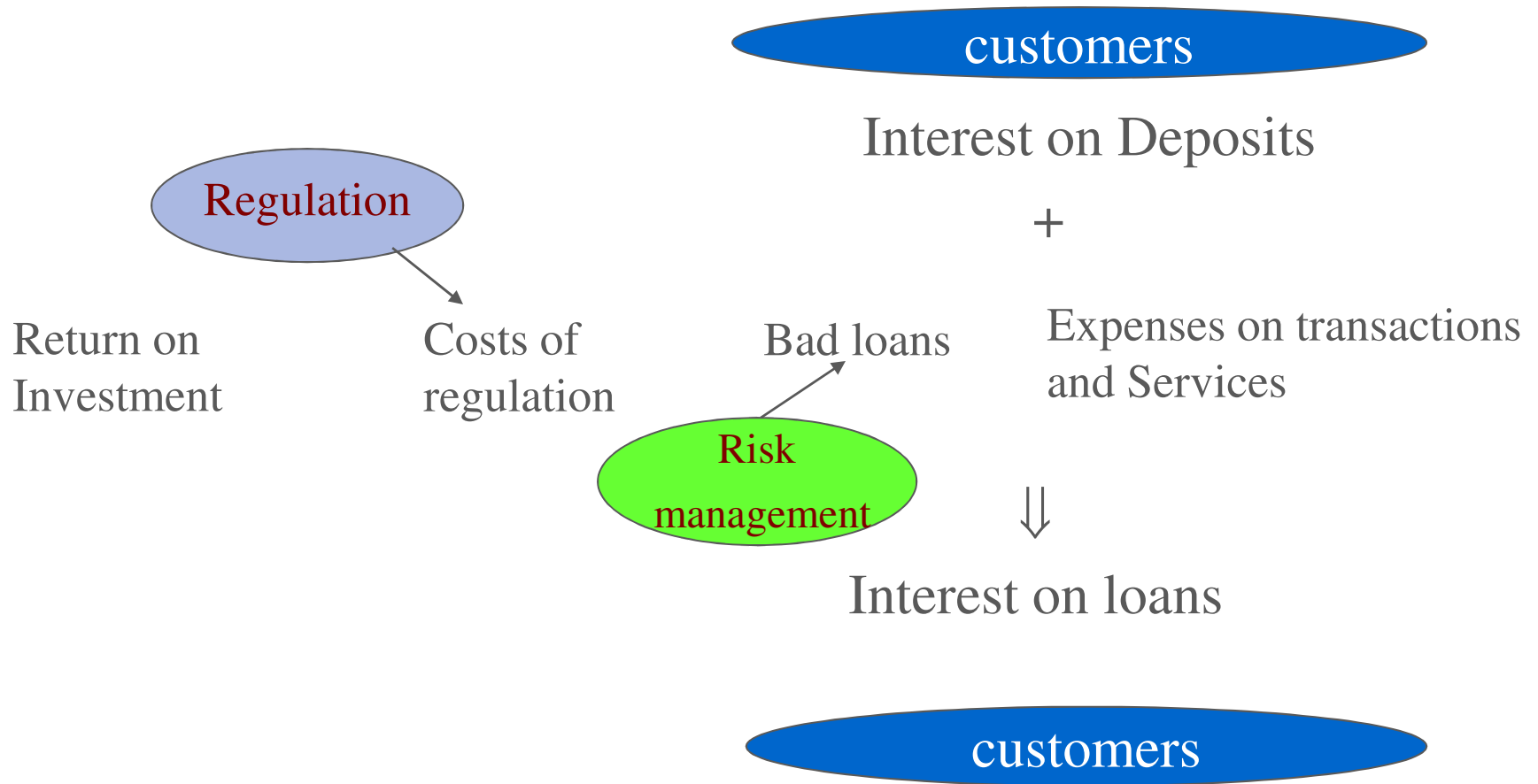

Leveraging Technology for Banking

Towards enhancing cost-efficiency & expanding market

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Understanding Banking Business



PLR calculated using these parameters

Banking as a Business

- Maximizing Profits
 - Reducing operation costs
 - Leverage technology for operations and optimizing technology costs
 - Track per transaction costs as IT infrastructure expands
- Minimizing Risks
 - Leverage technology for risk management: Track NPA
- Maximizing Customer satisfaction: banking beyond physical branches
 - So as to increase market share
 - Highest interest rates to depositors
 - Lowest interest rates to creditors
- Maximizing profits from other business
 - Managing Treasury and floats well, Managing Investments
 - Offering other technology enabled financial services to business and individual customers

Outline

- Reduce cost of transaction
- Reduce cost of regulations
- Reduce costs of risks
- Reduce cost of marketing and customer acquisition

Transactions / Payments Costs

- Current Banking (front-end) services revolve around
 - Cash / over the counter: costs upwards of Rs 50 per transaction
 - ATM: costs about Rs 10 per transaction
 - Payments: enable payment across banks and distances
 - Cheque: bank-effort similar to that for cash + central clearing
 - Wire-transfer instruction: bank-effort similar to that for cash
 - Credit Card: electronic transfers, so no front-end bank costs
 - But involves authentication / fraud risk: may cost 1 to 2% for merchants
- Back-office (back-end) costs under Rs 2 per transaction
 - Significant reduction due to core banking

When one uses Electronic banking!

