Shifting horizons: Banking readiness for 2030

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Foreword

The financial services sector has seen significant headwinds in the last few years and has emerged stronger. Post the COVID-19 pandemic, India is on the growth trajectory and poised to move towards achieving the $7 trillion gross domestic product (GDP) goal in 2030. Banking services are an important contributor to our economic aspirations, and the sector has grown positively across all fundamental pillars in the last few years (i.e. capital adequacy, asset quality, profitability). Moreover, it has adequate leverage to be the growth catalyst for the broader economy in our journey towards our goal for 2030.

India has made significant strides towards its goal of becoming 'Viksit Bharat@2047' through various forward-looking policy initiatives in the digital public infrastructure (DPI), and facilitating inclusive technology adoption and democratised credit access etc. This enables banks to effectively digitise the last-mile services of Government benefits. India is one of the youngest growing populations in the world, and this enables the economy to grow at an average rate of about 8–9% over the next few years. This growth is expected to be driven by the digital economy and service sector innovation in the country.

The banking sector is poised to grow at a rapid pace by digitising financial services dissemination, further formalising credit to micro, small and medium enterprises (MSMEs), adopting innovative digital operating models, adapting to the continuously evolving landscape, benefiting from the adoption of emerging technologies, and driving consumption-fueled growth for our economy.

The imminent growth of 5G internet usage, deeper smartphone penetration, expansion of digital payments, frictionless data-led digital lending, risk-mitigated secure data protection, and accelerating Enhanced Access and Service Excellence (EASE) reforms, climate-conscious sustainable goals and collaboration between banks and FinTechs will enable the next wave of technology-fueled innovation in banking services in India.

As per PwC's 27th Annual Global CEO Survey 2023, today's organisations need to gear up to thrive in an age of continuous reinvention and maintain the momentum and keep forging ahead. The survey clearly reflects the positive sentiments on the India Growth story, with the top three reinvention actions being:

- Adopting new technologies (technological resilience)
- Developing new products/services (innovation)
- Forming new strategic partnerships (ecosystem)

In this paper, we have touched upon the major growth drivers of the banking sector, and themes driving the digitisation and innovation of financial services. It also looks at potential challenges that could influence the financial services landscape. We've also touched upon how sustainability is a crucial aspect to consider in order to deal with the effects of climate change which will shape the future of the banking landscape. Finally, we have attempted to define few areas where banks will need to strengthen their operating posture to drive accelerated growth.

We are pleased to share our outlook and insights into how banks can pivot to drive digital innovation in banking services and can contribute towards the economic growth aspirations for 2030. We hope you find this to be an insightful read.

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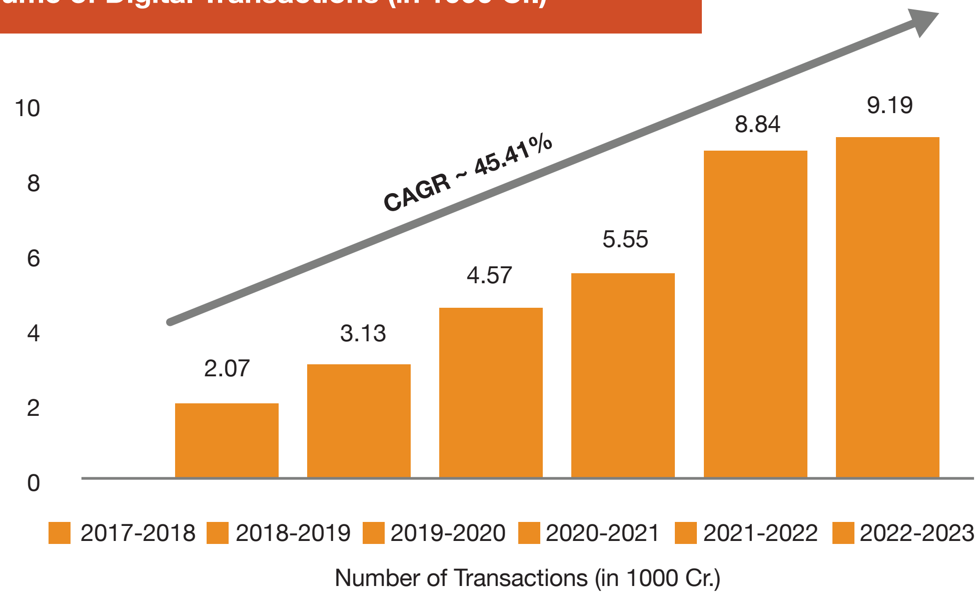
1. Banking in today's era

Amidst global uncertainties over the last few years, the global banking system has managed to remain resilient due to swift policy and regulatory interventions. The Indian banking system too, has demonstrated stability with sound capital reserves, improved asset quality and strong earnings growth. As of March FY23, the share of total outstanding loans for banks and non-banking financial companies (NBFCs) stands at 67.6% and 32.3% respectively.[1] This indicates that in addition to banks, NBFCs are also contributing towards the sustained and robust growth of the country's overall financial system.

Furthermore, there is an ongoing dynamic shift in the realm of digital adoption within the Indian banking ecosystem, which is emerging as one of the largest markets in digital banking transactions. In 2023, transactions via Unified Payment Interface (UPI) recorded massive growth of 59% and 45% YoY in volume and value respectively.[2] This proliferation has attracted global UPI collaboration, with India inking pacts with 13 countries including France, Australia, Singapore, the UAE, Saudi Arabia, Oman, Nepal, Bhutan and Sri Lanka.

