

## **Changing Faces of Banking : Banking With Technology<sup>1</sup>**

It gives me great pleasure to be present among you and share some of my thoughts on the changes staring at bankers today and the role that technology has to play as one of the significant contributors to managing the change. I am particularly glad that I can kick start the much needed initiatives by sowing the seeds in the minds of the topmost harbingers of change in the public sector banks. And the optimal start could not be better than the facilities provided for by the Institute for Development and Research in Banking Technology (IDRBT).

The major factors of change for the banking sector have been in the means of communication – not only between branches of banks or across different banks – but also with the constituents of banks. It was this perceived need that prompted the Reserve Bank to establish the Indian Financial Network (INFINET), which has been in operation for more than two years now. The INFINET has been functioning as an efficient and cost-effective communication backbone for the Banking and Financial sector. Having thus established this backbone, it is now imperative that the network is well utilised by the Banking community. I must mention here with some concern that its usage by the members continues to be at low levels. The benefits that technology has ushered in and the need for induction of networked technology in our day-to-day functioning are all clear before us.

The banking of today requires that decision making is done on the basis of empirical data, and in an information age, it is essential that information management uses the best available means for information transfer on a real time basis. The INFINET provides for this and I must exhort all of you to kindly bestow your personal attention which would only ensure that the infrastructure built up are best utilised by the members of the INFINET Closed User Group.

The first set of applications that could benefit greatly from the use of technological advances in the computer and communications area relate to the Payment systems which form the lifeline of any banking activity. As you are all aware, payments in India are largely cash based although there are non-cash based payments as well. The usage of electronic means of funds movement and settlement is still in its stages of infancy. Various forms of electronic based payment have been slowly making their appearance - credit cards, Automated Teller Machines (ATMs), Stored Value cards, Shared Payment Network Service (SPNS), while electronic settlement has been in the form of the electronic funds transfer services introduced by the RBI - viz. Electronic Clearing Services (ECS) - Credit Clearing & Debit Clearing and retail Electronic

---

<sup>1</sup> Inaugural address by Shri Vepa Kamesam, Deputy Governor, Reserve Bank of India at the Conference of CMDs of Public Sector Banks at IDRBT, Hyderabad on November 2, 2001. of Public Sector Banks at IDRBT, Hyderabad on November 2, 2001.

Funds transfer (EFT) System. I am glad to note that many banks have made initiatives aimed at electronic modes of funds movement. While this is a positive development, it needs to be ensured that such funds transfers are made in an environment which is characterized by a high level of security so as to ensure that no unauthorised usage occurs in the newer modes being implemented by banks. It is this area which has been the focus of attention by the Reserve Bank – and the efforts have now resulted in the form of the Structured Financial Messaging Solution (SFMS) – an application which would be riding on the INFINET communication backbone. SFMS would have adequate security measures incorporated – including that of PKI – Public Key Infrastructure, with encryption software comparable to some of the best implementations in the world. Usage of the SFMS over the INFINET would automatically bring in the benefits of safe, secure and efficient funds transfers with the added benefit of the settlement of inter-bank funds transfers taking place in the books of account of banks maintained with the Reserve Bank, thereby providing for finality of the settlement. Further, the message formats used in SFMS are very similar to those used by SWIFT, resulting in ease of usage by the banking community in the country. This secure messaging backbone can be used for a number of intra-bank applications also.

Traditionally, payment systems in India have been in the form of individual scattered clusters with a substantial quantum of payments being routed through the non-bank based sectors too. With increasing concern on the existing state of payment and settlement systems in India, the Reserve Bank has taken up the cause for the establishment of an integrated payment and settlement system to benefit all the sectors of the economy apart from the common man at large.

Most of the payment system initiatives undertaken by the Reserve Bank are fairly well known to all of you. Apart from the existing facilities such as the Magnetic Ink Character Recognition (MICR) based cheque clearing, Electronic Clearing Services (Credit and Debit) and the Electronic Funds Transfer (EFT), the Centralised Funds Management System, the Centralised Public Debt Office project comprising of the negotiated Dealing System (NDS) and the Securities Settlement System (SSS), the introduction of Real Time Gross Settlement System are a few other products which would fructify in the near future.

In order that the initiatives which I have detailed have a cascading effect on the functioning of banks, it is essential that all the banks are equipped with synchronous computer systems. The proliferation of a variety of platforms – relating to hardware, operating systems, system software and application software – has resulted in many banks having different platforms; it has thus become essential to have interfaces which would ensure seamless integration across different systems. While the central inter-bank applications developed and

provided by the Reserve Bank would have well tested Application Program Interfaces (APIs) which would achieve this objective, banks would have to get their internal software ready for this purpose.

All these presuppose the existence of a high level of readiness at banks and I must express that the position is not so encouraging at most of the banks. A great deal has to be done – in the form of computerisation of at least the major branches at the commercially important centres. Even where computerisation exists, there are varied platforms across even different branches of banks. The need, therefore, of the hour is to integrate computerisation efforts which should go parallel to business process re-engineering. In the absence of changes in work procedures, the benefits of mechanisation and introduction of computers would not fully accrue to banks. Computerisation without accompanying changes in work processes may perhaps result in increase in the work processes since there may be duplication at some levels resulting in no real improvement in the efficiency to banks. Further, mere computerisation generally has been till now concentrating on back-office mechanisation which may not provide any value addition to the ultimate customer who is the main reason for our businesses.

It is also essential that networking across branches at important cities be also tackled at the earliest. The INFINET would be available for inter-city inter-bank message transfers while intra-city and intra-branch connectivity could be achieved through the banks' own corporate networks. I am given to understand that most of the public sector banks have identified a few centres and have plans for inter-branch connectivity at these centres; it would, however, be necessary to have plans drawn up immediately for the other remaining centres as well. Connectivity of these corporate networks to the INFINET to provide for 'Straight Through Processing' would be beneficial to banks.

Yet another area which is worth mentioning is the relative slow progress in the establishment of bank gateways and connectivity to the INFINET for the critical common inter-bank applications which are being implemented by the Reserve Bank. I urge all of you to address this issue so that all the public sector banks join the select group of INFINET members who would be among the first lot of users to exploit the benefits of the projects implemented by the central bank of this country. This has to be done on a war-footing.

Having detailed the major aspects to be taken care of for the day-to-day transactions of banks, I must provide some inputs on the impact of technology on the delivery channels to the constituents of banks. As you are all aware, the Internet is fast emerging as a medium of transmission of messages between banks and their customers. The Reserve Bank has come out

with guidelines for Internet Banking and it is essential that these are followed in letter and spirit. The benefits of using Internet as a medium of message transmission has many advantages including that of reduced costs to the banks, apart from the speed and convenience which it offers.

As leaders of the organisations which would be using technology as a cutting edge towards excellence in services, you would all agree that the requirements outlined by me are addressed by you in its totality. Among us also, there have been yeoman efforts completed by a few banks; it would be of utilitarian value if experience sharing is reported to amongst the public sector banks group so that collective advantage is achieved. I am sure that once all these are achieved, we would have attained standards which would be comparable to the best in the rest of the world and that Indian Banking can look forward to more rewarding times ahead.

Thank you.

<sup>1</sup>Inaugural address by Shri Vepa Kamesam, Deputy Governor, Reserve Bank of India at the Conference of CMDs of Public Sector Banks at IDRBT, Hyderabad on November 2, 2001.of Public Sector Banks at IDRBT, Hyderabad on November 2, 2001.