K C Chakrabarty: Gearing up for the competitive impulse in the Indian banking in its defining decade

Special address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at BANCON 2011, Chennai, 4 November 2011.

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I: Introduction

Dear Shri Narendra, CMD, Indian Overseas Bank and host of Bancon 2011, Shri M.D. Mallya, Chairman, Indian Banks Association and CMD, Bank of Baroda, Shri M.V. Nair, CMD, Union Bank of India, Shri S. Raman, CMD, Canara Bank, CMDs and EDs of other banks present here, fellow Bankers and all the delegates attending BANCON 2011, representatives of the print and electronic media, Ladies and Gentlemen.

It is my pleasure and privilege to be here to share my thoughts on the theme of the Conference. I would do this not from the policy perspective of the Reserve Bank as a regulator of the banks. Having worked on either side of the regulatory fence, I would bring in my understanding both as a bank executive and my present experience with the regulatory policy to try to chart out some ideas that you may like to ponder upon and debate during the Conference. I would be looking at Indian banking dispassionately and giving my frank views on how I see the banking industry evolving and what we need to do right to tap opportunities. The theme “Competing in the Defining Decade for Indian Banking” is in the form of a mission statement. Banks in India need to imbibe it as their mission and develop a clear vision and a strategy to achieve this objective. Why is this theme relevant now? Its immediate relevance stems from the fact that financial sector reforms lost some of its pace in the face of the global financial crisis of 2008 and is now starting to regain traction. So competition can hot up again.

I.1 Large retirements provide defining moment for Indian banks

Why is the next decade likely to be a defining decade? In my view, in the coming years, the Indian banking can unshackle several constraints that it faces today bringing about a transformation into an era of globally competitive banking. The biggest of the constraint has been the legacy of staffing that the public sector banks face. Indian banks employ about 1 million people, three-fourths of which are in public sector banks. It is estimated that about 55 per cent employees would be retiring in the next decade. This provides a defining moment for these banks to transform by hiring the right talent, right-skilling its workforce and bring about a cultural transformation in the functioning of the banks. There is an opportunity for business process reengineering on the back of manpower transformation. It can bring in a change in management as well as work ethos. While it may not be possible to quickly move to a fully-flexible wage model, a lot could still be done to link monetary and non-monetary incentives to productivity and efficiency.

As a large cohort of retirees leave, banks can start removing other constraints in Indian banking. There are several drivers that would enhance competition and ensure transformation of the Indian banking sector in the coming years. These include drivers which are external to the bank, regulatory drivers and drivers which are internal to the bank. External drivers include financial inclusion, growing pool of savings, consolidation, globalisation and competition itself. Regulatory drivers include measures such as regulatory focus on fair treatment to customers and stringent KYC norms, risk management guidelines and reducing entry barriers through new licences to the banks. Internal drivers would be led by manpower change opportunity that the retirements would bring. Banks would need to gear up for winning the “war” for talent in a competitive market place. If they do so, other external drivers such as newer technologies and newer operating models can follow, enabling banks to improve efficiency. However as banks prepare to meet the challenges and opportunities from these new drivers it is important that first and foremost, they place financial inclusion on the top of their agenda.

II: External drivers to change the face of banking in India

II.1 Financial inclusion to lead transformation of economy and banking

Financial inclusion would need to be placed at the apex of the banking agenda over the next few years, as it is an unfinished agenda of last four decades. It will change the way banking for the masses would be done. By doing so banks would be addressing not only the banking and several other financial services needs of the low-income population, but they also would be increasing the base for value-added banking services in times to come. Partnering in poverty and unemployment reduction and growth acceleration should not only be an altruistic objective for the banks, but a self-serving one. It has to be done in a viable and profitable manner and appropriate business and delivery models need to be evolved so that affordable financial products and services could be provided to the customers. In doing so, they would be paving the way for increasing the size of the banking market in years to come. Once banks make progress on financial inclusion, they can then go on addressing other constraints. With new human talent, a lot could be achieved in fields like customer service, risk management, technology solutions and reap synergies through consolidation or restructuring where possible. The important aspect is for bank managements to take up the leadership for reorienting the entire organization by adopting an end-to-end approach. Banks which lose this opportunity of transformation may be left a generation behind and may face survival issues. Banks which show proclivity of change can not only seize expanding business opportunities in India but can rub shoulders with the global giants.