Moreover, global expansion of UPI and RuPay, advocacy for Central Bank Digital Currency (CBDC) with its potential ties to UPI, and the exploration of worldwide adoption. of digital public infrastructure show India's commitment to advancing financial technology on a global scale.

Volume of Digital Transactions (in 1000 Cr.)



Source: https://pib.gov.in/PressReleasePage.aspx?PRID=1988370#:~:text=The%20Minister%20further%20stated%20that,2023

1 https://rbi.org.in/scripts/PublicationsView.aspx?Id=22353,
https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/08NONBANKINGFINANCIAL2712236AAF95EA1D004A298BCC9924C78098AD.PDF

2 https://bfsi.economictimes.indiatimes.com/news/fintech/upi-payments-at-peak-high-in-december-value-of-transactions-rises/106468039

Lending value chains too have made significant progress in digitisation across origination, credit assessment and servicing. As of June 2023, this space grew at 31% in terms of volume, with digital lending disbursement value reaching INR 29,875 crore, registering 32% growth from the same period last year.[3] This transformation has been driven by the interlinking of payments, identity and data systems. By harnessing Goods and Services Tax (GST) invoices on IndiaStack, the 59-minute micro, small and medium enterprise (MSME) loan portal has facilitated over 2.4 lakh loans worth INR 83,532 crore.[4] Through a streamlined evaluation process, this initiative has significantly improved financial accessibility for MSMEs.

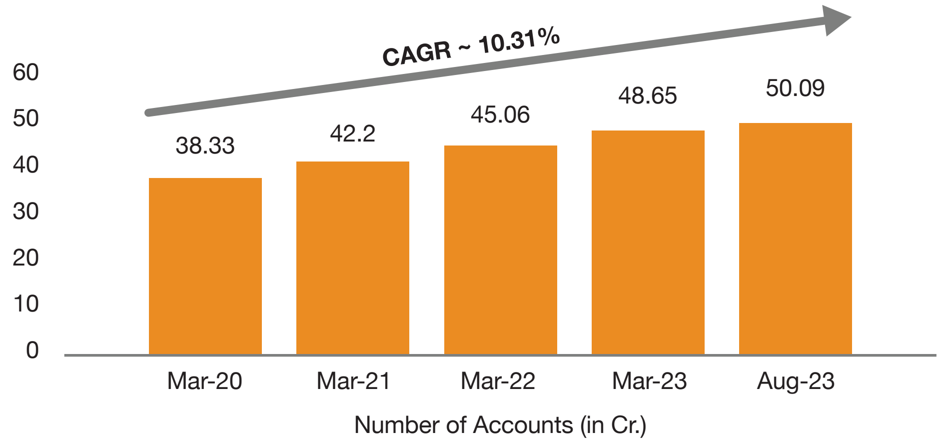
The regulator has been cognisant of the emergence of new business and operating models due to the increasing maturity of the ecosystem. To streamline operations and mitigate risks, it has come up with various frameworks for banks, NBFCs and FinTechs.

The launch of the account aggregator (AA) framework shows the regulator's commitment towards the democratisation of financial information and access to credit. As of May 2023, lenders have disbursed INR 6,000 crore through AA-based underwriting. As of July 2023, 12.66 million people had linked their accounts to AA.[5]

Another significant initiative, the Open Network for Digital Commerce (ONDC), creates opportunities for banks for the provision of services such as payments, credit and insurance.

The adoption of digital banking capabilities, along with Government initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY), UPI and GST, has brought over 50 crore individuals and numerous small businesses into the formal banking system.[6] Ongoing initiatives such as the streamlining of credit processes and the adoption of artificial intelligence (AI) are bound to create opportunities that banks can capitalise upon to further their growth aspirations and remain relevant until 2030 and beyond.

Number of PMJDY Accounts (in Cr.)



Source: https://www.pib.gov.in/PressReleasePage.aspx?PRID=1952793

3 https://www.thehindubusinessline.com/money-and-banking/digital-lending-disbursement-volume-up-31-crosses-22-crore-loans-in-q1-fy24-report/article67294667.ece
4 https://msme.gov.in/sites/default/files/MSMEANNUALREPORT2022-23ENGLISH.pdf
5 https://economictimes.indiatimes.com/tech/technology/sahamati-working-on-framework-for-fair-use-of-aa-consent/articleshow/101966013.cms?from=mdr
6 https://www.pib.gov.in/PressReleasePage.aspx?PRID=1952793

2. Key drivers of financial services in India and the role of banks

- **Government sectorial initiatives**
- **Technological innovations**
- **Investments and trade**

2.1 Government sectorial initiatives

Today, millions of people and small businesses in India can transact in a matter of few seconds, without needing physical cash. This shift towards a more inclusive financial ecosystem has been enabled by mobile and internet penetration and accelerated by demonetisation and the COVID-19 pandemic. The core foundation of this shift was laid through the policy initiative of setting up a digital public infrastructure called the IndiaStack – a robust digital identity, payment and data-management system.

IndiaStack was envisioned to digitise the Indian financial system and offer benefits to every citizen, with banks being a crucial part of it. Due to the introduction of IndiaStack and other digitisation efforts, the percentage of banked population increased from 53.95% in 2011 to 86.71% in 2021.[7] Using mobile phones and Aadhaar, digital onboarding of new customers for savings accounts in banks became almost seamless though e-KYC.

