

R Gandhi: Information technology – new gauntlets for banks

Opening remarks by Mr R Gandhi, Deputy Governor of the Reserve Bank of India, at the 12th IDRBT (Institute for Development and Research in Banking Technology) Banking Technology Excellence Awards function, Hyderabad, 18 July 2016.

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1. Honourable Governor Dr Raghuram Rajan, members of the Governing Council of IDRBT, Chiefs of banks, Heads of IT departments of banks, Director, IDRBT, Faculty members, students, Ladies and Gentlemen. It gives me great pleasure to be present at the 12th IDRBT Banking Technology Awards.

2. I am glad to be back to be directly dealing with the subject of technology yet another time. I have the unique honour of having been and being associated with IDRBT in every possible role – as a recipient of training, as a faculty, as an invitee to the General Council, as the Director, as a member of the General Council and as the Chairman of the Council; that's a special privilege that I cherish a lot.

3. If one thing that changed the face and the inner core of banking and continuing to change, it is technology. Banking and finance lend themselves eminently suitable for such continuous application of technology; every new development in technology has been gleefully opted for by banking and finance. The ever increasing volume of transactions and ever changing customer expectations are the key differentiating drivers for such an extraordinary use. Of course the need to increase efficiency and quality, and reduce cost is also there, like any other vocation.

4. The Reserve Bank has been very aware of the potentialities of technology for gainful use within the banking system. Given the then prevailing adverse environment for free use of technology in the banking sector, the Reserve Bank carefully crafted an acceptable foundation and path for its adoption and increasing usage, thanks to the Rangarajan Committee 1 and Rangarajan Committee 2 in 1980s, Saraf and Barman Working Groups in 1990s and 2000s, besides establishing the IDRBT in 1996. Recently, the Reserve Bank has established a new institution, the Reserve Bank Information Technology (ReBIT) Pvt Ltd, as its wholly owned subsidiary, for increasing, advanced level focus on cyber security and for building cutting edge capabilities for supervising financial technology usage in the banking sector. Reserve Bank has also now constituted a Working Group on Financial Technology, to fully understand the new paradigm of Fin-Tech and to chart out the best way of using it.

5. Technology has thrown several gauntlets simultaneously on to the banking and financial sectors in recent times. I would like to highlight five of them.

6. First is the Cyber Security. Banks deal with hard cash and money and therefore have always been targets of crime; while the banks make good use of IT for protecting cash and money, ironically use of IT by criminals have also increased substantially. Today, IT systems of banks are the prime target for cyber crimes and if one were to judge by the volume and value of incidents, the menace is steadily growing. It is of great concern –some of the recent incidents at Bangladesh Bank and several persistent instances in many banks are just the proverbial tip of the iceberg. If we need to provide safe and secure banking, then providing for safe IT systems is an undeniable requirement. It is essential that in every IT based initiative, security is addressed as a vital component. Banks need to bestow greater attention on Cyber security. The role of the Chief Information Security Officer (CISO) assumes great significance. It is heartening to note that all banks have a well anointed set up in the CISO. As I mentioned earlier, criminals have become IT savvy; cyber attacks are becoming highly sophisticated, use specialized analytical techniques and exploit minute vulnerabilities which had hitherto gone unnoticed. Continued vigilance and concerted

proactive protective actions are warranted. We have a CISO forum under the aegis of the IDRBT; this forum, along with the ongoing research in IDRBT in cyber security should help banks exchange information, react quick enough to outsmart the perpetrators of cyber incidents and build in workable security related enhancements.

7. Second are the new technologies that are fast developing. One of the important characteristics of the IT world is that it is ever changing and dynamic. Cloud based computing, block chain processing technologies and virtualization of IT systems are a few examples which hold potential for being used in a big way. The fruits of these would be in the form of safe, trackable and secure digital currency, distributed ledger-keeping and homogenous IT systems –all of which would ultimately result in better customer service. Banks and IDRBT can work together to study these, test them out and adapt for best use.

8. Third are the Fin Tech companies – the new, non-conforming disruptors. For too long, banks thought their competitors are their fellow bankers; then they accepted the other financial institutions as their competitors. They always thought the technology companies are their enablers; with their help, the banks have been differentiating themselves from the rest of the crowd. The banks never thought the technology companies will be their direct competitors. I have been sounding way back in early 2000s itself about this possibility; I used to say in this very platform that banking knowledge is no longer with the bankers and it is with the techies. The techies have now grown as Fin-Tech companies and are emerging as the direct competitors in the identified chunks of banking businesses; technology has today dissected the entire value chain of banking and finance and bundled out the chunks in innovative ways that it is they who intermediate between savers and investors, or between sender and receiver of funds. Banks need to handle them carefully without inhibiting innovations; banks have to find ways to cooperate, co-opt and compete with the Fin-Tech companies.

9. Actually, these Fin-Tech innovations are knocking at the doors of competition for central banks as well. We have all along been maintaining that there is no competitor to central banks for issuing currency. But this is being challenged by the developments with regard to e-currency. However, I still maintain, as I did way back in 2001, that e-currency is no substitute for currency; if at all, it can only be a better alternative to any other payment instrument. But, researchers and innovators on the field are and will be continuing their attempt to develop an e-currency. Despite my misgiving about its success, I do support research on this subject.

10. Fourth is the Payment Revolution engineered by technology. One of the major beneficiaries of the large scale use of IT in the banking industry is payment systems. India can now boast of having perhaps the world's best and state-of-the-art payment and settlement systems; and it is handling ever increasing volumes. While it is satisfying to note that there are new initiatives in payment systems aimed at providing better customer comfort, it is also essential to ensure that these systems are safe and result in overall efficiencies including reduced costs to the common man. How to take full advantage the payment revolution is a challenge.

11. Fifth are the varied choices of technology for financial inclusion. Financial Inclusion is an achievable reality, and the role of IT in this initiative is very significant and fundamental. More needs to be done here. We need to integrate account opening and KYC related requirements with other systems such as AADHAR, allow use of funds without actual movement of cash, and ensure that the common persons have access to banking and financial services at their door steps. Varied technical solutions have the potential to achieve this and at reduced costs. Finding the right mix and adapting them for achieving the financial inclusion in the shortest possible time is a big challenge.

12. If the banking system has to meet these challenges squarely, the academics, the industry and banking professionals have to work together. IDRBT provides perfect settings

for such a joint action. The CIOs Forum and CISOs Forum coordinated by IDRBT are the right channels. I am sure that these coordinating fora will be successful.

13. Finally, as regards this Award Function, as we will all fully endorse, recognition of good work done is always a successful motivating factor. IDRBT has been continuing to host these awards. I would also congratulate all the winners and hope that they will ever increase the bar; I look forward to more banks joining the pride of place in the years to come.

14. Thank you all for your patient attention.