Banks need to quickly move towards universal financial inclusion. This is both a national commitment as well as a public policy priority. In order to achieve the ultimate objective of reaching banking services to all the six lakh villages, financial inclusion has to become a viable business proposition for the banks. There is little alternative to providing a solution through regulated mainstream financial institutions and alternative banking structures, including the MFIs, can only complement these efforts. We need to find profitable models for financial inclusion through mainstream banking involving other layers as may be appropriate to provide an added force multiplier.

For this to happen, the delivery model needs to recast from a cost-centric to a revenue generation model. This will help in providing customers with quality banking services at their door step and at the same time generating business opportunities for the banks. This is sustainable only if delivery of banking services, at the minimum, includes the following four products: (i) a Savings cum Overdraft Account, (ii) a remittance product for Electronic Benefits Transfer (EBT) and other remittances, (iii) a pure savings product, ideally a recurring deposit scheme and (iv) entrepreneurial credit in the form of Kisan Credit Card (KCC)/General Credit Card (GCC).

Reserve Bank has been undertaking financial inclusion initiatives in a mission mode through a combination of strategies ranging from provision of new products, relaxation of regulatory guidelines and other supportive measures to achieve sustainable and scalable financial inclusion. In India, the Reserve Bank of India (RBI) has initiated several measures to achieve greater financial inclusion, such as facilitating “no-frills” accounts and “General Credit Cards” for small deposits and credit. For paucity of time and my hope that this audience would be well acquainted with these steps, I would not detail them here. But let me reiterate that the Reserve Bank is very serious that all public and private sector banks implement a Board approved three-year Financial Inclusion Plan (FIP). These plans and targets would be monitored closely. In doing so banks should note that financial inclusion does not only means mere opening of banking outlets. It is equally important to provide the financially excluded people with products that are relevant. But, more importantly, it is the banks which have to serious in delivering affordable products and services in a profitable and viable manner.

Recently the world population has crossed the seven billion mark and India accounts for 18% of this share. With such huge population, we need to place financial inclusion highest on our priority list. We cannot become big players in the global banking space if we leave out a large segment of our own population out of their reach. We need to be worried about competition and externalities, but not at the expense of prime motive of providing our products to all those who need it.

II.2 Catalyzing economic growth by unlocking financial savings

Over the last two decades, there has been an increasing recognition that finance is important for growth. Countries with better functioning banks and financial markets grow faster. The degree to which a country's financial system is bank-based or market-based does not matter much, but better-functioning financial systems promote growth by diminishing external financing constraints that a firm faces. Finance also matters for income distribution, and poverty alleviation as it reduces information and transactions costs. That finance matters for growth should be intuitively obvious as economic growth depends on what one invests and so is found to have a long-run relationship with savings. Bilateral causality exists between the domestic savings growth and the economic growth. Higher growth raises savings, but higher savings also raises growth.

India has been a bank dominated financial system, even as financial markets have developed a great deal since the 1990s. Bank account for about 29% of the total financial flows in the economy, but are now faced with increased competition from non-bank financial intermediaries whose share increased rapidly to a significant 16% in 2007–08. Even though 51% of the household's financial surplus gets intermediated through banks, other financial institutions account for a significant 41% share. India's high savings rate has been a crucial driver of its economic boom, providing productive capital and helping to fuel a virtuous cycle of higher growth, higher income and higher savings.

Since the 1990s, the gross domestic savings rate has risen steadily from an average of 23% to an estimated high of 36.9% in 2007–08 before it declined and was 33.7% in 2009–10. The decline in savings in India has been due to public sector saving less as revenue deficits widened, as also private corporate sector saving less as retained earnings could not keep the pace of growth seen earlier. Household saving rate has stagnated and larger public spending has not translated into higher savings by private agents. More importantly, financial saving of the households has moderated to 9.7% of GDP in 2010–11 from 12.1% of GDP in the preceding year. High inflation, low bank deposit rates, volatile equity markets and increasing leverage by households affected the rate of financial saving. With construction activity starting to slow down, the physical savings of the households could also be at risk.