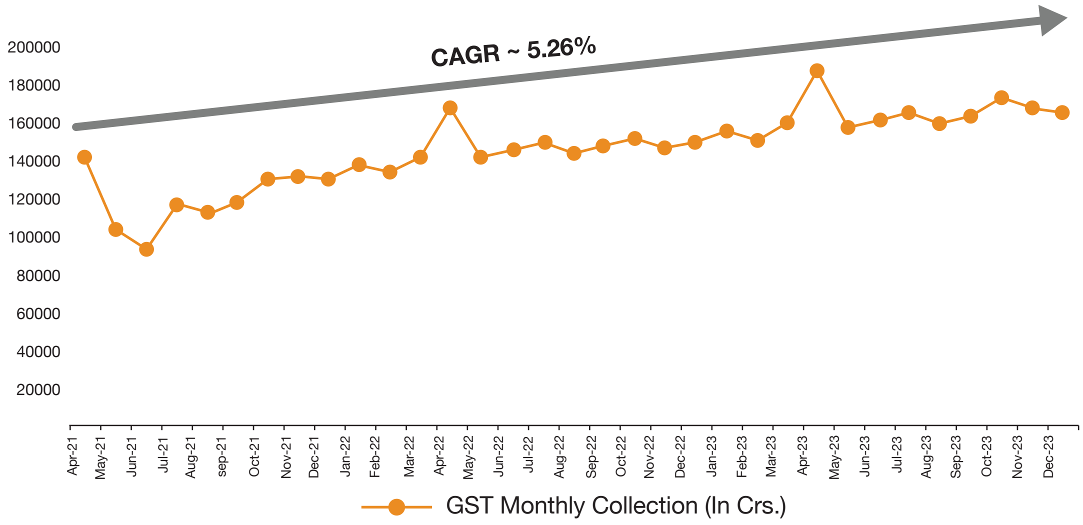
The sustained and considerable increase in the total accounts opened under this initiative suggest a commitment to economic stability, poverty alleviation and long-term social development goals, reflecting a strategy of enhancing public welfare and confidence in the Government's fiscal management.

Robust digital banking capabilities have enabled the formalisation of lakhs of small and medium businesses, ensuring greater traceability, transparency and increase in tax collections on a global scale.

- **GST collections in India** have grown in line with the rise of digital payments, providing banks with a flourishing business in tax collection and subsequent deposits. Furthermore, the enormous increase in digital footprints and financial data has paved way for new and innovative mechanisms for credit assessment.

7. PwC Analysis

GST Monthly Collection (In Crs.)



Source: https://gstcouncil.gov.in/gst-revenue

- The **AA framework** has been launched by the Reserve Bank of India (RBI) to transform the way financial data is accessed, enhancing credit to MSMEs through better underwriting and using improved analytics. Many public and private sector banks in the country have joined the AA network, along with other entities like the Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDAI) and Goods and Services Tax Network (GSTN).

Although regulatory mandates will eventually lead most financial ecosystem participants to be connected to AAs, the AA framework will help in consolidating scattered financial data, making credit access easier for both individuals and businesses and reducing costs for banks.

As India moves towards fulfilling its economic aspirations for 2030, new-age policy interventions from regulatory bodies are becoming crucial to harness the full potential of emerging technologies while keeping risks in check.

Positive policy interventions

Generative AI
Guidelines around responsible AI development are needed to harness the promise of next-generation technologies like generative AI in the banking industry. These guidelines play a pivotal role in tailoring wealth management, improving risk assessment, fortifying fraud detection and elevating customer service by using next-generation technologies.

CBDC
Structured participation from contributors like RBI, banks, FinTech companies, payment operators and end-users during CBDC pilot testing will facilitate invaluable learnings for future policy decisions and roll-out.

Frictionless credit framework
Frictionless credit framework is on the horizon, which will transform lending processes by providing a standardised API and prioritising swifter disbursement and scalability for a dynamic, accessible and scalable credit ecosystem.

API-driven data sharing
API-driven data sharing will lay the groundwork for agile, secure and efficient financial transaction rails.

ONDC
Initiatives like ONDC will lower entry barriers for commerce participation, thereby advancing financial inclusion.

IFTAS
The introduction of IFTAS – shared cloud platform by the RBI – is anticipated to further fortify the banking sector by hosting sensitive data and regulated workloads, thus enhancing security and scalability through centralised protocols.

Furthermore, holistic policies across these fronts drives innovation, efficiency, and trust, thus propelling the financial sector towards a dynamic and interconnected future.

