

BANKING THROUGH TECHNOLOGY : FROM EFFICIENCY TO EXCELLENCE[¶]

Dr Raghuram Rajan, Governor Reserve Bank of India and Visitor, IDRBT, Members of the Governing Council of IDRBT, CEOs of bankers present here, fellow bankers and colleagues, it is indeed a privilege to be present amongst you all at an eagerly awaited event of the IDRBT – the annual Banking Technology Awards function today.

2. 2015 is a watershed year as far as technology based banking in India is concerned. At the national level, the year witnessed the large scale proliferation of banking services to the hitherto unbanked segments of the country's population. The PMJDY accounts are a result of the untiring efforts put in by the operative staff at branches of banks; it also marks an important facilitatory role played by Information Technology (IT). The opening of so many accounts was possible only because of the technology solutions used by banks not only for opening the accounts, but also for KYC (Know Your Customer) and for issue of cards for operational convenience of the customers who have only recently been brought into the folds of banking, apart from integration with the services offered by the Business Correspondents who are playing a pivotal role.

[¶]Speech delivered by Shri Harun R Khan, Deputy Governor, Reserve Bank of India and Chairman, Governing Council, Institute for Development and Research in Banking Technology at the IDRBT Banking Technology Awards, Hyderabad, October 23, 2015

3. 2015 also witnessed the birth of a new group of banks – the payment banks – which would perform their operations using IT and they would all be fully IT enabled right from the first day of their operational existence.

2015 – from a pure IT perspective also witnessed the formal acceptance of standards in IT based processing, with the Reserve Bank releasing the recommendations of the Committee on Standardisation which has outlined the standards which would be used across banks not only for regulatory reporting but for inter-bank information exchange as well.

4. 2015, finally has also been the year when the much awaited integration of the KYC with the Aadhar system materialized.

5. It is thus safe to now conclude that IT in banking has become an integral and imperative component at the core of banks' operational infrastructure. While the use of IT by banks has been in vogue for more than two decades now, its availability in a holistic manner for banks is of recent origin. Against this backdrop, the IDRBT Banking Technology Awards assume significance. It is heartening to note that banks are now using IT for various purposes – from better Asset-Liability Management to decision making based on actual data, analysis of data for customer behavior, pattern analysis, segmentation and stratification of

services, Customer Relationship Management (CRM), alternate delivery channels, in new payment and settlement services and above all in more efficient risk management.

6. While acknowledging the efforts put in by banks in the large scale use of IT for their day-to-day operational requirements, I must hasten to add that there are many more areas which need to be addressed. I thought that I would outline these in some detail.

7. The first of these relates to the IT based requirements of financial entities such as the Regional Rural Banks and MFIs. It is commonly accepted that these banks have a crying need for IT to help them improve their operational efficiency. I am aware of the efforts of IDRBT in extending Common Core Banking System Infrastructures to these institutions which is perhaps at the base of the pyramid of the requirements of this group of banks. They need to share common registry services such as those pertaining to KYC data bases, common information on credit histories of borrowers and more importantly be able to participate in payment systems like the normal scheduled commercial banks so that their customers also can avail of payment system services like their counterparts in the commercial banks. To this end, I feel that there is a need for improved co-

operation between the commercial banks and these banks and perhaps move over to 'co-opetition' (co-operation combined with competition) so that the customer benefits at large. I urge all commercial banks to join hands with these types of entities so that the knowledge and benefits that they have from IT can be used to the advantage of the entities which are now moving over towards increased IT based operations. If common services can be extended to such organizations, there would be economies of scale, lower operational costs, improved utilization of existing IT resources and above all, improved efficiency of the banking sector as a whole.

8. At this juncture let us tarry a while and review the benefits of IT implementation. Let me touch upon some of the undesirable fall-outs of large scale dependency on IT. From an internal knowledge perspective, it is heartening to note that most of the repetitive processes have been automated; but along with this has the basic knowledge of the staff on these operations vanished? I hear of situations in banks where the basis accounting concepts and double entry book-keeping are all totally performed by computers that the new staff members in the banks do not know the basics and consequently, during contingencies there is dearth of human skills in this regard. The next aspect relates to the customer. Thanks to the use of alternate delivery channels, there is no need for a customer

to visit a branch of a bank for long periods. While this is beneficial from a customer delight perspective, are we losing out on the personalized touch which was a characteristic feature of Indian Banking? Are customers feeling that they are being short changed in terms of the services they receive from banks? This aspects gains special importance when the customer has a complaint or when the customer looks for redress. And finally, are we missing out the all important customer feel which may perhaps be a main indicator in respect of servicing of loans and by which indications of impending failure or NPAs can be predicted? I would urge all present here to carefully review these and take rectificatory steps as may be required, so that IT is exploited well to achieve these as well.

9. Having highlighted some challenges, let me focus on the positives. It is a well known fact that IT has resulted in operational efficiency and banks have benefitted a lot from the Core Banking Systems implemented by them. I recall the time – maybe three decades ago when branches used to balance their daily books of account with a difference! Today, this is unheard of; further, unique customer identification, standardized storage of information and capability to process large volumes of transactions are all commonly observed. The journey towards efficiency has move ahead and excellence is now a watch word. IT has indeed

brought about excellence, but if this has to be sustained and improved, I would urge upon the need to watch out for the following 5 other Es:

Encapsulation :Today banks have a huge volume of data which is difficult to analyse and process. It is now time to encapsulate data into useable buckets so that there is optimal value-addition from the large data sets available with banks.

Encryption: Data is a precious commodity which has to be stored with utmost care and which should not be available to the unintended. To address this and to conform to the legal requirements of the Information Technology Act, it is necessary to encrypt data to the extent necessary. I urge banks to ascribe due importance to this requirement.

Enforcement: Most IT systems in banks have been implemented well but their systems of controls do not speak of high levels of conformity. This particularly applicable to security (especially e-security) and there is a general laxity observed in respect of enforcing good and optimal control measures such as digital signatures, maker-checkers, database governance issues and the like. Banks need to ensure that enforcement of all appropriate control measures are always existent.

Evaluation: IT systems are all effective only when there are monitored well and they operate within the parameters for which they were designed. These systems must be subject to continuous evaluation and when they achieve or surpass tolerance levels (such as usage levels of more than say, 80%, growing databases, unintended attacks on networks etc.), prompt and suitable corrective action is taken.

Environment : As all of you are aware, the IT industry is characterized by quick obsolescence levels and change is almost a constant feature. Against this backdrop, the IT environment as well as the business environment gain significance for continuous monitoring and rectification as may be required.

10. The IDRBT has been making pioneering efforts in many areas pertaining to IT implementation, payment systems and in executive IT based training. I am confident that with the hiving off of the services of the IDRBT into a separate entity – the IFTAS, the IDRBT would be able to focus better on research and development as well as training including training-the-trainers. The awards of today reflect the strides made by banks in these areas and I am sure that with the synergistic efforts of banks and the IDRBT the country can look forward towards excellence in technology based banking of the morrow!