

SPEECH**GROWTH OF COMPUTERISATION IN
THE BANKING INDUSTRY***

C. Rangarajan

It is a pleasure to be here in your midst today and to inaugurate the networking of ATMs and After Hour Depository service of the Indian Bank. It is a significant step since technological innovation today has become a critical factor, transforming the way banks are being run. I understand that different ATMs set up at various branches will be interconnected through a central computer. I am sure the customers of Indian Bank will benefit greatly from this on line real time ATM service. The After Hour Depository service should also prove to be of great help to the trading community which can deposit their cash collections after the bank's business hours. I congratulate the Indian Bank on this pioneering effort.

Banking world over has undergone a massive change under the impact of revolutionary changes in computer and communication technologies. Technology has, so to say, become the fuel for change. Many of the world's biggest and successful banks have grown out of the technological changes which they are able to identify early. A major consequence of these changes is a blurring of the financial frontiers in terms of instruments, institutions and markets. Effectively, universal banking has become the trend. With the dismantling of exchange controls and the extra-ordinary developments in communication systems, funds have started moving rapidly from one country to another. Some have even described this as the "End of Geography."

As we conclude nearly two years of the programme of economic reforms initiated in July 1991 and continue to move ahead with the process of structural adjustments, there is a general agreement, more than ever before, that the

financial sector and more particularly the banking system in India must change. Banking industry faces challenges requiring boldness, vision and innovation. *In the task of modernising the Indian banking industry, and thereby enhancing its profitability and viability, the use of computer and communication technology will have a major role to play. The issue today is no longer whether technology is needed, as much as how much, how quickly and what type.*

Growth of Computerisation in the Banking Industry

There are some areas of banking in which computerisation has already made significant progress. The major examples are the introduction of computerised clearing of cheques at the metropolitan towns, and establishing links with the international communication system of SWIFT. With an annual growth rate of 12 percent in the number of cheques to be processed in the metropolitan towns, I wonder what would have happened if we had not taken steps to introduce cheques based on MICR technology and computerised clearing. The daily volume of clearing instruments at Bombay is now estimated to be 6.6 lakhs. Forty three banks are currently connected to the international communication system of SWIFT. I understand that in February 1993, the outward message traffic through SWIFT was 27,000 while the inward traffic was 97,000. The domestic communication network of BANKNET which has 30 banks as its members is yet to stabilise.

As regards the computerisation programme in the banks, despite massive growth, until early 80's, the computer use was extremely limited. The RBI Committee on Mechanisation in Banking Industry, set up in 1983, had outlined a specific programme of computerisation for banks at the branch, regional/zonal offices and the head office.

* Address given by C. Rangarajan, Governor, Reserve Bank of India at the inauguration of Networking of ATMs and AHD Services, Indian Bank, T. Nagar, Madras on May 18, 1993.

In 1988, a second Committee on Computerisation was set up by RBI to have a re-look at the progress made in computerisation, specially in view of the growing volume of transactions, rapidly changing computer technology and problems associated with the implementation of the recommendations of the first report. Apart from dealing with computerisation at various operating levels, it also dealt with communication networks for banks and automatic teller machines.

As of March 1, 1993, 6249 ALPMs have been installed in 2303 branches. The number of mini-computers installed in regional/zonal offices add up to 307. 13 banks have installed mainframe computers in Head Offices. 28 branches have been taken up for full computerisation. As on January 1, 1993, nearly 34000 officers had received various types of computer training to acquire knowledge and understanding of computer concepts and processes. 18500 persons had been trained for ALPMs and data entry.

While these numbers are impressive when related to the position in early 1980s, they are far from providing the banking industry with the foundation required to fully avail of the benefits of computerisation.

Computerisation and Banking Productivity and Efficiency

The four major objectives of computerisation in banking are to improve (a) customer service, (b) house keeping, (c) decision making, and (d) productivity and profitability. A question that is often raised is whether in order to achieve these objectives computerisation is at all necessary. Speed and accuracy are the hallmark of computers. Computers have a vital role to play wherever there is a huge volume of transactions and the work has to be completed within a specified time frame. These are precisely the attributes that characterise banking operations. The argument that whatever work that can be done manually should continue to be done manually, can lead to the most absurd situations in almost all walks of life. *The impact of the use of computer technology on improving customer service is quite*

clearly seen from the computerised railway reservation system. Almost all of us now appreciate the ease with which railway reservations are made. As provider of public service, and in the character of public spirited institutions, there is no reason why banks should lag behind in this regard. Consumers today are becoming more discerning and demanding. There is a price on their time and therefore when they visit a branch for a deposit or a cheque encashment, they are looking for a quick settlement of their transactions. As the number of transactions increase, banks will have to cope with another problem — house keeping. Speedy reconciliation of transactions apart from improving housekeeping, also helps to reduce the scope for irregularities and frauds. Thus, the advantages flowing from computerisation are many and all working in the banking industry must recognise it.

