The changing face of banking

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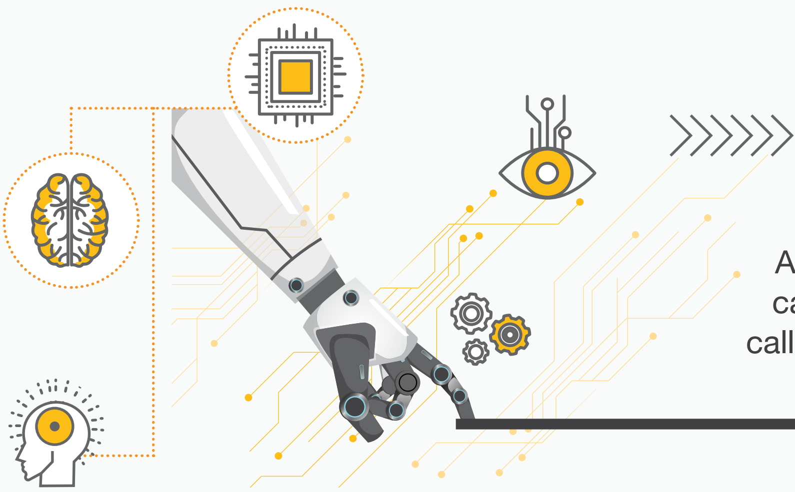

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Low Rental Processing Centre branches

App-based account, digital debit card, biometric verification, video call RM and servicing, deposit taking robotics-enabled ATM Branch

India's banking sector has undergone a paradigm shift in the past two decades-evolving from physical banking to becoming digital anchors. It has witnessed a transition from the simple automation of paperwork in bank branches to today's branchless banking paradigms that use new-age contactless technologies.

The role of technology has evolved from being a mere cog in the strategic framework of companies to driving, shaping and redefining business models and revenue streams. Democratic access to the latest technological capabilities, coupled with the breakneck speed of change, has destroyed industry barriers to entry and allowed tech-centric start-ups to compete with Financial Services (FS) giants.

In fact, the pace of technological advancement has led these developments to be viewed less as enablers and more as positive disruptors. This shift can be attributed to organic changes across the following five key segments:

Customers' trust: The first part of the 2000s witnessed a change in the mindsets of consumers. Customers progressed from perceiving money as an instrument that was meant to be preserved to one that offered growth opportunities. This led to 'safe' money from homes being increasingly mobilised to banks. However, the change was slow because customers took time to understand that their money would be safe with other institutions. Private sector banks saw hardly any activity, since only public sector banks (backed by the Government) were usually considered effective in building trust.

The changes in the next decade, in contrast, were swift and radical because customers had increasingly begun trusting banks because of the convenience they offered in easing processes. This was made possible by the onset of the digitisation wave, which enabled customers to manage all their financial affairs on their personal digital devices. The following decade saw the remarkable growth of payments banks and Unified Payments Interface (UPI) transactions.

Technology: The movement from paper-based book-keeping to systems was a step in the right direction. But it was the adoption of the Core Banking Solutions (CBS) in 2002 that set the ball rolling for the incorporation of sophisticated technological processes in the banking sector. CBS not only enabled bank-client interactions and streamlined management of account-related details, but also facilitated calculation of interest, penalties, maturity, etc. And with the coming of the digital age after 2011, technological integration had to be raised a notch higher to enable a seamless customer experience. Banks soon began to focus on incorporating platform portability and achieving 'no down-time'.

Credit preferences: Informal lending and borrowing from family and relatives played a prominent role and was prevalent in the first decade of the 21st century. But with growing trust in the banking system, people started to move away from the social stigma associated with borrowing from family and friends. This was the precursor of the credit off-take in this rapidly emerging space. The latter part of the decade saw new age financial institutions focusing on niche products gaining a substantial share in the sector. And even today, despite progressively losing a share to small finance banks, payments banks, housing finance companies and Non-Banking Financial Companies (NBFCs), banks still maintain their position as market leaders among credit suppliers. But changing preferences regarding credit are evident with people being more ready to borrow from NBFCs and other e-Lending agencies, which provide localised and specialised schemes, instead of from banks.

Regulation: The industry has moved from a pro-banking regime that was unsupportive of NBFCs and other small players till the late 2000s to one in which payments banks, NBFCs, small finance banks and Jan-Dhan accounts flourished in the second decade. With the RBI mandating more prudent capital adequacy measures in the wake of the unfolding Non-Performing Asset (NPA) crisis and alignment with global financial standards via the introduction of International Financial Reporting Standards (IFRS), banks are bracing themselves for headwinds during their adaptation to the revised and more stringent lending norms. However, although NBFCs are still fairly new, the transition in light of regulatory changes is expected to be fairly smooth.