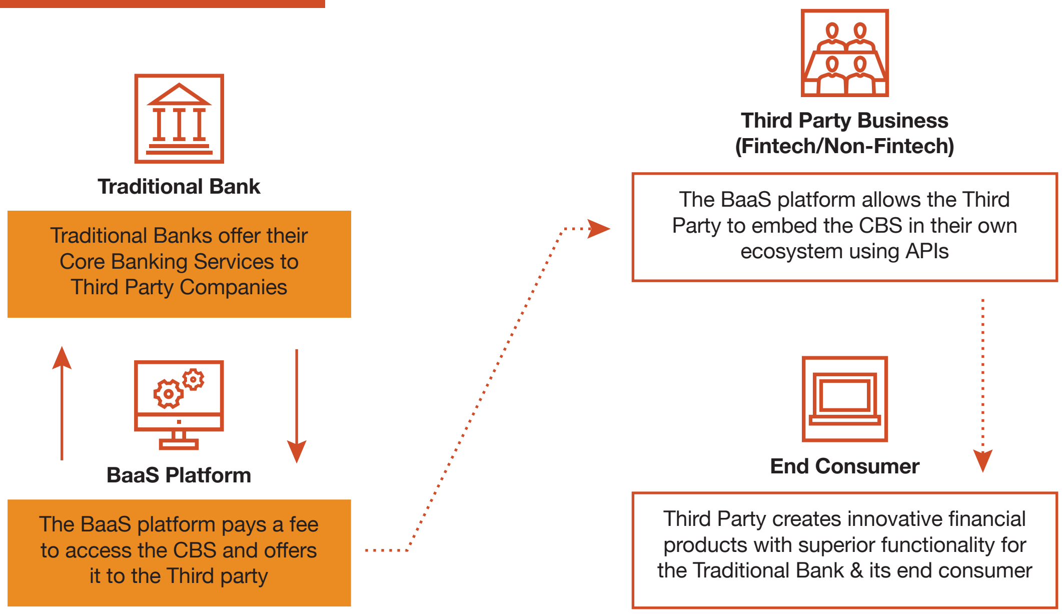
2.2 Technological innovations

The emergence of new technologies and rapid digitalisation have significantly changed consumer behaviours. Through proliferation of mobile and internet services, Indian consumers have shifted to online experiences.

- Banks have evolved from **brick-and-mortar models** to **digital banking channels** in order to align with the new paradigm, thereby requiring constant technological innovation and reshaping of operating and business models.
- FinTech collaborations have been at the forefront of technology adoption by banks, providing cutting-edge platforms for improving operational efficiencies or access to new business avenues for growth. Tech-savvy **neo-banking** FinTechs have been able to garner many young and new-age customers through their seamless experience proposition.

Owing to increasing digitisation, banking services have become more interconnected with the overall digital economy. Application programming interfaces (APIs) have played a significant role in proliferating this phenomenon, allowing seamless transactions among multiple parties, and therefore enabling banks to expand their reach and business avenues. The emergence of new operating models, such as banking-as-a-service (BaaS) and beyond banking models has resulted in banks partnering with various platforms including e-commerce, BigTech companies, healthcare service providers and travel aggregators. This collaboration aims to offer customers a comprehensive range of financial and non-financial services.

BaaS Model



The Reserve Bank of India (RBI) too has kept pace with evolving landscape and has taken steps to encourage ongoing advancements in the Indian banking sector. Few notable measures include the implementation of a regulatory sandbox, digitisation of the Kisan Credit Card, establishment of a public tech platform for seamless credit processes, and operationalisation of the CBDC.

Generative AI is gaining traction in banking, enabling utilisation of virtual assistants, resulting in cost reduction and expedited query resolution. Additionally, generative AI is being used to reshape the wealth and portfolio management by employing advanced algorithms for personalised strategies and recommendations.

The combination of generative AI and predictive analytics has immense potential in enhancing cross-selling and upselling opportunities in the banking sector, thereby positively impacting the overall revenue and earnings. Concurrently, analytics innovation, using advanced tools and AI, play a crucial role in:

- Recognising customer behaviour trends.
- Efficiently managing risks and enhancing process optimisation.

This helps in providing valuable insights that enable well-informed decision-making and improve the overall economic efficiency of banks.

Financial institutions are leveraging machine learning (ML) applications to enhance fraud detection and credit scoring, while aiming for potential reductions in loan default rates. With quantum computing on the horizon, major banks are investing in its research to potentially reduce their time-to-insight. In addition, the metaverse is anticipated to bring immersive digital environments to banking, offering personalised interactions and virtual branches. Blockchain technology is set to enhance security and transparency, reducing transaction times and costs. Increased and widespread adoption of these technologies are expected to reshape banking paradigms.

2.3 Investments and trade

India's trajectory towards a USD 5 trillion economy by 2025[8] will gain momentum as government investments surge, propelling a compound annual growth rate (CAGR) of 30% in capital expenditures, which are expected to reach a substantial 3.3% capex-to-GDP ratio.[9] Growth of core sectors, green energy initiatives and Production Linked Incentive (PLI) scheme will foster optimism for FY24 and beyond. Robust corporate profits will fuel corporate capex cycles, while relaxed foreign direct investment (FDI) policies will attract foreign investments – especially in trending sectors. Setting up of economic corridors, bilateral trade agreements and the adoption of the China Plus One strategy will further enhance trade activities – ultimately benefiting MSMEs.

Banks, set to play a pivotal role in the investment cycle, will strategically leverage platforms like TreDs for economic value chain support, aligning with technology and policy interventions to offer innovative financial services. The potential entry of global manufacturers into India will catalyse a ripple effect in the banking landscape, prompting collaborative ventures and stimulating economic growth. The surge in ancillary players will create opportunities for diversified offerings, with increased demand for credit from suppliers and manufacturers, providing banks a strategic avenue to expand their financial portfolios.

8 https://pib.gov.in/PressReleasePage.aspx?PRID=1944734

9 https://www.livemint.com/market/stock-market-news/outlook-2024-from-capex-cycle-to-pli-boost-here-are-the-6-key-themes-for-indian-markets-in-2024-11704203419982.html


NO SMOKING
NO SMOKING
SAFETY FIRST

3. Transforming challenges into opportunities

- **Evolving customer expectations**
- **Increasing competitive landscape**
- **Dynamic regulatory environment**
- **Technology modernisation**
- **Risks and frauds**
- **Talent management, learning and training**

As many banks have begun their transformation journey, the future of the Indian banking sector, though tumultuous, is promising. With customers opting for hyper-personalised experiences and FinTechs moving to occupy a major share of the market, there are bound to be a few challenges ahead. Below, we examine these challenges, analyse their impact, and how they can be transformed into strategic opportunities.