It is therefore time that the banking industry took stock of the situation and outlined a well-defined and time-bound program on the nature and extent of computerisation. The views of the RBI Committees of 1983 and 1989 are still valid today and offer a workable framework. Banks should draw up plans to (a) establish the relevance of computers and computer technology in their bank, (b) reorganise themselves for greater technology absorption, (c) assess what is required for branch, regional and head office levels, (d) develop in-house reliance, and (e) manage relations with staff based on local conditions. It has to be understood that for investment in computer systems to yield the desired results, computer systems must be fully integrated with work methods and information flows.

The main objectives of computerisation at the branch level should be to improve customer service, quality of housekeeping and generation of data for better management control. At the regional and head-office levels, the purpose of computerisation should be to store, analyse and retrieve data received from branches so as to generate speedy information for strengthening internal control over branches for policy formulation.

The Second Report on computerisation laid much stress on branch level computerisation. It recommended that in the case of all large branches above a daily voucher load of 750, all items of work at the branch should be computerised. In the case of such branches, the recommendation was to move away from a scheme of computerisation which is confined to operation of dedicated machines at the counters as such a scheme would lead to a less than optimal use of the machines. A more efficient system of computerisation at the branch level would be one of real-time transaction processing combined with a networking of all machines or terminals. Such on-line systems would help not only to update customer balances but also simultaneously generate all subsidiary books, general ledger accounts and MIS reports and thereby avoid duplication at back office. This would also enable a customer to go to any counter convenient to him and transact business. Selected branches in a city should also be connected to one another. This connectivity among branches would result in improved customer service.

The programme of computerisation suggested has been extremely selective taking into account various concerns. While recommending the selection of branches for computerisation, the Committee emphasised the need for gradual and phased but effective way of introducing computerisation. Its recommendation of computerising those branches with a workload of 750 vouchers and above per day would cover 2000 to 2500 branches, located mostly in 30 identified metropolitan/urban centres. However, this would cover 51% of the total banking transactions in India. The Committee further recommended that among these branches 500 large branches with a load of 1500 or above vouchers per day are to be fully computerised in the first phase and the remaining 1500 to 2000 branches with a workload of 750 to 1500 vouchers a day are to be computerised in the second phase. Even in relation to these branches back office operations should be computerised in the first phase itself.

The emphasis on branch level computerisation is for two important reasons. First, customer interface is at the maximum at the branch level. Increased use of computers and advanced technology can lead to reduction in waiting time, accuracy in reporting statement of accounts and expeditious transfer of funds. All these will lead to improved customer service. Second, the

emphasis on on-line transaction processing at the branch level is due to the fact that only if the data are initially captured in the machines, further processing becomes speedier and easier.

Conclusion

The objective of computerisation in India is not to replace man with machines. Rather the objective is to make worklife more meaningful. Banks should conduct an intensive drive to demystify computers and build greater awareness of them. Computers are no longer esoteric products. We are rapidly turning into Peter Drucker's "knowledge" society. Belonging as we do to an industry which is the largest processor of information and data, reliance on technology is inevitable. Efforts must therefore be made to create a favourable environment so that all employees begin to demonstrate a positive attitude towards computerisation and display a willingness to explore what computer technology can offer them.

It is necessary to reassure everyone that the envisaged computerisation programme will not result in any reduction in labour employed. Some reallocation of work, however, will become necessary. In fact, much of the drudgery involved in the routine type of work will be taken away in this process. This has indeed been the experience wherever computerisation has been introduced. *The rapid expansion which lies ahead of the banking industry, which computerisation will itself help to bring about, will provide increased employment opportunities. As a service industry, improved efficiency in banks will lead to a faster rate of growth in output and help to expand employment all around. The workforce in the industry must, therefore, look upon computerisation as a means to improve customer service and should welcome it in that spirit.* Needless to say that absorption and effective utilisation of the new technology will involve changes in structure, organisation and systems as well as attitudes of people working in the industry.

Management and trade unions must recognise that it is only by adapting themselves to the newly emerging challenges and opportunities, technological and otherwise, that they can make Indian banking system healthy and vibrant and thereby convert it into an effective instrument of modernisation, growth and development of our country.