Falling savings is a matter of concern if India is to grow at an envisaged rate of 9% per annum during the Twelfth Plan. If ICOR remains unchanged from 4.5 that has been realized so far in the Eleventh Plan, it would need an investment rate of 40.5%. Assuming current account deficit (CAD) averages 2% of GDP in this period, as wider average CAD could risk sustainability, then a saving rate of 38.5% becomes necessary. Banks need to play their role in unlocking financial saving if we hope to step up the aggregate saving rate by 5 per cent from the current level to realize this target. The current economic situation is putting pressure on both corporate profitability and the public finances. As savings in these two sectors are unlikely to grow as rapidly as in the past, household savings, especially its financial saving holds the key to India's growth story. It is in the hands of the banks to live up to the challenge and the opportunity they face from this macro-arithmetic.

Banks have large business opportunities. Of the ₹10.4 trillion households' saving pool in financial 2010–11, nearly 42% was in the form of bank deposits. This pool could grow rapidly allowing banks significant expansion opportunities in wholesale and retail banking. Also, much of Indians' physical savings is still locked up in unproductive physical assets – such as houses and gold and banks can help households slowly convert a large part of these into financial assets. So while banks may be focusing on corporate banking to boost its asset side, it should not miss the opportunities that the liabilities side of business provide and should aggressively protect its turf by gearing up for competition from non-bank financial institutions.

II.3 Competition, consolidation and globalisation to re-shape Indian banking

Competition in not a choice before the Indian banking. It would come naturally aided by regulatory impulses and increased openness of the Indian economy. Not only will there be increased number of players but the number and type of products and services will undergo a change. With likelihood of an increasing competition over the next decade, there could be a process of consolidation among banks as has been the case elsewhere in the world. It is expected to be a market-driven process. Cost improvements in output efficiency are likely to emerge from this process as banks seek to reap economies of scale and scope. Mergers could be fruitful for smaller banks so they can increase their scale and expand into new product lines.

The recent financial crisis has reopened debate on the scale and scope economies in the context of big banks being too big to fail. For instance, Nobel laureate, John Vickers clearly advocated splitting large UK banks to combat the problem of too-big-to-fail. In US too, some regulatory features have been added through the Dodd-Frank Act to increase the social utility of the largest, most complex financial firms.

In India, most banks that operate are as yet not of a global size. They are not big enough to be competitive. So our problems are different. We need to develop a vision of banking over next decade that incorporates not only M&A but changes in structure and in operational framework. Banks will need to consider "end-to-end" operational changes that places customer on the top of the pyramid and then redesign the processes. Our first priority is to bring about universal financial inclusion. However, once financial inclusion is achieved, banks can focus on consolidation.

Competition and consolidation, in turn, may prompt globalization of Indian banks. India is viewed as one of the biggest growth stories among emerging markets. Trade in goods, services and finance has exploded. Foreign banks are increasingly seeking to be present in India. They could find easier entry through the wholly-owned subsidiary route. Indian banks also have aspiration to turn global. Indian businesses are making overseas acquisitions even as large inward FDI is taking place. This would impel banks to globalize to provide better wholesale and corporate banking services. The focus of competition will, thus, be both on the nature of institutions and products and services. The competition will be intense as there will be diversity in terms of type of institutions as well as products and services. This will drive the costs of products and services down, making it affordable to the entire segment of the society.