3.1 Evolving customer expectations

Evolving customer expectations will considerably disrupt the Indian banking sector by 2030. With customers increasingly demanding hyper-personalisation, 24x7 availability through digital channels, traditional and branch-based banks will have to work towards meeting their expectations of end-to-end, digitally enabled experiences comparable to other services. Therefore, banks must reinvent themselves to provide tailored products, timely advice and omnichannel access focused on customer expectations around personalisation, digital delivery, ease of use, social impact and financial wellness. Banks that adapt to these conditions may continue to thrive; however, those that do not will risk losing customers to agile competitors.

Customer expectations from their banks are expected to grow manifold in the coming years:

Ease of banking:

By facilitating ease of banking, banks can provide mobile-first customer experiences. Through services like Anywhere Banking, WhatsApp Banking, AI chatbots and intuitive mobile apps, banks will broaden their financial reach in addition to enhancing customer experiences. The implementation of doorstep banking can further strengthen this commitment.

Hyper-personalisation:

Banks need to use quantum computing to analyse customer data and interactions to understand customer needs and offer contextual recommendations and customisations. Tailored product recommendations like metaverse mortgages through DeFi products, gig economy loans for freelancers, green loans and profile-based pricing are some of the expectations that customers will have from their banks. Lack of personalisation can turn away prospective customers.

24x7 availability and omnichannel presence:

Omnichannel banking services are expected to become the norm as downtime due to website crashes or app issues may frustrate digital native customers. Traditional bank branches are poised to shift their focus towards providing advisory services in response to changing customer behaviour – namely, digital native preferences – marking a strategic pivot in their operational approach.

Sustainable financial services:

In the banking landscape of 2030, heightened social consciousness and a focus on environmental, social and governance (ESG) principles will prompt customers to prioritise banks with ethical and sustainable practices. Emphasis on transparent lending, investments in renewable energy and active support for community initiatives will be key drivers of customer preference and trust.

Financial wellness and holistic support:

Banks will go beyond just transactions, offering budgeting tools, mental health resources and personalised financial counselling. This space is currently evolving with strategic partnerships between fitness chains and FinTech providers, facilitating gym memberships through innovative buy now, pay later (BNPL) modes, thereby fostering diversified growth opportunities for banks.

3.2 Increasing competitive landscape

In the dynamic landscape of Indian banking, a multifaceted competition is unfolding, encompassing the evolution of public sector banks, rise of digital NBFCs, transformative mergers and acquisitions, and the growing influence of tech giants.

- **Improvements in public sector banks due to EASE reforms**
  Banks will face increased competition from public sector banks showing improvements due to initiatives like the EASE reforms. The EASE framework aims to enhance the operational efficiency of public sector banks, potentially making them more competitive.

- **Emergence of digital NBFCs**
  Many NBFCs, using new technology and prudent capital allocation as differentiators, are catering to various customer segments at competitive rates. Though rising interest rates and the recent move by the RBI to increase risk weightage on unsecured consumer credit reduces the immediate threat from NBFCs and FinTechs, they can continue to be a formidable force in lending and other areas in the long run.

- **Reshaping the sector via mergers and acquisitions (M&A)**
  India's financial landscape is experiencing significant transformations through M&A involving banks, NBFCs and FinTech players. These consolidations offer strategic opportunities for banks to amplify their growth by expanding and diversifying through acquisitions.

- **Competition from BigTech companies**
  BigTech companies are increasingly becoming serious competitors. The varying maturity levels among banking players creates competitive differentiators. To remain relevant, banks that are comparatively lagging behind in this regard must work towards enhancing their digital capabilities and establishing collaborations with FinTechs and prominent technology companies. This will empower them to provide innovative services and effectively engage with customers.

3.3 Dynamic regulatory environment

With the growing scrutiny of the RBI to ensure prudence and stability in the financial system, the adherence to regulatory requirements has emerged as a challenge for Indian banks. Banks are obligated to comply with a range of regulations and guidelines, including data protection laws, which can significantly escalate the costs associated with compliance. The following circulars serve as recent instances of regulatory mandates imposed on banks.

- **Master Direction on Outsourcing of Information Technology Services 2023**
- **Digital Personal Data Protection (DPDP) Act 2023**
- **Regulation of Payment Aggregator – Cross Border (PA-CB) 2023**

Looking ahead, it is important for banks to anticipate and prepare for mandates related to financial stability, IT sourcing, consumer protection and security measures to navigate the regulatory landscape effectively. Additionally, proactive governance, well-defined processes, and timely investments in technology to automate regulatory compliance will help banks to become future-ready.

3.4 Technology modernisation

Many banks face challenges in attaining interoperability and smooth integration between their diverse systems. The existence of multiple systems of records, sub-optimal data architecture, constraints in adopting new products and inadequate integrations collectively contribute to the existing inefficiencies within banks.

