Banking Technology Beyond CBS- Issues and Way Forward[*]

Mr Sambamurthy , Director IDRBT, Shri J P Dua, CMD, Allahabad Bank, Mr Bhaskar Sen, CMD , United Bank of India, and other distinguished guests, ladies and gentlemen. I am indeed very happy to be in your midst today for the IT Conclave being organised by IDRBT and share my thoughts with you on banking technology beyond Core Banking Solution (CBS).

2. Let me begin by asking, what is the purpose of technology? All of us would agree that technology has no longer remained just a means for automating processes. It has revolutionised every industry in the world by rendering faster and cost effective delivery of products and services to customers, who in the normal course could not have afforded the same, and at the same time producers of goods and services would remain viable and profitable. <u>Technology is the surest and most appropriate way of bringing inclusion in respect of any product and/or service.</u>

3. As regards the banking sector, technology has completely changed the nature and pace of delivery of banking services world over. Not only has it improved the speed but also the quality of the services delivered, and has at the same time ensured tremendous reduction in transaction costs for the banks as well as customers and made it possible to provide customer service through various delivery channels.

4. In a developing country like ours, technological advancement enables a broader and inclusive banking sector and in the process, is a key driver for the sustained and inclusive growth of the economy. Having realised the close association between technology, inclusion and economic growth, the Reserve Bank of India with the help of institutions, such as IDRBT on the one hand, and the banking sector on the other, have been actively involved in utilising technology for the development of the Indian banking sector. IDBRT, let me note here, has been an important facilitator in the adoption and development of technology in the Indian banking sector.

5. The changing face of the banking sector aided by technological innovations can be seen from various developments in the recent past. The most noteworthy has been the usage of the ATM technology. ATMs started as substitutes for bank branches allowing their customers to withdraw cash anytime and to extend their services wherever it would not be viable to operate a physical branch. The delivery channel revolution can be said to have begun with the ATM. The phenomenal success of ATMs had made the banking sector develop more innovative delivery channels to build on cost and service efficiencies. As a consequence, banks have begun to introduce tele-banking, call centres, Internet banking and mobile banking.

6. Tele-banking is a good medium for customers to make routine queries and also an efficient tool for banks to cut down on their manpower resources. The call centre is another channel that captured the imagination of banks as well as customers. At these centres, enormous amount of information is at the fingertips of trained customer service representatives. A call centre not only cuts down on costs but also improves customer satisfaction. Moreover, it facilitates 24x7 working and offers the "human touch" that customers seek. Mobile banking can be regarded as "the delivery channel of the future". This is because it offers portability and convenience to the user. It is just like having a bank in the pocket.

7. It would not have been possible for banks to give the full benefits of tele-banking, mobile banking, internet banking, card banking (multiple delivery channels) to all its customers without an appropriate banking solution. Centralised CBS has been one such development which has revolutionised the banking sector. CBS can be defined as a solution that enables banks to offer a multitude of customer-centric services on a 24x7 basis from a single location, supporting retail as well as corporate banking activities, as well as all possible delivery channels existing and proposed. The centralisation thus makes a "one-stop" shop for financial services a reality. Using CBS, customers can access their accounts from any branch, anywhere, irrespective of where they have physically opened their accounts.

8. CBS has now stabilised in the banking sector. Most branches of commercial banks, including the RRBs, are being progressively brought into the core-banking fold. So far,

79.4 per cent of the total number of public sector bank branches has adopted CBS. With this remarkable progress in the adoption of the CBS technology, let us pose a few basic questions to ourselves. Do we, as bankers, <u>know how many customers our banking sector serves</u>? Do we, <u>as bankers and as customers, know how many products our banks offer</u>? I am sure, the answers based on credible information to both these and many such simple questions are not available with us even after the adoption of CBS technology. "Information" from "Information Technology" indeed seems to be missing or seriously lacking.

9. Globally, after technology adoption, 90 per cent of the banking staff is involved in "front office" jobs of enhancing customer base and ensuring customer loyalty. Only 10 per cent of the banking staff is involved in "back office" jobs. The situation in India even after the adoption of CBS is exactly the reverse. A large part of our back office staff is still heavily involved in the preparation and submission of various returns. To these concerns, I would say that we need a MIS server to generate returns automatically. We also need the centralisation of KYC Norms and one-window-for-all-functions in the banking sector. A mammoth public sector enterprise like the Indian Railways has managed to harness IT to ensure one-window-for-all-functions. We should then ask ourselves, why the banking sector cannot emulate the same. <u>Answer is simple, we need to change our business processes, systems and delivery models.</u>

10. IT should help banks not just to deliver robust and reliable services to their customers at a lower cost, but also generate and manage information effectively. Information should consist of data which should be collected based on the principles of integrity, reliability, and accuracy. Banks are piling up large volumes of data relating to customers and transactions. However, how far has this information been subjected to meaningful analysis, usage and creation of a database with the banking sector, with an objective to meet not only the diversified internal and external MIS requirements but also using this information to increase the volume of profitable business using unique techniques of Customer Relationship Management (CRM), is also not known .