III: Regulatory drivers can provide impetus of change

Banks may need to read the signal of change. Drivers of competition-driven change are already emerging as a result of impetus being provided by regulatory changes. More regulatory drivers could be in offing in coming years. Across the globe, the crisis acted as a moderator in the area of financial innovations in the banking and financial services industry (BFSI). Regulators' comfort with such innovation also dimmed. As the crisis unfolded, there was a need for some regulatory forbearance. Regulatory reforms were back-peddled. At the same time, the resultant economic downturn prompted developed country central banks to adopt ultra loose monetary policies. Consequently, a regime of low interest rates helped mask some of the risks that existed in the system. Banks started to shrink their balance sheets adopting a risk-averse behaviour. All this reduced incentives for banks to innovate or rather "finnovate", i.e. undertake financial innovation and compete. Some sort of complacency set in. This behaviour was in evidence in India too.

III.1 Saving deposit rate deregulation is good for banks and the economy

However, competitive spirit is getting rekindled, at least in India, where financial sector reforms are back on the forefront. The Reserve Bank in its October 2011 policy set the tone for increased competition by deregulating the saving deposit rate. It has also charted out a course for entry of new private sector banks and also given a clear indication that foreign banks are encouraged to come by setting up a bank subsidiary. RBI has also given a carte blanche to domestic scheduled commercial banks (other than RRBs) to set up new branches in Tier 2 centres. While global financial system still faces considerable risk, I think the time has come for banks in India to live with those risks by factoring those in and get to the task of providing banking services.

Increased competition is desirable for banks as well as economy. Take the instance of the long-awaited reform of deregulating saving bank deposit interest rates. The measure would go a long way in encouraging thrift behaviour in the economy, helping it grow faster. It is possible that it may temporarily affect banks' net interest margins, especially in case of the high CASA banks. Yet, there is no reason to believe that these banks will not be able to make the necessary adjustment by better asset-liability management, reducing intermediation costs and providing more value added services to emerge stronger, resilient and efficient banks. At the same time, the low CASA banks have an opportunity to grow and improve their scale economies turning Indian banking into a more competitive space.

I have been told by some bankers that the time for deregulation was perhaps not right as the NPA cycle is on the upswing. We all know the truth that there never will be a completely appropriate time for such reforms. At least, today we have the comfort that banks have substantially got rid of the asset-liability mismatches that were created earlier by credit growth outstripping deposit growth. As regulators, our job is to support financial stability and the health of the banking system, but not to unduly protect banking business at the cost of welfare of those who consume financial services. Intermediation costs in Indian banking have stayed high. We need to develop new paradigm for creating a competitive edge in the Indian banking that drives down intermediation costs.

III.2 Reduced barriers to entry to spur competition

Banks already operating in India need to prepare themselves for competition from new players as the barriers to entry are reduced. There is a need to extend the geographic reach of banking in hitherto under-banked areas and improve access to banking services for those who are hitherto excluded or inadequately served. The extant policy has been that industrial houses are not permitted to promote new banks. This had good logic in restraining the risks of connected lending that had created banking problems in a number of countries. In India, individual companies, directly or indirectly connected with large industrial houses were permitted to own only 10 per cent of the equity of a bank, but without any controlling interest. However, the Reserve Bank has now guided a more open regime but this regime would need to be developed with lots of checks and balances and not sacrificing the essential safeguard principles. The Reserve Bank has also guided that it would be open to more foreign banks coming into India through the wholly owned subsidiary route. Reduced entry barriers and resultant increase in competition could be an important driver for existing banks to change.

III.3 Banks need to shift to customer-centric model

In recent period, the Reserve Bank has provided a regulatory impetus to improve customer service in banks. This regulatory driver can change the operating models of banking in several ways. Bank need to adopt more customer-centric models of growth and service. Technology is not an end, but means of business and it must help reduce intermediation costs. Bank need to be conscious of the fact that "lender liability" could become a reality and banks can be held accountable if their lending practices dent a business. They also need to be vigilant about depositor rights.

At the cost of repetition, let me reiterate the question I am often asked, "Why as a regulator, are we concerned about customer care and protection? Why it is not left to the market forces and competition to take care of? The answer to this lies in the fact that in any service industry where market forces and competition play out freely, it may well have been the case, but banking / financial services industry is a highly regulated service industry with stiff entry norms and consumer protection cannot entirely be left to the market forces. Hence, the regulator has a role. Availability of financial services / products, at affordable prices on an uninterrupted basis is the purpose and result of financial sector stability.

