Indian Banking of Tomorrow*

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It is a proud privilege to be present at a conference which not only provides an introspection of the way things have gone by but also provides a glimpse into the near future – so that banks could plan their future course of action accordingly. I am indeed privileged to make the lead presentation on a topic close to my heart – on managing change for the better. Although my topic reads as 'Indian Banking of Tomorrow' let me hasten to add that the tomorrow is already here today. If this paradox has to be understood better, I must dwell on certain aspects which I believe would kick start the much needed changes in the Indian Banking industry.

2. The changes staring in the face of bankers relate to the fundamental way of banking – which is undergoing a rapid transformation in the world of today in response to the forces of competition, productivity and efficiency of operations, reduced operating margins, better asset / liability management, risk management, anytime and anywhere banking. The major challenge faced by banks is to protect the falling margins due to the impact of competition. Falling profit margins call for increasing volumes so as to result in better operating results for banks. This is best achieved by exploiting the benefits of technology, which facilitates handling increased volumes at higher levels of efficiency and enhancing customer relationships. It is in this context that there is an imperative need for not mere technology upgradation but also its integration with the general way of functioning of banks to give them an edge in respect of services provided to their constituents, better housekeeping, optimising the use of funds and building up of MIS for decision making and better management of assets and liabilities and the risks assumed which in turn have a direct impact on the balance sheets of banks as a whole. Technology has demonstrated potential to change methods of marketing, advertising, designing, pricing and distributing financial products and services and cost savings in the form of an electronic, self-service product-delivery channel. These challenges call for a new, more dynamic, aggressive and challenging work culture to meet the demands of customer relationships, product differentiation, brand values, reputation, corporate governance and regulatory prescriptions. Technology holds the key to the future success of Indian Banks.

3. Winning in the new economy depends crucially on strategically effective and intelligent management of marketing and customer relationships. The first and foremost important shift required by banks is to treat the customer as a customer of the bank and not as a customer of any particular branch. Technology enables the customer "help himself" through PC banking, ATM banking and telephonic banking and the banks to fine tuning their marketing strategies to the right targets for the right products and at the right time. Indeed, the competitive edge that a bank would require to just retain its existing customers would be to provide such innovative services which offer customers the convenience of transacting from anywhere, at any time and using delivery channels more suitable for them. Therefore, the imperative need would be to inculcate an attitudinal change in the mindset of bankers –towards providing services through such innovative, simple and secure means. However it may be borne in mind that technology dependent customer relationship management need not necessarily be 'cold' and 'mechanical' but must carry an individual dimension displaying personalised uniqueness,

relevance and accuracy. The intangible factors of conduct such as likeableness, timeliness and creativity will reflect vital characteristics of corporate culture and enhance customer satisfaction.

4. Another change which is taking place –slowly but at a steady pace is the use of alternatives to cash by most of the constituents of banks. The large scale use of cards for settlement of financial transactions – whether credit cards or debit cards or even the new smart cards – proves beyond doubt that cash is slowly losing the prominence of the yesteryears. It is gratifying to note that banks are quickly adapting themselves to provide for non-cash based services too. This development has, however, to be looked at from an opportunity for banks to cash in on certain invisible benefits. It is a recognised fact that the cost of servicing a transaction conducted through an Automated Teller Machine or through an electronic mode such as the Internet – as in the case of Internet Banking –is substantially less than a physical service to a customer from a counter of a bank. The need of the hour is therefore, to encourage the wide spread usage of such cost effective payment modes. The proliferation of ATMs and the network of ATMs – the Swadhan – are all but indicators of the initiatives of banks in this direction. With the cost of handling cash and the associated risks being an inherent part of the cash based societ y, non-cash based payment systems offer an excellent choice for reduced costs to banks thereby resulting in better overall financial results. Such efforts need to be augmented and consolidation of these would result in better results for the banking sector as a whole.

5. For the corporate customer, funds availability at the place of its deployment is an important requirement. Most of the banks have already put in place, Cash Management Products which meet this objective and that funds are transferred from many parts of the country to the preferred location of the customer. I must add here that this requirement would grow manifold and a centralised facility for operation on cash balances held across many locations may have to be provided for by banks. It is in this context that centralisation of the accounts of banks comes to the rescue and provides for the requirements of efficient cash management by constituents of banks.

6. The technology initiative calls for attention to certain aspects which would have a direct bearing on their functioning such as, standardisation of hardware, operating systems, systems and application software to facilitate inter-connectivity of systems across branches, security to ensure confidentiality and integrity of transactions, business process re-engineering for holistic benefits of computerisation for the customer, the staff and management and development of human resources. With movement of funds taking place electronically between different accounts of customers requirements relating to security would require paradigm shift and various techniques such as digital signatures, certification *etc.,* will assume significance. All these would be added requirements and the well-established practices of today must co-exist with the ne w requirements. An effective security policy with the objective of protecting data, information and eventually, the economic value of the organisation, supplemented by education and training of staff in these areas would have to be put in place and in these areas. Continued security would have to be ensured by periodical audits and assiduously guarding against computer crime. The Reserve Bank has already provided detailed guidelines in this regard. I may draw your attention to the issues of security discussed by the the Basle Committee of Banking Supervisors in its document "Risk Management for Electronic Banking and Electronic

Money Activities” (March 1998).

7. The banks would be under pressure to increase profitability and explore avenues for new business by providing new and innovative products, enhancement of efficiency and reduction in costs. Traditional sectors of the economy, such as agriculture and small-scale industry, are themselves reorienting themselves to meet the demands of the Information Age. This would spur the need for a re-look at the type of appraisal of functioning of these sectors and unlock the business potential especially in areas like agro-processing infrastructure sector, long term financing, structured finance, issuance of asset backed/mortgage backed securities, distribution of insurance products, bancassurance *etc.* While a trained eye and a shift to the lateral thinking would help in the identification of the opportunities, the pricing strategies would have to be backed by risk assessment methodologies. Technology would play a pivotal role here too by providing solutions in the form of data warehousing and analysis for decision support.

8. Considerations of financial sector stability would gradually strengthen prudential norms relating to capital adequac y, income recognition, asset classification, provisioning requirements to reach the standard of international best practices. The accounting and disclosure standards would also require to be enhanced. The supervisory practices would undergo a shift to become more risk focussed calling upon banks to have resilient Management Information System (MIS) to meet regulatory requirements. With the progress in liberalisation in banking and financial sectors, the increasing sophistication and specialisation, emergence of a pure inter-bank call/notice and term money market, introduction of Real Time Gross Settlement (RTGS), funds would flow freely from one market to another leading to better integration of the domestic financial markets among themselves, and with international financial markets as well requiring the banks to adopt strategies to benefit out of the developments which would be possible with a technology thrust.

9. Indian banks have always proved beyond doubt their adaptability to change and I am sure it would be possible for them to mould themselves into agile and resilient organisations by adopting fine-tuned customer relationship management strategies, operations based on asset-liability and risk management systems, the required technological capabilities and developing the human resources to meet the challenges of the paradigm shift.

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