11. This is why, I would say, there is a need to look beyond CBS. In today's world of cut throat competition in the banking sector, retaining customers along with growing

customer base has become very important. In order to enhance the effectiveness of the various channels such as branch banking, mobile banking and internet banking, banks may consider the use of a comprehensive CRM solution which would enable them to access the entire customer details and provide a 360 degree view across channels and products and enhance service quality.

12. CRM can be defined as the process that has the potential to make the *right offer* to the *right client*, at the *right time* via the *right* channel. Information on business profiles of banks and its margins, risks associated with the businesses, number of products, customer information, business volumes and income from various verticals play an important role in focussing on a profitable and effective CRM.

13. There are four ways in which CRM enables the development of new capabilities in CBS to cope with emerging realities around risk, regulation and customer retention. First, it can offer a <u>unified view of the customers</u>. Secondly, it can help provide a consistent message to customers. Third, it can provide end-to-end customer care. Fourth, it helps in building long-term customer relationships. Fifth, it helps in identification of best customers. CRM is thus recognised as an avenue for banks to go beyond other banks in terms of customer retention and increase in business volumes.

14. CRM, however, has certain pre-conditions for its successful implementation. First, business requirements and targets have to be defined. I would say that technology has to make the solution, not the other way round. Secondly, it is important CRM does not solve all the problems a bank has, so first it may be necessary to analyse the problems, and the possible impact of CRM, then prioritise. Third, banks need to understand that they need to make a beginning. It may be a small start but it is important to start. They can learn and improve later. Fourthly, Business Process Re-engineering (BPR) of processes would be required before implementing the CRM. Fifth, there is a need to change the mindset of employees.

15. Finally, for CRM to succeed, we also need to have in place IT governance, which is another area that would be covered in today's seminar. Governance is not about what decisions get made – that is management – but it is about who makes the decisions and

how they are made. IT governance is the process of specifying the decision rights and accountability framework to encourage desirable behaviour in the use of IT. As in the case of corporate governance, IT governance is the responsibility of the board of directors and executive management. In fact, it could be said that in the banking sector, IT Governance is an important sub-set of overall Corporate Governance.

16. Given the enormity of investment in IT infrastructure and the ever-increasing dependence on IT for operating and managing the day-to-day business activities, there are concerns among various stakeholders and the upsurge in the call for IT Governance has stemmed from this concern. IT Governance in banks focuses on information technology systems, their performance and risk management.

17. With the high rate of technological obsolescence, the need for proper IT governance, particularly in the case of banks, is gaining prominence. Adoption of IT Governance in banks would result in effective control and derive better value on the huge IT infrastructure created by banks. This would ultimately result in enabling better alignment between IT and Business, create efficiencies, enhance conformity to internationally accepted best practices and improve overall IT performance of banks.

18. To implement an effective governance structure, organisations particularly those having significant IT investments are constrained by certain factors. Common among such inhibiting factors are poor strategic alignment between business and IT strategy, absence of appropriate and re-engineered business processes and delivery models, lack of project ownership, poor risk management, ineffective resource management. Time has come for banks to focus on these issues by going beyond CBS systems and thereby reap the full benefits of technology upgradation.

19. Another important aspect of IT governance is the need to address enhanced security concerns associated with technology. Though the seminar will be addressing such issues , I would only like to draw your attention to the plethora of terms used in cyber crime world, such as, Malware, Viruses, Trojans, Worms, Spyware and Bots, Phishing Spam and Spoofing, etc. Basic security measures involve protection by well selected passwords, change of file permissions and back up of computer's data. Security will

probably always be high on the IT agenda simply because cyber criminals know that a successful attack can be very profitable. This means they will always strive to find new ways to circumvent IT security, and users will consequently need to be continually vigilant. This again requires banks to go beyond CBS as of today.

20. To sum up, I would say that Information Technology has come a long way in the Indian banking sector. However, a lot still needs to be done particularly in terms of reorienting the existing CBS and other technological solutions in the banking sector towards more customer centric and yet, more well-governed technological solutions, improving MIS capability in terms of quality, speed and integrity, harnessing IT for effective CRM , thereby, increasing business and profitability. Robust IT security and finally better IT governance for achieving better risk management should be the key focus areas of the banks beyond the physical implementation of CBS in the coming years.

21. Banks need to know that IT holds the way forward for a more cost effective and yet, inclusive banking system. They also need to remember that banking is about branding and relation building with customers and in this relation building, IT can be an important instrument. It is the realisation of this potential of IT among banks and their ability to harness this potential that would pave the way for growth of the banking sector in the years to come.

22. I thank the IDRBT for inviting me over to share my thoughts with you all, and wish the deliberations of the roundtable all success.