



Institute for Development and Research in Banking Technology

Technology Driven Indian Banking¹

1. It is indeed a happy occasion to be present at an august occasion such as the Centenary Celebrations of a successful bank. A hundred years is a path breaking feat and a bank with the credentials of City Union Bank Ltd., has proved that banks could exist across centuries with a shining presence, starting from a temple town like Kumbakonam, if they are able to provide the service expected by customers – by adopting the key word of ‘change’ and adopting to changing requirements of the customers in particular, the banking industry in general and the economy at large. I consider myself fortunate to be here in your midst as we not only evaluate our laurels but become prepared to meet the challenges of the future 100 years as well.
2. The two letters which have changed the way businesses operate has been IT as an acronym for Information Technology. No other facilitating service has resulted in such large scale benefits as Information Technology. IT has become such an essential ingredient of one’s way of life in today’s world that it is difficult to imagine a world without IT. And no other sector has benefited to such a large extent as the financial sector, with the Banking sector in particular, from the inroads made by IT
3. Traditionally, business strategies have all focused on meeting the objectives of the business with greater impetus being laid on the channels involved – to achieve the broad goals. While different types of organisations – such as production companies and service organisations might have differing channels in the conduct of their businesses, the ultimate objective of any business strategy would be to maximise the returns relating to the very purpose of existence of the businesses. Today, however, the winds of change wrought by IT have necessitated a paradigm shift where IT does not merely provide value added support services. IT, however, has re-positioned itself as the basic backbone for most businesses. In

¹ Address by Shri Vepa Kamesam, Chairman, IDRBT and Former Deputy Governor, RBI at the

fact, we have now reached a stage where it may be difficult to even imagine how a business or an industry would even survive without IT. The Fourth Wave, as Alvin Toffler had predicted years ago, has, if I may add, submerged theories relating to maximizing output using IT, instead IT is the way of business. And those businesses which have not joined the bandwagon of exploiting the benefits ushered in by IT may have to face a rough ride if not stare at the prospects of possible extinction.

4. The Banking sector is no exception to this changing scenario which is sweeping across the world. Most of the banks have already started to feel the impact of the operations of the new banks in the country. The single biggest advantage of these banks is the large scale deployment of IT in their business endeavours. Their business processes have necessitated that IT should provide solutions to various bottlenecks and problems and the result has been that IT has transcended well as an integral part of their regular operations. In the case of the older banks, however, it is paradoxical to note that even now IT drives the way the organisation functions and not vice versa.

5. The changes staring at the face of bankers all relate to the fundamental way of banking – which is undergoing a rapid transformation in the world of today. It is widely recognised that the core banking functions alone do not add to the bottom line of banks – value added services are slowly but steadily emerging as a substantial opportunity for banks to exploit and customers would not hesitate to use such services in view of the convenience they offer. Prime factors necessitating these changes relate to the forces of competition, productivity and efficiency of operations, reduced operating margins and the need for better asset - liability management. One of the major challenges faced by banks is the impact of competition and the falling margins in the transactions undertaken by them. With wafer thin profit margins being the order of the day, the solution to this would lie in increasing volumes well beyond a critical mass 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. It is in this context that there is an imperative need for not mere technology upgradation but also integration of technology with the general way of functioning of banks.

6. It is well recognized that technology holds the key to the future success of Indian Banks since it is Information technology which has brought in a sea change in the way banking is being conducted today – which is but an indication of the morrow. It would be beyond anybody's imagination to even think about conducting banking business anywhere in the country or using a powerful yet simple medium such as the Internet even from roadside kiosks. But today this is the reality – which owes its credit to the rampant exploit of IT by banks. And concepts such as 'Anywhere Banking' or 'Automated Teller Machines' are but offshoots of technology implementation by banks, as also Internet Banking and Mobile Banking. Such innovations have had a positive impact on customer service – but the fundamental benefit that is derived by banks relates to reduced costs of operation – such as in handling cash and in servicing customers efficiently and accurately over the counters of branches.
7. The large scale proliferation of IT in the Banking sector has also brought into focus many challenges which have to be overcome by us.
8. A major attitudinal change which is required is the need for a change in the concept relating to treatment of customers of banks – with the collapse of geographical distances, banks need to treat the customer as a customer of the whole bank and not as a customer of any particular branch. This is now possible thanks to the usage of IT in a large scale whereby centralised data bases are possible in a bank with decentralised access. Another option to achieve this is objective is to have clustered solutions in a bank with data of customers residing in these systems. Banks need to constantly look for innovative services which offer customers the convenience of transacting from anywhere, at any time and using delivery channels more suitable for them. These are frontiers which would

add value to the services offered to customers and at the same time act as a means for increasing the profits for banks too.