Profitability: Due to major drivers that put the industry on a growth trajectory in 2002, banks were driven to acquire customers as a means to ensure their profitability. This led to opening of bank branches across India so that banks could be as inclusive as possible. The next decade saw a paradigm shift, with banks that had hitherto only concentrated on maintaining their profitability, moving from a focus of acquisition of customers to their retention. This paved the way for customer servicing, with provisions being made for customers' convenience and NPA management taking the helm (in light of digital advancements).

India's banking sector is set to move to a transformational space in the next decade. With technology increasingly becoming an imperative in the household and digital servicing domains, the day is not far when customers are likely to place their trust in robots or artificial 'chat-bots'. Along with advancements in applications of Artificial Intelligence (AI), Machine Learning (ML), Block Chain and Robotics, FinTech seems to be the next big driver in a few years. We believe that the advent of FinTech will change current profitability metrics and enable much enhanced operational efficiency, rental savings, digital currency, robotics, quality control and analytics-driven collections strategies to replace existing KPIs. The time is right for the industry to be forward-looking in integrating upcoming technology and leveraging Data & Analytics to become much 'smarter' in identifying and servicing customers' needs.

Incorporating customer insights into the business model will drive the next revolution

Customers' behaviour will shape the banking sector in the next few years and banks will need to cope with new expenditure while maintaining profitability through cost optimisation.

In the current scenario, the customer is spoilt for choices, but they want to bank with the 'fittest' banks. They require:

- High service quality
- Single window processing with minimal re-direction
- Accurate information across platforms
- Financial services to provide real time service, being used to e-commerce TATs
- Bankers to keep pace with swift credit processing and servicing in sync with their fast-paced decision-making
- Their primary bankers to be cost efficient to protect their financial interests as customers
- Secure interfaces in their banking transactions, being increasingly vary of cyber fraud

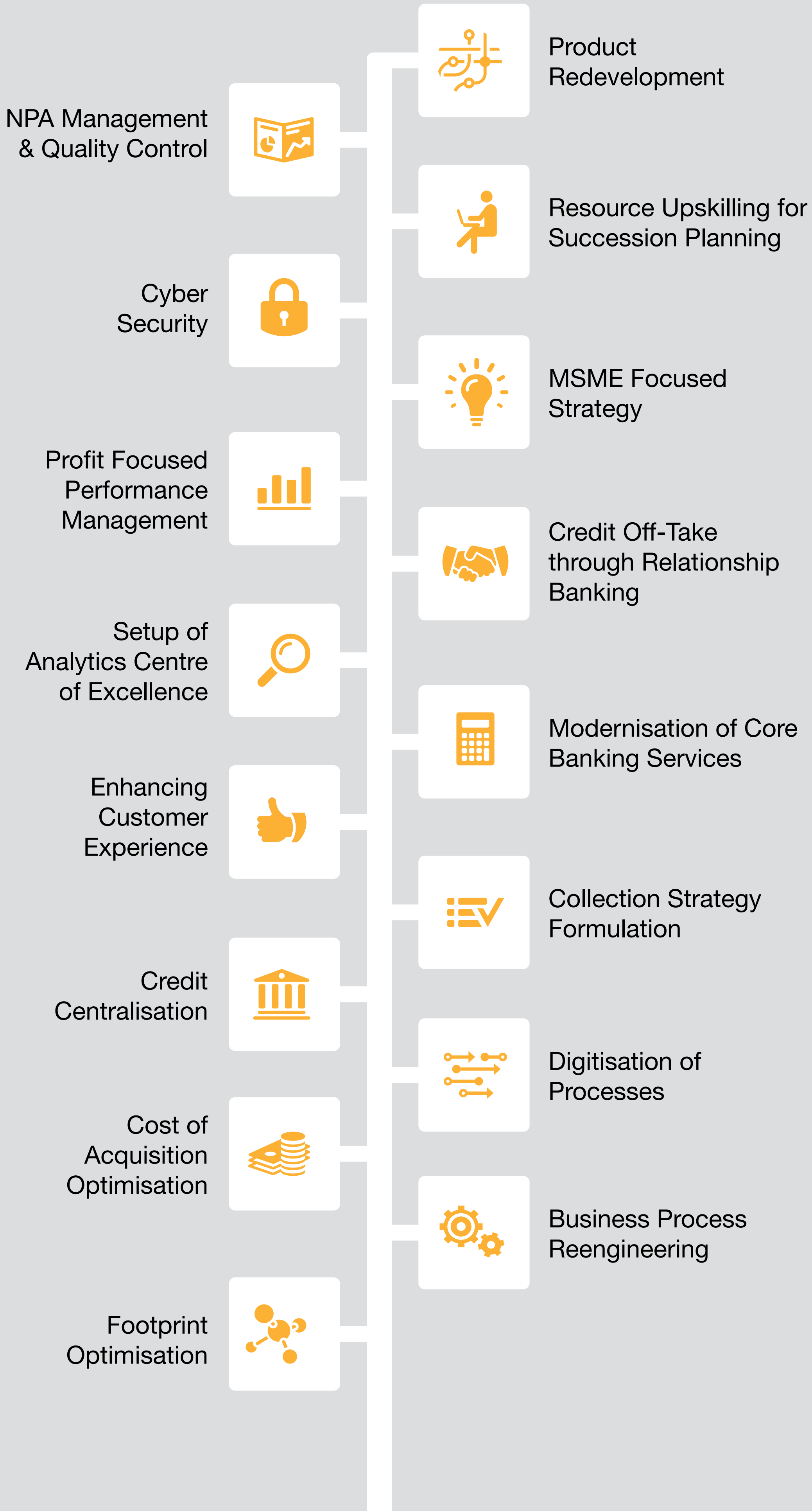
A snapshot insight into current customer preferences reveals that spends on digitization and customer service are inevitable. Banks may spend on many initiatives but the challenge is to ascertain whether these spends are in the right growth engines that are aligned to the overall strategy and fit for growth of the organisation.

