V Leeladhar: Banking with technology - the road ahead

Keynote address by Mr V Leeladhar, Deputy Governor of the Reserve Bank of India, at the IT@BFSI-200 Conclave, Bangalore, 9 June 2005.

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Ladies and Gentlemen,

I deem it a privilege to be present at this conclave being conducted by the Indian Banks' Association, on an appropriate topic at an appropriate time and to an appropriate audience who would be the catalysts of change as banking in India is poised for greater leaps in the near future. I am sure that bankers in India are feeling the positive impact of the technological revolution in the way banking is being transformed. Banks need to be ready to take on the challenges unleashed by various external forces such as competition, globalisation, shrinking margins, and internal forces relating to human resources, need for changes in procedures etc. To my mind, a substantial portion of these challenges can be easily addressed by technology; I shall, therefore, dwell a while on the role of technology in the banking of the near future.

Banks in India need to be complimented on the inculcation of technology in a large way in their day-to-day operations. Credit must be given to Indian Banks who have brought on the new wave of techno-banking in the country. In a short span of less than two decades, customers of banks have felt the positive impact of technological solutions implemented by banks. The customer of banks of today have a virtual menu of options as far as delivery channels are concerned and all these are the benefits of technology, with the most visible benefits happening in the areas of payments for retail transactions. A variety of cards, Automated Teller Machines, electronic based funds transfers, Internet banking, Mobile banking are all some of the latest technology based payment solutions, which have gained large acceptance amongst the Indian banking public. With technological solutions rapidly evolving, more new products and services may soon become the order of the day.

While addressing a critical topic such as Technology which has today become a basic necessity rather than a luxury in the banking sector, I must examine the various components which comprise the building blocks on which banking would be functioning in the morrow. I would, therefore, enlist some of the major aspects which, to my mind, appear to be the corner stones in the road that we are paving so that the highway would ensure free, safe and secure conduct of banking business.

The first major aspect which needs to be addressed is that of *Consolidation*. Banking in India has evolved as a mix of various independent functions. Thus we have credit functions as a separate activity, deposit taking as another different function, a host of payment facilities - each as a distinct activity, other services and so on. It is now time to look at consolidation of all these inter-related functions. Technology has already provided an answer in the form of Total Branch Automation, which has now given way to the Core Banking Systems, and the facility of single-window service at branches. While this traditional approach towards consolidation may be ensuring that the customers of today are retained by a bank, the growth of new clientele will, however, be related to other progressive measures to be taken by banks. An outward looking consolidation holds the key. Consolidation of all types of financial services which a customer of a bank may require needs to be offered by banks. While some steps have been taken by banks in the form of universal banking and the offering of related financial services such as insurance, tax advice, securities market operations, depository functions and the like, the future may witness alliances with service providers who may in today's context appear to have to relationship with traditional banking concepts. For example, a mobile phone user, who is a customer of particular telecommunication service provider, may switch preferences to another bank if the phone company does not link its services to that of a particular bank with whom the user is banking with. Thus strategic alliances with varied service providers may become a necessity.

The next major challenge arises out of the forces of *competition*. Traditional concepts relating to competition from other players in the same line of business will indeed exist but these will pale into oblivion in the form of competition from hitherto unexplored and unanticipated areas. Easy finance schemes by retailers of consumer durable articles will obviate the need for short term loans by customers of banks, thus resulting in a dwindling retail loan portfolio. Banks can overcome this challenge by providing refinance to the retailer who would be in requirement of funds for improving his business turnover portfolio. The essence of this is that competition may have to be exploited as an *opportunity*. Planning for the unanticipated and looking for opportunities hold the key to the successful

bank of the future. In this connection, I draw your attention to the report of the RBI group on rural credit and microfinance and suggest that banks which are first movers would stand to gain substantially in terms of expanding their retail portfolio.

Technology implementation comes with its attendant requirements too. A few major aspects which need to be reckoned relate to the

- Need for standardisation - across hardware, operating systems, system software, application software to facilitate inter-connectivity of systems across branches

- Need for high levels of security - in an environment which requires high levels of confidentiality, security is an important requirement

- Once both the above are achieved, the next logical approach would be towards communication and networking - use of networks which would facilitate centralised databases and distributed processing. Exploitation of computer networks by banks would result in savings in cost and increase in efficiency

- Need for a technology plan which has to be periodically monitored and also upgraded consequent upon changes in technology itself

- Need for business process re-engineering with the large scale usage of computers - the objective is not to merely mechanise activities but to result in holistic benefits of computerisation for both the customer and the staff at branches

- Need to address the issue of Human Relations in a computerised environment especially from the point of Human Resources Development

- Sharing of technology experiences and expertise so as to reap the benefits of technology implementation across a wider community

All these changes have, however, a host of attendant challenges. Prominent among them is the paradigm shift in the concept of security. With the delivery channels relating to funds based services - such as movement of funds electronically between different accounts of customers - taking place with the use of technology, the requirements relating to security also need to undergo metamorphosis at a rapid pace. Various concepts such as digital signatures, certification, storage of information in a secure and tamper-proof manner all assume significance and have to be part of the practices and procedures in the day-to-day functioning of banks of tomorrow. I must at this juncture, add that all these would be added requirements and the well established practices of today may also have to not only continue but also co-exist along with the new requirements. Security requirements have to be provided from a two pronged perspective - first for the internal requirements of the banks themselves and the second relating to the legal precincts of the laws of the land. It will be a matter of satisfaction to note that the INFINET (Indian Financial Network) is a safe, secure and efficient communications network for the exclusive use of the banking sector, which provides for inter-bank communication - which implies that banks have to now function as a group and at the same time competing with one another too. The key advantage of the INFINET is its own security framework in the form of the Public key Infrastructure - PKI, which is in conformity to the provisions of the Information Technology Act, 2000.