Regulatory focus on customer services is ultimately in the interest of banks themselves. Banking after all is about increasing business but that in turn is contingent upon better customer service. Responsible marketing, responsible lending, responsible grievances redress mechanism and responsible consumer protection are not mutually exclusive but are inter-dependent. The public deposits and the funds available to the financial services industry represent a nation's wealth. As such the least we can think of is protecting the owners of this wealth not merely in terms of deposit insurance but also in terms of day to day transactions and contractual relationships a consumer has with the banking and financial services industry.

The second thought which I would like all the delegates to ponder on is to assess whether we are competitive domestically? The degree of concentration in the banking market is not a reliable proxy for the intensity of competition. The arrival of new entrants, technological developments, the increasing role played by intermediaries and the varying corporate strategies pursued by the suppliers of financial services continuously changed the competitive environment of financial markets especially in relation to retail customers. The bottom line of banks should reflect the opinion of the customer about pricing of products and services. Customer opinion (measured as customer satisfaction) and behaviour (loyalty) should form the dominant element in assessing the behaviour of banks, together with more objective measures such as credit availability and pricing. It is increasingly becoming a matter of debate between too big to fail versus too small to survive. Competition must create a level playing field and the desired objective of consumer protection should be built into any competition strategy adopted by the players in the industry.

A point that cannot be missed is about the changing face of competition and the role of marketing. Banking has been and will always be a "People Business". Pricing is important but there may be other valid reasons why people select and stay with a particular bank. Especially in transparent situations with a high level of competitiveness, banks must try to distinguish themselves by creating their own niches or images. They must articulate and emphasize the core values to attract and retain certain customer segments. Values such as "sound", "reliable", "innovative", "international", "close", "socially responsible", "Indian" , etc need to be emphasized through concrete actions on the ground and these words should not merely form a part of the ad campaign of banks.

Let me turn my attention to certain aspects concerning fair treatment of customers. There is an imbalance of power as regards information and resources between consumers and financial service providers. This could lead to market failure. Consumer protection financial literacy promote efficiency, transparency and deepening of retail financial markets. It also protects the financial sector from the risk of Government overreaction. However, market forces and competition policy will not fully address the consumer protection issues. It is a challenge to strike the right balance between regulation and market competition. The fair practices code, code of commitment to customers etc. cannot be a substitute for regulation but can be useful in improving business practices of banks. We need transparency, non-exploitative pricing, fair and non-coercive selling practices, inexpensive and speedy grievance redressal and respect for privacy on personal financial information.

Before I end talking on customer service, I would like to flag three important changes that are expected to occur in the backdrop of the recommendations made by the Committee on Customer Service in Banks (Damodaran Committee). The first one pertains to doing away with foreclosure charges on home loans that are carrying floating interest rates. The second one is concerning zero liability against loss in ATM and on-line transactions. Lastly, banks should offer transparent and non-discriminatory pricing to customers. These changes could alter the reach of banking and the customer welfare it provides.

III.4 KYC and integration of business in banking

Sound KYC policies are being advocated for a long time by the Reserve Bank. These policies protect the integrity of the banking system by reducing the likelihood of banks becoming vehicles for money laundering, terrorist financing and other unlawful activities. So KYC in a sense has become public good. There are obviously private costs attached to this as banks have to spend on ensuring KYC and customers too have to incur costs in time and in meeting the requirements. Yet, it is not as if the gains are all public and costs are all private so that meeting KYC becomes a tax on banks. There are private benefits to banks too. These procedures are in the interest of banks themselves as they contribute to a bank's overall safety and soundness. KYC reduces risks of defaults. It benefits banks as it reduces default costs. It benefits customer by reducing risk premia in loan pricing. It also benefits society by making it a safer place to live and do business.