Auto Manage
Biometric Identity
Cryptocurrency
Paperless
E-Wallet
Asset Size
Collaboration
Efficiency
Engagement
Cognitive
Deep Analytics
Data Storage
MSME
Brand
KYC
Digitisation
P2P
Advisory
Machine Learning
Digital Credit
Audit Trail
Cognitive Automation
Aadhar
JanDhan
Deposit Taking ATM
Fraud Detection
Service Quality
Single
PoC
Robot RM
Insurance
Compliance
Robotics
Alternate Underwriting
NPA
Responsive
No
FinTech
E-Bank
Limit
Video RM
Secure
Speech Command
Voice Assist
Real Time
Round
Quality
Rewards
Future
Ready
Risk Management
the Clock
InstaCredit
Streamline

Growth initiatives can be undertaken to shield against the high costs of enabling customer needs

Several cost initiatives are being deployed across the BFSI sector. However, it is critical for the industry to focus on relevant cost-optimisation initiatives to enable it to appropriately identify opportunities for growth. This presents industry with a unique challenge. We recommend tackling this issue head-on by means of a questionnaire with the following questions:

- What expenditure is critical and imperative?
- What are the services and functions that can be amalgamated, automated and shared?
- Which activities and processes should be outsourced?
- How much manpower planning is needed?
- What training or upskilling is needed?
- Which projects should be prioritised and when?



Implementing the right initiatives is key to ensuring your organisation is ‘fit for growth’.

Indian Banking Sector beset with multiple bottlenecks

Growth resulting in multiple platforms and duplicated functions (with “shadow” functions and assets embedded throughout organisations)

Significant complexity of products, associated processes and infrastructure from acquisitions and legacy portfolios

Traditionally ‘heavy’ role of corporate centre and higher than average associated costs

Unnoticed ‘expense creep’ in organisations’ non-value-adding functions owing to historically high returns in core business

Need for national digital banking to build a sustainable destination-state.

This may result in conflict and enable synergies with the legacy retail banking model and help optimize organisations’ footprints.

Several differentiating capabilities (considered strategic costs) required by clients; there is need to preserve and perhaps expand these (e.g., innovation heritage, analytic insight or M&A, credit or risk management, human capital management, and test and learn culture) But is the historical way the best way of executing these in the future?

Focus on the following areas of growth to address the aforementioned challenges

Enhancing Customer Experience

- Ease the On-Boarding Process for NTB Customer
- Migrate Branch Walk-In Customers to Digital Servicing
- Strengthen Digital Platform
- Make Branch Visits Pleasant

Credit Re-Engineering

- Make Credit Products Feature Rich
- Be Easily Accessible & Available to Customers
- Target Key Underpenetrated Markets

Banking With Quality

- Quality of Assets
- Process integrity with respect to TAT and error rates
- Customer Service & Satisfaction Index

Digitisation For Efficiency & Customer Inclusion

- Operational Efficiency
- Digital Efficiency
- Identify Customer Inhibitions and be Equipped to Address them

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