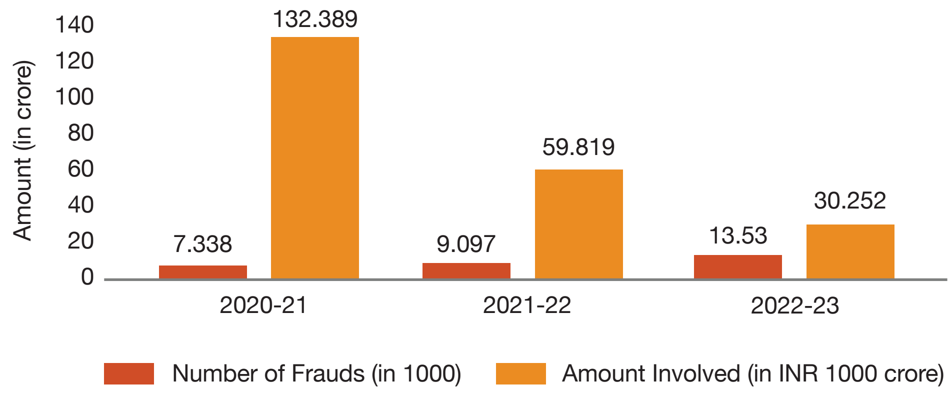
In addition to the above-mentioned problems, inherent complexities in existing systems, migration challenges and improper project execution cause huge project delays and overruns for banks. Therefore, banks are gradually considering investing in modern technology stacks across front-, middle- and back-office operations, which are more flexible, scalable and adaptable. Some important areas to consider are:

- **MarTech**
- **Omnichannel stack**
- **Product-specific lending platforms**
- **Enhanced data architecture**
- **Business rule engine**
- **Generative AI and cloud adoption.**

Futuristic ideas like core modernisation, hollowing of the core and dual-core strategy are slowly gaining traction as well.

3.5 Risks and frauds

Operational bank frauds



* Data presented includes various frauds such loans, cards and deposits amounting to INR 1 lakh and above.

Source: https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0ANNUALREPORT20222322A548270D6140D998AA20E8207075E4.PDF

As banks become more digital, they are becoming more vulnerable to operational frauds and cyber threats.

1. **Operational frauds:**
   The decrease in the average amount of frauds in terms of value indicates a strategy shift – i.e. fraudsters are possibly focusing on higher volumes of smaller transactions to evade detection. This shift highlights the adaptability and evolving tactics of fraudsters, thus necessitating a proactive approach by banks to stay ahead in fraud-prevention measures.

2. **Cyber threats:**
   As cyberattacks continue to grow in frequency and sophistication, banks must invest heavily in cybersecurity solutions to protect their customer's data and prevent fraud. Data breaches, phishing attacks and other threats pose great economic and reputational loss to banks. Therefore, resilient cybersecurity measures, continuous monitoring, increased user awareness, internal process checks, enhanced security and strategic partnerships for threat intelligence will be crucial to fortify defences against evolving cyber threats.

In the transforming banking landscape of 2030, operational risk management will play a pivotal role in ensuring the robustness of digital processes, safeguarding against technological pitfalls. At the same time, market risk will assume prominence, necessitating banks to adeptly navigate fluctuations in interest rates and currency values through the application of advanced analytics. In tandem, credit risk strategies will undergo transformation, as banks harness the power of AI and ML for accurate borrower assessments. Considering these risk dimensions, a comprehensive approach becomes essential, urging collaborative partnerships and seamless technological integration. By effectively addressing operational, market and credit risks, banks can not only protect against threats but also pave the way for sustained growth in the digital era.

3.6 Talent management, learning and training

Talent attrition is a pressing concern for many Indian banks, due to a competitive resource market. As per several reports by leading private Indian banks, the average attrition rates were in the range of 35–40% during FY23 – mostly in the junior and mid-levels. High rate of attrition[10] has been a major concern primarily due to loss of experienced staff, increased recruitment and training costs, and potential impacts on operational efficiency.

- **Talent recruitment:**
  Strategic talent acquisition is pivotal for fostering innovation and adaptability. Currently, there is a gap in the available talent pool with regard to diverse skills and forward-thinking mindsets, which are necessary in order for the bank to adapt to current trends.

- **Specialised training:**
  Insufficient training programmes for specialised skills create an obstacle which prevents the staff from keeping abreast of industry trends.

- **CXO involvement:**
  Involvement of CXOs in talent management, learning and training is instrumental for the banking sector's success in India. Their strategic vision will help in aligning talent acquisition with industry needs, while hands-on leadership will foster a culture of innovation and adaptability, thus positioning banks for excellence in a dynamic landscape.

- **Geographical distribution of IT hubs:**
  Indian banks should look forward to relocating their IT department to alternative cities. Some Indian banks continue to maintain centralized IT operations, leading to increased expenses and hindering talent diversification and innovation efforts.

10 https://www.cnbctv18.com/business/companies/rbi-closely-watching-high-attrition-at-some-private-banks-says-shaktikanta-das-18207931.htm

4. Major focus areas for banks

- The evolving business landscape
- Technological resilience and ecosystem
- Processes
- Data monetisation
- Governance, risk and compliance
- Talent resilience

Long-term business sustainability is laid upon the foundation pillars of growth, efficiency and governance (GEG).[11] This GEG framework can assist banks in fuelling growth for the future, balanced with a mix of operational efficiency and robust governance.

FinTech's disruptive entrance and the ongoing consolidation among banks and NBFCs signify dynamic changes. Additionally, the entry of global manufacturers brings forth collaborative prospects and alters credit demands, shaping a future where the banking sector adjusts to refine business models and embraces new growth opportunities.

In addition to growth, banks will need to aim for high operating efficiencies to transform the overall banking experience and be future-ready. The Government's ongoing EASE reforms for the banking sector can set the right benchmark for the industry to reach a collective maturity of standard operating capabilities, creating enhanced access and service excellence in the ecosystem.