Bank need to prepare for a more stringent KYC regulatory regime. At the same time, costs of KYC need not increase as better use of technology is possible, especially by integrating KYC with UID. With such an integration, KYC can achieve some degree of portability with UID, reducing incremental costs to a bank and affording customer to more freely choose between banks. Bank in turn would need to do more on KYC. They should consider KYC as done only if they know the "business" of their customers; (KYBC) and understand and assess the risks associated with each of their customers' businesses (KYCBR). These would become an integral part of elementary risk management process of the bank in years to come. But this change also makes a good business sense. Thus, implementation of KYC in all the above three manifestations and making banking more customer focussed and friendly will be another driver for making the next decade a defining decade.

III.5 Towards global best practices in risk management

The world has started looking to India as an example for from which they can take some positives while considering global best practices. Indian banks were one of the few which emerged comparatively unscathed from the global financial crisis of 2008. Yet, risks in the global financial system have increased once again. Though not on the scale of 2008 they cannot be ignored with global economy expected to slow down ahead and with euro area sovereign debt and banking problem still unresolved. At the same time with banks in India expected to reap greater scale and scope economies through organic growth as well as possible consolidation, they are likely to face new challenges in risk management. These would require to be addressed through enterprise risk management.

Banks already have internal controls and risk management systems in place. The need is for better enterprise-wide assessment of both quantity and quality of risks. The assessment needs to be stress-tested adequately and appropriately. Portfolio aggregation of risk capital becomes necessary and the economic equity – which is the result of the benefits of diversification at the group level – needs to be considered so that capital charge can be determined. Only through such an approach can the banks in India move to global best practices in the risk management. A great deal of quantitative work needs to be done for the purpose and banks need to attract talent which is skilled in economics, statistics, financial econometrics and risk metrics for the purpose.

The key of the Risk Management is to ensure that banks have adequate capital and have a framework for risk based pricing of products and services. While Basel guidelines will bring out the challenges of capital planning, banks have to strive hard to meet the challenges of capital requirement. More importantly, the challenge for Indian Banks going forward is going to be in the area of risk based pricing. Banks have not been able to establish an information-based operational framework for pricing risk. The foundation for this has to be laid and strengthened. There are three elements of this foundation a) an efficient and reliable Transfer Pricing Mechanism (TPM), b) a cost-benefit framework for each product and service which needs the specific presence of a scientific costing and pricing mechanism, and c) introduction of the concept of profit accountability by banks over and above the existing concept of risk accountability. Banks have to quickly move in this area if they have to meet the challenges of capital as well as risk management.

Banks' risk management strategies could be build on three pillars. First, a risk-return trade-off for all its businesses need to be assessed and careful choices need to be made to operate at the optimal point on the risk-return transformation frontier that ensures bank's liquidity at almost all the times except in some tail risk or black swan events and bank's solvency at all times. Second, a cost-benefit framework for all its products and services is needed in the bank. This would help banks in strategic planning to reduce risks. Finally, banks need to undertake profit accountability at all its functional and area units. Each unit must understand not only cost of business but also the opportunity cost of not doing business. Enhanced focus on risk management is all the more necessary as banks in India prepare themselves for the "Basel III" regime. The Reserve Bank is planning to issues draft guideline on this by the end of December 2011, so that the Basel III can be phased-in from next year. Our assessment is that banks in India are adequately capitalized at system level, as also in case of most banks and a smooth transition to Basel III should be possible even though banks are entering into a relatively tougher environment of capital raising.

IV: Internal drivers an added force for change in banks

IV.1 Winning the "war" for talent in a competitive market place

Manpower transformation is the biggest transformative factor for banks in India. The contribution of human capital to growth of economy or institution is often underestimated. While physical capital attracts a lot of attention, human capital is often taken as given unless the economy faces labour supply constraints. This anomaly is getting corrected as with increased sophistication in banking, the quality of human capital is getting priced in labour market with large differential returns at least in private and foreign banks. The public sector banks are constrained on account of rigidities in human resource management.

