BANKING SECTOR: ENGINE FOR INDIA'S GROWTH REVIVAL

How banks accelerated their digitalisation drive to cope with the pandemic's demands, and their road ahead

Debashish Mukerji

All of the Indian industry had to readjust rapidly to cope with the fallout of the Covid-19 pandemic – but none more so than banks. Banks had their digital platforms ready, but the pandemic required them to make a great leap forward, taking as many products and processes online as possible. How did banks cope? To what extent have the government's responses helped? To discuss these and more related questions, Economic Times and IBM held a virtual discussion themed around 'Banking Sector: Engine of India's Growth Revival' with leaders of both the public and private sectors banks.

The bankers were unanimous that, for all their preparedness, their bank's rapid further digitalisation following the pandemic took even them by surprise. "I had never earlier thought that all our operations could be kept running from employees' homes, but they were," said K.V.S. Manian, Whole Time Director and Member of Group Management Council, Kotak Mahindra Bank. Branches had to be kept open – with depleted staff practising strict social distancing – and ATMs physically replenished, but beyond these, almost everything went online. Customer response too was enthusiastic. "We had been working towards digitalisation, but had faced a problem of adoption," said Ajay Khurana, Executive Director, Bank of Baroda. "The pandemic changed that with customers using our mobile banking facility having doubled."

In many banks, the entire loan granting process was tweaked to be completed without once meeting the borrower; all treasury functions – interest rates, the daily liquidity requirement, foreign exchange deals – were managed digitally; letters of credit were opened and bank guarantees given, all from home; even the statutory annual bank audit was carried out without the auditors once visiting. "There was no playbook to guide us on how to respond to a pandemic and lockdown," said Rajiv Anand, Executive Director (Wholesale Banking), Axis Bank. "Yet we managed."

With the digital shift, however, cyber security has become all the more important, given the sensitivity of bank data. "This is an issue with every industry, but more so with financial services," said Sandip Patel, MD, IBM India and South Asia. "As more operations have gone online, cyber attacks have also increased and become more sophisticated." A study by IBM's X Force Threat Intelligence found India the second most cyber attack prone country in the Asia Pacific region after Japan, with 60 per cent of such attacks directed at finance and insurance companies. "Banks need artificial intelligence to counter such attacks, which provide the right fraud detection tools and reduce response time when they do occur," Patel added.

The bankers commended the government's decision to allow state agencies to farm out some of their business to private banks unlike in the past. "It will optimise the flow of money from the government to lower levels, right down to the panchayats, and competition is always a good thing," said Anand of Axis Bank. They also commended the Reserve Bank of India's December 2020 decision to keep the repo rate – which it had lowered by 115 basis points earlier in the year to help industry cope with the economic fallout of the pandemic – unchanged at 4 per cent. "I must say the RBI has been very accommodative," said K. Ramachandran, Executive Director, Indian Bank. "Covid-19 proved to be particularly difficult for MSMEs but such supportive policies and the government's infrastructure push will surely revive the economy."

Over the next year, fintech is expected to become even more crucial for banks. Vasudevan P. N., MD and CEO, Equitas Small Finance Bank, which was elevated from a microfinance institution to a bank only in 2017, noted that even his borrowers – the majority of them very small entrepreneurs with average loan ticket size Rs 400,000, were becoming digitally literate. "There is still some way to go, but change is happening," he said. "In the future, agility in bringing new products to the market will be vital." While the consensus was that big banks would grow bigger and stronger, even as the smaller ones struggled, Murali Ramakrishnan, MD and CEO, South Indian Bank, noted that technology could be a great leveller too. "I expect technological advances in three main areas – efficiency, safety and security, and in the use of the open banking ecosystems that are being created."

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KEY LEARNINGS

1. Banks were able to adapt quickly to the new because their digital journey was already seven to eight years old
2. Cyberattacks on banking websites are increasing and becoming more sophisticated. Banks need to use AI to combat them
3. Customers have become much more amenable to using digital banking thanks to the pandemic
4. Five broad tech domains relevant for banks – productivity enhancing technologies, re-jigging the legacy stack, driving synergies and collaborative technologies' regulatory compliance, and enterprise grade security using AI
5. Agility will be crucial – if new projects take too long to go to market, the competition will already have brought it
6. Boundaries between banking and other sectors will blur; banks will have to move out of their comfort zones

We are focusing on increasing our presence through business correspondents, who will help out those unable to handle digital. They are also more cost effective than opening new branches

AJAY KHURANA
Executive Director, Bank of Baroda

Among banks, the big and strong will get bigger and stronger. Banks will either have to be big or provide differentiated products, or they will not survive

K.V.S. MANIAN, Whole Time Director and Member of Group Management Council
Kotak Mahindra Bank

Global banking is changing from being an aggregator of loans, liabilities, remittances and advice to being that of creators of trust based ecosystems and differentiated service products

SANDIP PATEL
MD, IBM India and South Asia

The economy is at a turning point. GDP numbers have been disappointing for the past decade, but in coming years, they may surprise us

RAJIV ANAND, Executive Director (Wholesale Banking), Axis Bank

Apart from Covid, we also had to go through our merger with Allahabad Bank. We had to harmonise products, policies, processes, HR, technology – and all of it through video conferencing and calls

K. RAMACHANDRAN
Executive Director, Indian Bank

MSMEs have been hit both on the supply side and the demand side, so their business models are coming under question. On-boarding new borrowers will call for more due diligence than before

MURALI RAMAKRISHNAN
MD and CEO, South Indian Bank

We announced a blanket moratorium on loans for all our borrowers during the pandemic. We knew our customers would pay back as soon as they could, and they are doing so

VASUDEVAN P. N., MD and CEO, Equitas Small Finance Bank