance between the perceived levels of insecurity and instability by the participants in the change process. Even if one of these factors has a higher perceived weightage, the change becomes difficult to implement.

In a nutshell, it is essential that managing change is taken as a very serious task with the complete commitment and support from the Top levels of all organisations. This is particularly more relevant in banks, where personnel manning the front desk are the most important link between the bank and the customer can make or break a change. A bank staff telling a customer 'This new system implemented by my bank takes a very long time; please wait for updating your pass book' or tells 'We have moved to a Core Banking Solution; please leave your cheque requisition slip and come back after two days for the cheque book' is sure enough to wreck the entire change process and image building that the bank has ambitiously embarked upon.

Having given a gist of the need to effectively manage change, let me now outline some of the areas which offer major challenges in the area of large scale technological upgradation.

At the top of the pyramid of challenges is the choice of the right technological solution. Most often than not, we are guided by vendor presentations and experiences of other organisations in the process of selection and we end up in getting a system which may not necessarily be the best one for the bank concerned. While broad technological contours may be the same, customisation may hold the key to providing the correct system for each individual organisation. I am reminded of the case of a bank which started installing Cash Dispensing Machines a few years ago, based on some experiences of the West. Today, we have observed that Automated Teller Machines (ATMs) with multi-functional and regional language capabilities are being construed as the optimal fit for cash based and other related transactions of customers.

The next challenge relates to the level of security in the usage of IT based systems in banks. Much has been said and detailed about the need for fool proof security systems in banks, but we find that security breaches and the consequent perpetuation of frauds are also taking place. Security in banking applications is not a feature but a built-in process. The Public Key Infrastructure (PKI) which is positioned as a very advanced security mechanism may be brought to nought if there is a compromise of the smart cards housing the digital signature, by the holder and he shares the card with an unauthorised person. Thus, the entire chain of procedures and components of a system have to be looked at in a holistic manner to ensure that security is all pervasive across the entire chain of activities.

Another important challenge facing all of us is the need for standardisation. While standardisation does not mean that the same uniform systems are used across all banks, the bare minimum requirements to ensure inter-operability has to be provided for. With margins across different partners in business thinning, it is essential that banks take up Straight Through processing and Inter-operability as key issues to be addressed in all their technological implementations. The usage of the SFMS of the IDRBT, it is hoped, will address this concern to a large extent. This is also a challenge which I am sure that the IDRBT will also take up in right earnest for the benefit of the financial sector as a whole.

The growth in mobile communications and the exponential usage of mobile telephony by India's masses is an aspect which in my view, banks have to look upon as an opportunity to harness to their benefit. The power of the chip in the mobile phone is enormous and its usage for secure banking transactions needs to be examined and provided for.

I would also like to touch on another challenge which banks are slowly overcoming. The need for regular, sustained IS audit is being highlighted by the Reserve Bank for some time now. While some initiatives have been taken by banks towards achieving this, much more needs to be done. The speed with which IT implementation and upgradation is being done may outpace the frequency of IS Audit and it is in the best interests of banks that this vital activity is given due importance.

IT also facilitates a host of other functions which banks have been hitherto performing through manual operations. Let me take up the case of verification of the genuineness of the customer - the Know Your Customer or KYC factor. Technology facilitates easier access to verification of information on a real time basis. Since IT tools provide a scientific and almost real time monitoring and analysis of funds movement, this would help a great deal in ensuring compliance to Anti-Money laundering requirements. Many IT based banking solutions have incorporated sophisticated algorithms and

comprehensive permutations and combinations to provide alerts on a real time basis. Such a facilitation may well be impossible using manual means.

Another vital aspect that has to be taken cognisance of is that technological deployment must always be consistent with the levels of expertise in each bank as well as the nature and sophistication of its customers. Alternatively it is important to train all the stake holders to ensure a smooth technological transformation. Many of you must have had occasion to read the book 'Freakonomics' by Steven Levitt and Stephen Dubner. The narrative there on the lifetime episode of Paul Feldman on the sale of the American bread - bagels is an eye opener. He commenced sale of the bagels in an unsupervised manner which led to a situation where the buyers did not always pay for their offtakes. Nevertheless the recovery rate was rather encouraging. He further studied the behaviour-versus-payment patterns and came out with correlations - such as the increased payments during Christmas or even during pleasant weather situations while catastrophies (such as the 9/11 event) or bad weather resulted in lesser payment realisations. Based on this he replanned his strategies. Banks could do well to keep this story in their minds while planning so that their products and services meet employee and customer requirements - all of which provide improved results for banks in the long run.

Let me now conclude on a positive note. Indian banks have proved that IT based upgradation of banking services can be achieved within short time spans and at remarkably accurate levels. We have some of the largest core banking implementations in the world, we have a unique network for the exclusive use of banks in the form of the INFINET; banks have their own corporate intra-nets which are functioning effectively; we have the enabling legal infrastructure for large scale IT deployment and able all, we have a large customer population which has adapted well to the changes using Technology. These do give us comfort, but let these not lead us to complacency. As India has made a place in the IT arena, it may not be long before we make our presence felt in an IT enabled banking world as well. Indian Banks have always risen up to challenges and have successfully overcome them. Today's success mantra for achieving excellence lies in the optimal use of technology in a manner where the process of change is managed well enough to blend with customer expectations of excellent customer service. This in turn would result in better house keeping and improved bottom lines for the banks and above all in overall systemic efficiency.

My best wishes to all of you and may your efforts lead to creation of IT based bank models of the morrow.

I wish you all fruitful deliberations during the day.

Thank you.