In a competitive environment in banking human qualities like leadership and professionalism would be the key to winning lenders and borrowers. The client is increasingly differentiating customer service. He pays attention not only to the bank products, but also the service quality offered by the bank. Human capital can affect both the products the banks offer and the service it gives. Even though transfer of knowledge on products is easier, customer service critically depends on quality of human capital. The work environment, friendship and collaboration between the bank employees reflect positively in the bank-client relationship.

In this backdrop, the "war" for talent assumes importance. The challenge is to recruit, assimilate, empower, reward and retain the best and the brightest professionals in a High-

Performance workplace. It is important to recognize that increased sophistication in financial services leaves no alternative to talent-hunt. Take for instance the increasing reliance on risk management. It requires study of granular data for a long history that requires statistical as well as banking expertise as also software familiarity. Take the case of treasury. No treasury can effectively operate without the understanding of economics, finance, financial econometrics, operations research and global networks. It is just not possible to develop treasury through general recruitment. We need not only educated manpower, but a manpower which is right-skilled and is ready to constantly update itself with rapidly advancing knowledge frontiers. Banks need to turn themselves into knowledge institutions and employ knowledge management tools to deliver high quality services to increased demand from institutionalized customers. Globalisation will bring in new human resource challenges and opportunities. Companies will be multinational and multicultural. Management would have to tackle not only entry level employees but also senior level transition. Employees must be willing to relocate globally. Banks have to be prepared for lateral recruitment not only at entry level but all levels. A market related compensation, for which there will be increasing clamour, is not sustainable if unaccompanied by market related recruitment and promotion. Even senior management and executives could potentially be hired from the market. This will entail greater transparency in performance appraisal thus necessitating defining of job roles, identifying skill requirement for a job and developing the skill or hiring someone with that skill. Sourcing and retaining the employee will, thus, be a major challenge and banks would have to create a salubrious environment where knowledge employees would prosper.

Human resource management practices are most effective when matched with strategic goals of the organizations. In terms of number of employees, retail banking offers a large scope of recruitment. While given the large pool of new management graduates and others that come to job market each year, recruitment is not difficult. However, the challenge remains to develop commitment-based practices and maintain employee motivation and their competitive impulse. The rate of attrition is rising fast in this area.

IV.2 Leveraging on core banking solution to open new vistas

Second internal driver could come from core banking solution (CBS). The move would require an integrated planning across organization. Banks have made a giant leap in recent years by adopting Core Banking Solution (CBS). They cannot, however, rest with the success of shifting to CBS and need to leverage on the technology. CBS, in fact, would soon be a forgotten acronym. They need to scale up their activities. The question to ask is has the banking consumer in India benefitted from use of technology? We are still struggling with home-branch, non-home branch boundaries not with a view to own the customer but charge him for accessing the bank from anywhere based on the industry's promise of "anywhere" banking. The staff at the bank branches has not got out of the branch mind-set but expect only the customer to "understand". I have always cited the examples of the textile industry, publishing industry and mobile phone technology where the customer has benefitted by extensive use of technology and scaling up of operations. The banking industry was and perhaps is still too obsessed with outsourcing. We need to open our eyes and mind to realize that globally banks are now talking of "in-sourcing" and "co-sourcing".

Bank can also leverage on CBS by opening new vistas in wholesale banking focussing on mid-corporates and SMEs. The expanding Indian economy's high growth phase has brought with it new opportunities for wholesale banking. Revenues from wholesale banking activities are likely to more than double in 5–6 years time. The growth of mid-corporates affords a large opportunity for such banking in India. The large infrastructure investments by banking industry are creating supplementary demand for additional banking products. The globalization of Indian companies with two-way FDI investments is also adding to demand for wholesale banking. The global financial crisis may have temporarily slowed down the rapid growth investment banking but this could reverse soon. M&A activity may pick up with easing of entry of new private sector banks.

Increased openness of the economy means demand for overseas business could expand. As such, wholesale banking would need to gear up to provide globalized services. These services would need to cover trade finance as well as treasury operations. The cash management could get more complex.

Indian banks have hitherto devoted disproportionate attention to serving large corporate clients. They need to retrain attention to mid-corporates and SMEs by planning for a new level of relationship management, offer more structured credit products and niche investment banking services. In this respect, public sector banks in particular, need to enhance their non-fund based banking activities, improve their offshore business capabilities and leverage technology to support wholesale banking.