To sustain the ongoing advancements, banks will continuously need to strengthen governance by focusing on areas of compliance, risk, and audit functions. The regulator also emphasises the importance of being vigilant when it comes to governance.

To attain the objectives of the GEG framework, banks will need to consider various enablers like new business avenues, processes, people, and overarching technology in order to drive them. In the next decade, banks will need to set some priorities and use advanced technologies for business growth, streamline processes and build talent resilience.

11 https://rbi.org.in/Scripts/PublicationsView.aspx?id=21083

4.1 The evolving business landscape

FinTechs are challenging traditional banking models with agile innovations and customer-centric solutions. Their disruptive technologies, often more responsive to evolving consumer needs, could attract a larger share of the market, prompting banks to adapt and collaborate to stay competitive in the rapidly changing financial landscape.

The ecosystem construct has emerged as a transformative approach in banking for new business avenues, reshaping traditional banking models. It has led to the growth of BaaS and beyond banking models. One key aspect of this mindset involves embedding value chains and exploring innovative business models. Moreover, this mindset enables a competitive response by incumbents to new-age challenger banks and FinTechs.

With the onset of frameworks like AA and ONDC, value chains which were traditionally associated with manufacturing have found a new home in banking. By embedding value chains like healthcare, automobile and agriculture ecosystem, banks can integrate themselves into the broader economic ecosystem.

This will enable them to aggregate offerings like loans, insurance, cash management along with other allied services in the value chain. As an example, Indian banks have increasingly set their footprints in the agricultural ecosystem, partnering with AgriTech to help farmers with market linkages, equipment, fertilisers and crop advisory, clubbed with financial offerings.

A prominent emerging segment embracing the ecosystem construct is supply chain finance (SCF).[12] SCF is being seen as a strategic way to embed into value chains and streamline cash flows. By integrating financial services into the supply chain, banks are facilitating smoother transactions, reducing risks and enhancing overall efficiency. With SCF contributing to just 5% of outstanding bank advances in 2022, and a massive credit gap persisting among small businesses, SCF penetration remains quite low. Although Government initiatives such as Make in India and TReDS have augmented the penetration of SCF, there is still a long way to go.

If the RBI grants digital banking licences in future, it could result in increased financial inclusion, providing innovative and accessible banking services to a wider population. The emergence of new digital banks could spur further competition, leading to improved customer-centric solutions and enhanced operating models.

12 https://timesofindia.indiatimes.com/blogs/voices/the-rise-of-supply-chain-finance-enabling-to-bring-rural-india-into-the-mainstream-economy/

4.2 Technological resilience and ecosystem

The deputy governor of RBI has recently stressed the importance of banks investing in technology and security. As technology is core to business operations, it is essential for Indian banks to constantly evaluate their technological capabilities and bridge any gaps through new investments.

- Banks are being driven to update their technology stack due to the non-linear increase in transaction volumes and the demand for banking services that are accessible anytime and anywhere. This modernisation is across the bank's operations – including front-, middle-, and back-office functions – to help achieve agility, resilience and scalability.
- Achieving a true omnichannel experience requires focus on channel integration. Banks should invest in fortifying their data platforms, reducing dependencies on multiple systems of records and seamlessly integrating existing systems.
- Strategic investments in rule engines and analytics are crucial for re-evaluating credit assessments, exploring revenue enhancement opportunities, and enhancing risk and compliance measures.

Another important aspect that should be considered by the sector is integrating AI and ML technologies into existing or new systems to enable and improve last-mile banking, customer experience, efficiency and business growth. Few use cases where banks can have quick wins include implementation of:

- Chatbots in conversational AI
- Credit decisioning for automated underwriting
- KYC, fraud checks and biometric authentication in transaction monitoring & fraud analytics
- Customer marketing and personalisation in predictive analysis
- Wealth management in personalised banking
- Intelligent automation using conversational AI 'Bhashini', integrated with Google and Aadhaar, to help banks achieve seamless financial inclusion.

Another trend being observed in the Indian banking industry is the gradual integration of AI in marketing, which is redefining customer engagement standards. With its ability to understand and predict customer behaviour and patterns, generative AI-powered MarTech can create highly precise marketing strategies for banks. Furthermore, through vast financial and non-financial datasets, banks can leverage nuance patterns to personalise product offerings. Banks need to immediately assess their AI readiness, ensuring their channels, data architecture and flow are streamlined for long-term success through AI.

In addition to AI, blockchain and IoT are promising technologies – despite being at a nascent stage in the industry – that have the potential to revolutionise banking by improving operational efficiency, enhancing customer experience, and enabling the development of innovative services.

4.3 Processes

Banks must prioritise customer centricity and process efficiencies in their continued digitisation efforts. In the evolving competitive landscape, efficient processes have become a key differentiator in banking. In alignment with the EASE norms, banks need to engage with customers through seamless digital enablement. At the same time, intelligent process automations and analytics need to be deployed for internal process refinements. As previously mentioned, deploying emerging stacks like MarTech can have positive implications on the way banks engage, onboard and service their customers.

In addition to enhanced efficiencies, streamlined processes can directly contribute to business growth by garnering more deposits, increasing loan-book size and generating higher fee income through the bank's own products and ecosystem partnerships. Moreover, they can improve governance through streamlined data reporting, greater transparency and ensuring compliance with standard operating procedures.