An effective security policy which would offer a shared vision of how the controls in the workplace should be implemented with the objective of protecting data, information and eventually, the economic value of the organisation. This has to be supplemented by education and training in these areas and reinforced by the actions and concerns of the top management so that a culture of security can be created. These controls have to be supplemented by surveillance, monitoring and auditing to detect unusual usage patterns and deficiencies. Banks have to put in place such a policy and ensure that it is being implemented effectively, and then audit the IT related functions so as to ensure that there are no lapses or deviations from the approved Information Security Policy.

Another major challenge relates to *the bridging the divide caused by distances*. Today, banking has broken all geographical barriers and demand from customers relates to 'anywhere and anytime banking'. Currently, IT based offerings such as Internet and Mobile Banking have provided customers with the means for meeting the requirement of being able to perform banking transactions from anywhere. The death of distances have also necessitated that banks in India do not merely look inward. Developments elsewhere in the world have also a strong impact on the efforts of Indian banks and these have to be factored in an always vibrant world of technology based banking. Added to this

is the fact that markets have shrunk digitally and this gap would reduce further in the morrow. It would be necessary to prepare ourselves for functioning in a very small knit shrunk world. Information availability across a large section of people will bring in the challenge of being able to process such large masses of information. This is an opportunity not only for the banking sector but for other sectors including the IT industry as well. Banks will, therefore, brace themselves for co-operation and co-existence and geographical boundaries may move away into oblivion just as sharing of resources (such as ATMs) has already commenced propagation.

We have all heard of the *digital divide* which is a challenge to be overcome by the banking industry as well. While the average Indian customer may be as technology savvy or even better than his Western counterpart, the cultural aspects of his relationships may necessitate a personal touch to the offerings of banks. Further, all the technology based offerings by banks have a bias towards the major towns and cities and the need for reaching the mid size cities as well as the large rural population assumes significance. These pockets hold promises of substantial growth prospects and today with networking capabilities being available at much higher reliability levels than before and at affordable costs, banks may have to pay attention to these segments of the country as well.

To achieve all these, banks will also have *to re-orient their internal processes and procedures.* Just as mechanisation of processes in a manufacturing company required changes in the steps involved in the production cycle, suitable changes in the job processes within banks will also have to be made. No technology implementation is complete without the attendant changes in the basic way of process functions at the organisation where such implementation shave been made, and if technology implementations have to be successful, they have to be accompanied by suitable changes in the process flows across all sectors of the economy, which is at the base of *Business Processing Re-engineering*. It is essential that banks embark upon Business Process Re-engineering in a large scale and preferable even before the large scale implementation of technology has commenced.

The *management of external relationships* is another requirement which would have to be taken care of by bankers of the future. Convergence of the services of more industries and organisations is emerging so as to provide holistic service offerings to the discerning customer, and banks would be the prime target by customers if they have to provide service levels which match their expectations. This would necessitate that banks operate in an environment which will facilitate ease of inter-operability. Just as inter-operable IT systems and Straight Through processing (STP) will become the order of the day, inter-operable business domains will also prevail and banks have to overcome this challenge in their stride. This will also be observed in managing external functions such as Business Process Outsourcing, management of IT service providers and better vendor management - all of which are hitherto unknown domains for the banks' personnel.

The challenges staring at banking today need not result in a feeling of inadequacy. The I T framework in India is on strong ground and the industry has been showing significant growth rates in the previous years, with the financial sector having benefited immensely from the offerings of IT. Banks, for their part, have proved their mettle and I must add that in the few years since liberalisation, banks in India have proved that they can not only withstand the forces of change but blend the changes gracefully in such a manner as to even provide a challenge to the hitherto existing leaders in the line of business. Banks have commenced to grow laterally and at an exponential rate. We have the best talent of personnel and the best institutes to develop more resources and the best brains to manage these changes.

Our society has held a pride of place of being largely knowledge based, ever since the time of the Vedas and the early days of the world. As India develops into a formidable force, it is Information Technology which holds the key to the process of transformation. Our key strengths lie in knowledge processing and as bankers we have been performing this function quite well both for our customers as well as for the growth of our own organisations. This underlying strength will ensure our key to success.

As banks are poised for challenging but exciting times ahead, I am sure that this conclave will also provide substantial inputs as the day progresses on the various opportunities which banks will harbour for implementation within their respective confines. I am sure that this conclave will provide the kindling fire of transformation which banks in India will light up with enthusiasm and as Indian Banking transcends all barriers and gains greater coverage, they would make a mark as world leaders in providing unparalleled, efficient service at affordable rates resulting in high levels of customer satisfaction and an overall vibrant economy. Lastly, before I conclude I would like to draw your attention to the two vision documents , one relating to payment system and the other a draft of the

proposed financial sector technology that RBI have recently put out on its website. These documents set out our vision for the next three years. We welcome your reaction. Need less to say your preparedness should be synchronous with the vision of the Central Bank.

I wish the conclave all success.

Thank you.