IV.3 Governance, MIS and the S-curve in technology in banking

Over the past two decades there has been a rapid rate of technological innovation in the financial sector. This includes greater reliance on the electronic means of payment through technology support and better networking. Today's banking would need to grapple with the rapid advancement and high rate of obsolescence in technology that often impose huge costs. Yet, banks can ill-afford to ignore scope of application of new banking technology. At the same time technology has helped improve MIS in the banks. They need to leverage on this. Ultimately the key to success of transforming a bank lies in improving governance.

Diffusion of new technology typically is observed to follow an S-curve or the sigmoid curve of which a logistic curve is a special case. This pattern is often observed for sale of new consumer products as well, but is perhaps sharper in case of new technology. In simple intuitive terms, the s-curve reflects four phases of in life cycle of a technological innovation – emerging, growing, maturing and aging.

We need to keep our vistas open, but not necessarily jump to adopt any new technology without fully understanding it. The so-called Web 3.0 cluster technologies extensively leverage social media and facebook ethos. However, collaboration, sharing, creativity, conversational marketing, customer advocacy, and innovation would require appropriate security solutions first. Cloud computing, the Internet-based highly scalable computing infrastructure may also look attractive but banks need to focus both on computing as a product and computing as a service. Cloud computing can of course add to capabilities with minimal investments in new IT hardware or software. The "Big Data" can also significantly scale up banks abilities for data analysis and can go a long way in supporting compliance, risk management and other strategic decision functions. It can enable radical customization and support novel business models that can help banks face a more competitive environment.

We need to recognize that it is still early days for these data-intensive techniques to form the core of the banking. Yet, need for greater granularity and business complexity needs to be acknowledged. In due course, these techniques can potentially open up vistas for real time targeting of customers' requirements. At the same time, new S-curves for banking can come in some other forms. For instance, as technology diffusion for RTGS matures brining in several benefits to banks and customers, the RBI is planning to move to introduce next generation RTGS in due course.

The focus of technology adoption should be customers rather than vendors or employee. The key objective is to reduce the costs of banking products and services and make them affordable. Thus, technology must make the products and services cheaper, faster and convenient. Steps like back office centralization, business process re-engineering, etc. would significantly reduce the branch workload which would enable the branches to function as sale and service points.

While keeping pace with changing technology, we need to give some thought to IT Governance and Management Information Systems. Concerns on high cost investment in IT infrastructure are increasing with speedy technological innovations. There seems to be ever-increasing dependence on IT for operating and managing day-to-day business activities of the banks. So there is need for IT Governance to focus on IT systems, IT security, their performance audits and alignment of technology with business opportunities and risk management. MIS would need to re-designed to truly act as MIS and not just as an accounting information system. In the entire IT efforts, I (Information) has to be given a sharper focus.

V. Transformative impulses to bring decisive change in banking in India

Finally, let me provide a recap for you by saying that whether we like it or not, external, regulatory and internal changes are setting in to provide a transformative impulse for banks. A total change in banking paradigm is possible with manpower planning opportunities that the retirements would provide over next three years. Bank need to gear up for talent hunt, both at top management levels and down the stream to the junior most professional. They need to plan wholesale business changes from end-to-end. Opportunities would come through more inclusive, more competitive and more globalised banking. Banks which miss this opportunity to transform may be left a generation behind. Banks have to transform and I am confident that they will. Banks which transform would become globally competitive banks and, thus, would be winners and those that do not will lose out. A total change in the face of Indian banking is possible with these drivers. A total change is, in fact, writing on the wall. Individual organisms and clusters can either adapt or face a Darwinian extinction. I am sanguine that today’s banks leadership will take their banks forward to be a more global, competitive and customer centric in this decade. I wish all the best in your endeavours.

With that thought, I thank the organizers of BANCON 2011 and in particular the wonderful host Shri Narendra. Thank you, Ladies and Gentlemen.