In lending operations, the frictionless credit framework can optimise automated data exchange, utilising standardised APIs for seamless interoperability. This can accelerate the lending cycle, foster inclusivity, and enhance stakeholder engagement through digital literacy, thus creating an efficient credit ecosystem. Initiatives like optimised KYC (OKYC) can streamline KYC processes by centralising validated information. This will facilitate effective and automated access to KYC data for future interactions.

Banks must reassess their processes, user interface and banking experience to optimise efficiencies, minimise expenses, strengthen customer relationships, and enhance regulatory compliance and governance by harnessing emerging technologies.

4.4 Data monetisation

Data is now considered the new currency, with both financial and non-financial institutions utilising client and transaction data to make informed decisions. While the concept of data monetisation is not new, it has become increasingly important to ensure that data becomes a significant source of revenue generation for organisations to keep up with consumer expectations, increased competition, emerging technologies and new business models.

- There are various ways to monetise data, such as selling raw data to third parties or selling it after analysing it and deriving insights. For example, in the Indian lending industry, financial data (whether raw or analysed) is sourced for customer credit assessment, showcasing one form of data monetisation.
- Indirect data monetisation involves analysing available data to uncover insights that enhance customer reach and understanding. This approach enables the development of hyper-personalised products and boosts customer engagement through cross-selling or upselling strategies.

By leveraging data in these ways, organisations can maximise its value and generate revenue. The monetisation of data plays a vital role in comprehending customer engagement. This can be accomplished through direct sales or by conducting insightful analysis. By harnessing advanced technologies like generative AI, ML and the metaverse, product personalisation can be taken to new heights.

4.5 Governance, risk and compliance

Regulatory oversight has resulted into a slew of directives addressing topics like:

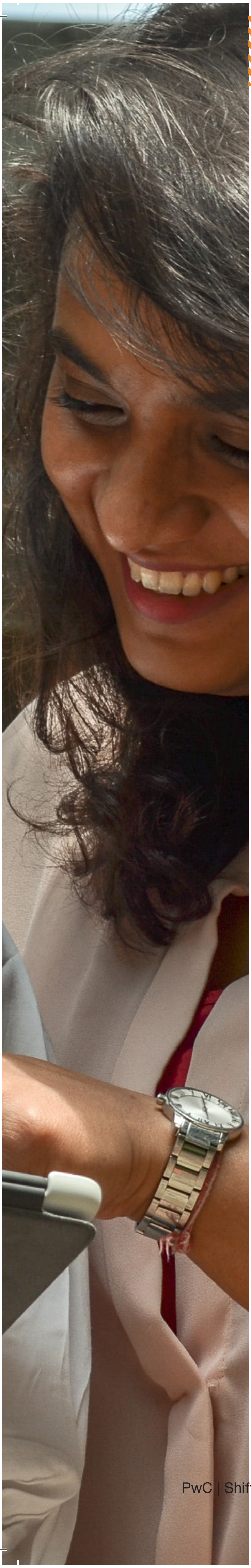
- IT governance
- Outsourcing policies
- Risk management
- Data protection

Compliance to various guidelines by the RBI will continuously necessitate a re-evaluation of existing frameworks, establishment of dedicated governance committees, and adopting practices around technology-led governance, risk and compliance (GRC) functions.

Some key areas that banks need to continuously monitor are:

- IT outsourcing contract
- Business continuity
- Disaster recovery
- Data integrity and security
- Crucial IT applications
- Infrastructure assessment
- Operational resilience

Embracing these will make banks more adaptive to changes, resilient, secure and technologically advanced for the times ahead.



4.6 Talent resilience

Training a workforce equipped with adaptive skills, technological acumen and a digital mindset will be paramount for talent resilience. Banks that invest in continuous learning, upskilling and agile strategies will be ahead in the race to navigate dynamic challenges, ensuring resilience in an ever-evolving financial landscape.

- By prioritising talent localisation strategies, banks can build a resilient workforce that is adept at navigating the intricacies of the evolving business landscape, ensuring sustained growth and innovation.
- Establishing centres of excellence (CoEs) that concentrate on advanced technologies, ground-breaking banking methodologies and regulatory dynamics will function as central points for ongoing education and skill enhancement. To stay ahead of industry trends and improve their competitiveness and sustainability, banks must heavily rely on skilled professionals in credit, operations, product, scrum and project management.

Furthermore, financial institutions must encourage leadership programmes and the dissemination of knowledge to establish a pool of forward-thinking executives who can steer the organisation towards growth. Attracting prospective talent will necessitate positioning banks as appealing employers with a compelling mission and a robust corporate culture.

5. Conclusion

To enhance banking experiences across the country, there is a need to develop a technology strategy that addresses the unique challenges and opportunities of the Indian banking industry and aligns with the objectives of Digital India and financial inclusion.

Indian banks must persistently enhance digitisation, elevate customer experience and consistently adopt new technologies. Key differentiators and sources of competitive advantage will be customer-centricity, leadership buy-in, talent development, innovation culture and active engagement with the FinTech ecosystem. Additionally, prioritising collaboration, risk management, compliance and effective governance is vital for long-term resilience and competitiveness.

In line with this, the RBI is also focusing on adapting emerging technologies to drive digital transformation. Innovations like retail CBDC aim to boost transactions, while wholesale CBDC is anticipated to impact revenues. The AA and frictionless credit frameworks have the potential to simplify credit processes, extending access – particularly in untapped markets like Tier-3 cities.

As we approach 2030, We look ahead to secured banking services enabled by Trust, AI and innovation driving service excellence.

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