- Electronic banking (Secure, Encrypted)
 - Internet banking
 - Mobile banking
 - Cash-card banking / debit card
 - Real-time inter-bank transaction introduced in mobile banking (NPCI)
 - Front-end cost of bank is Zero (customer pays for it)
 - except for some payment gateway / Internet connection
 - negligible per transaction with volume
 - Only the back-end cost matters
- Electronic-banking may increase transaction volume dramatically
 - Convenient, easy to use, loss-proof, cashless and introduces traceability, accountability
 - Enables instant transactions
 - Enables Remote Payments across banks
 - With front-end costs going away, banks need to focus on back-end costs, particularly if transaction volumes increase
 - Reduce to a few paisa per transaction (learn from mobile telephony)

at the same time

- Go all out to get customers to use electronic banking
 - after-all it removes front end costs of banks
 - Encourage usage by education and advertisement
 - May be provide some financial incentives for its use (like points)
 - Increased interest rate if one does not take physical pass-book
- While Internet usage is still limited in India
 - Mobile usage is not: 900 million mobiles
 - Go all out to enhance usage
 - Encourage customers to use mobile micro-payments
 - Enhances floats for banks
 - cashless transaction is good for nation
 - Use Voice banking (voice authentication and voice-based transaction)
- Bring in unbanked
 - Use kirana shop Business correspondents (BCs) at each street corner
 - For cash-in and cash-out using mobile banking
 - Banks should go all out to make the business viable
- Need strong back-end fraud-prevention technologies

Cost of Risk Management

- Biggest cost of risk management comes from managing risks poorly
 - needs strong risk management in banks
 - Strong processes, but processes not enough
 - Need strong database warehousing, but not enough to have it
 - It has to be used extensively using analytical tools
- While banks have made great strides in core-banking technology
 - Still very weak in using technology for loan processing and decision making
 - Need scanning of all documents and uploading after verification and storing them in document storage centers
 - All file movement and clearance electronically
 - Linking with credit-rating / risk management

Credit Scoring

- Banks need a strong credit rating system like CIBIL
 - needs de-duplication of customer accounts
 - UID will help, but one need not wait
 - Live updating of credit rating agency database with any default
 - Extend to every individual, every organization (companies, partnerships, societies, trusts)
 - In urban as well as rural areas
 - Credit Scoring models could integrate data from banks as well as
 - From credit cards
 - Cell-phone payments records
 - Insurance companies
- Proposition: immediate family members have close linkages and their credit portfolios may have influence each other's credit rating
 - Need some research in the area

Reduce Cost of Regulations

- Regulations to provide stability and reduce risks
 - Banking sector as a whole needs to use technology to reduce risks and manage banks better
 - Including transparency and report
 - So that regulations can be eased
 - And cost of regulation is decreased
- Weak Management would make regulators increase regulations

Marketing and customer - acquisition

- High Income Group customers
 - middle class / upper middle class
 - Most of them on internet
 - Can result in significant upswing in bank finances
- Use BCs to get to the 800 million potential rural customers
 - And low-income customers in urban India
 - Design Services that is meaningful to this segment
 - Long term and sustained customer base
 - Use of Mobiles to reach customers
- Quick and efficient Service, transparent Service
 - would be one of the best advertisement towards customer-acquisition



The Indian Internet Landscape



Your most valuable customer is online

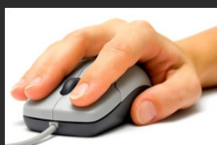
100 Mn
Internet Users

120%
Growth in users in last 3 yrs

40 Mn
Mobile Internet Users in India

Years it took to reach an audience
of 50 Mn

Radio		38 yrs
TV		13 yrs
Internet		7 yrs
Mobile		3 yrs



Digital Marketing : Huge Opportunity



BRANDING

- Most valuable customer segment
- Spending 16hrs per week



ACQUISITION

- 45% growth on Google search for banking
- Low cost & transparent alternate channel



LOYALTY / CROSSELL

- Social : Facebook, Youtube, Twitter
- Engagement on Mobile

Products	Cost/Acqui (Current)	Cost/Acqui (Internet)	Cost Adv. (%)
Mortgage	1 - 1.25%	< 0.5%	60%
Personal Loans	2.5 – 3.5%	1.5%	50%
Auto Loans	3 - 4%	2.5%	28%
Credit Cards	1000 - 1500	800	35%
NRI Accounts	NA	1500	800

To Sum Up

- Technology can bring in a new thrust to banking business
 - Core-banking adoption has shown the gains
- Time to go to the next stage
 - Using technology to reduce cost of transactions
 - Asset Business need technology
 - Using technology to better manage risk
 - Use technology to decrease cost of regulations
 - Use technology to reach Customers
 - HIG as well as low-income customers
 - Internet and Mobile marketing would attract new customers