9. One of the most significant areas where IT has had a positive impact is on substitutes for traditional funds movement services. With the advent of electronic banking, electronic funds transfer and other similar products, funds transfers across different constituents is now easily possible – within time frames which would have appeared impossible a few years ago. It is this area which is a big challenge to banks. Many new players are entering into the arena of funds transfer services and the pride of place enjoyed by bankers is under severe threat. The competition is not just from organisations performing funds transfer services but from other seemingly unrelated channels such as service providers for message transfer, quick delivery of instruments and the like who all facilitate the movement of funds based messages at speeds faster than before. The lines between corporate communication carriers and banks are now blurred so that doubts arise where one ends and another begins.

10. The most prominent challenge among the above relates to the concept of security. With the delivery channels relating to funds based services – such as movement of funds electronically between different accounts of customers – taking place with the use of technology, the requirements relating to security also need to undergo metamorphosis at a rapid pace. Various concepts such as digital signatures, certification, storage of information in a secure and tamper-proof manner like smart cards all assume significance and have to be part of the practices and procedures in the day-to-day functioning of banks of tomorrow. I must hasten to add at this stage that all these would be added requirements and the well established practices of today may also have to not only continue but also co-exist along with the new requirements. Customers of rural India must get the benefit through tailor-made technology solutions with different level of sophistication. They need a human face to interact with banks and back office processing done elsewhere. The Reserve Bank of India has taken upon itself the setting up of a safe, secure and efficient communications network for the

exclusive use of the banking sector. Named the INFINET (for the Indian Financial Network), this network is already being used by a large number of banks for funds and non-funds based message transfers, and is made available by the IDRBT here in Hyderabad. I may even add that the INFINET is perhaps one of the very few networks in the world which uses the latest in technology and security called Public key Infrastructure – PKI, which is not only robust but also well within the legal requirements of the Information Technology Act, 2000.. The INFINET provides for inter-bank communication – which implies that banks have to now function as a group and at the same time competing with one another too.

11. An effective security policy which would offer a shared vision of how the controls in the workplace should be implemented with the objective of protecting data, information and eventually, the economic value of the organisation. This has to be supplemented by education and training in these areas and reinforced by the actions and concerns of the top management so that a culture of security can be created. These controls have to be supplemented by surveillance, monitoring and auditing to detect unusual usage patterns and deficiencies.
12. Inculcating greater levels of computer awareness among the operative staff at branches of banks by means of training and other means of exposure is a vital requirement. While this is being achieved by means of programmes conducted at the various training establishments of banks, additional inputs from professional technical organisations would bridge the gap which may arise between the levels of technology inputs offered by banks' own training institutions and the developments the world over.
13. Yet another factor which is the driving force behind the use of technology in Banking relates to the benefits that technology offers – not only for the banks but for the customers as well. If technology has to be harnessed by banks to reap the benefits it offers, it is essential that the people who use technology are also adept in handling business using technology. It is in this context that training assumes significance. I am glad to witness the initiatives taken by the Banking sector and

it is particularly heartening to note that City Union Bank is leaving no stone unturned in this direction through its network of over 125 fully computerized banks

14. I wish that in their search for excellence, City Union Bank will be a path breaker for others to emulate and follow. I congratulate the Chairman, Board of Directors and dedicated employees of their being a part of this history in its centenary year of its existence. It is both a matter of pride and satisfaction to them and I wish all of them and their families the best in years to come. I am also grateful to the Chairman for having invited me to deliver this key note address and participate in this important function.

Thanking you,