Indian Banks on Financial Services

Hidden behind the dark clouds of bad loans is an opportunity for an exciting new dawn in Indian banking. Once the clouds begin to clear, over the next two-three years, there will be tremendous potential for the emergence of strong, next-generation banks. But lenders should prepare for the possibility, enabled by the confluence of three key factors outlined below,

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Macroeconomic tail winds

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- India is expected to rank among the top three global banking markets in terms of revenue over the next decade.
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- Millions of new banking customers, a majority of who will be armed with smartphones, will join the workforce every year.
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- Thousands of new companies created by enterprising entrepreneurs will have the chance to thrive in a vibrant start-up ecosystem. Over 500 new billion-dollar companies will be created in India.
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- The net new demand for modern banking services, in this rapidly growing market, is estimated to be one of the strongest in the world.
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Developments in banking infrastructure, technology and regulatory framework

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- Indian regulations have been very progressive in the recent past. Over the last five years, the Reserve Bank of India, has been steadily promoting a spirit of embracing technology to deepen and broaden banking in India.
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- Innovative experiments like creation of specialized payments banks and small finance banks have been undertaken.

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- India is also poised to have the world’s finest banking infrastructure in the form of an online identity system (powered by Aadhaar), credit information bureau coverage and interbank payment systems.
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- Once these projects are completed over the next few years, every single Indian resident will have an online, verifiable biometric identity and address record.
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- It will be possible for banking to be almost entirely paperless. Furthermore, Credit Information Bureau scores will help bring millions under the purview of the formal banking system, creating a complete picture of the credit history of more than half the population.
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- The payment infrastructure in India is also poised to become one of the most advanced in the world.
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- The National Payments Corporation of India has quietly set about connecting all the banks in the country to ensure seamless, convenient and instantaneous payment transactions across banks. The much-discussed Unified Payments Interface is just one of the organization’s many levers of change.
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- The biggest driver of transformation, is the fact that digital technology is becoming more affordable and powerful than ever.
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- Continuous innovation and productivity enhancements have become a norm in banking.
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- Some global banks are discovering that India is one of the most conducive markets to pilot their digital innovations.
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Reforms

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- The third set of factors that will help raise Indian banking to greater heights are the reforms likely to be engendered by the current crisis of non-performing assets in corporate credit.
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- These reforms will lay the foundation for next-generation data-driven credit

practices.
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- The increasing digitization of the economy is generating large volumes of useful, online electronic information on commercial enterprises.
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- These rapidly growing data repositories are expected to get a further boost with the introduction of the goods and services tax, potentially helping digitize invoices across commercial value chains.
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- Given the rising importance of data, banks are gearing up to use advanced analytics and technology for better risk management. In addition, the bankruptcy law is also likely to be refreshed in due course.
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All these factors have the potential to create a conducive environment for accelerated growth in banking in the near future. But only those banks that embrace distinct new capabilities will be able to harness the new opportunities and emerge as winners. By building and leveraging differentiators, financial institutions can deliver a whole new banking experience for customers—individuals and corporate entities alike.

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1. **Digitized operations**
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- Banks that become digitally proficient will be able to enhance customer engagement, ultimately achieving improved brand loyalty and profitability.
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- As more banks deliver digital services in the future, we will see a dramatic decline in paper-based, manual processes.
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- With the widespread use of world-class, online biometric authentication infrastructure, the need for filling out paper applications or using physical signatures to access services, could reduce significantly.
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- As banks' internal processes become electronic, they can control risks better, deliver on customer requests much faster and at much lower costs.
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- Customers will be able to gain real- time, granular visibility into the status of their requests.

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2. **Mastering payments and analytics on payments data**
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- Banks must be able to harness the top-quality payment infrastructure in the country to upgrade the payment experience of their customers.
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- This will be manifested most starkly in the way customers pay utility bills and make payments at merchant shops. Both are expected to be on mobile and with a single click.
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- Banks should enable their customers to safely make seamless payments, keep track of their expenses, and make offers and suggestions to them, based on analysis of their payment transactions.
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- Banks should also master making contextual offers to customers based on the knowledge of where customers are at the moment and what they are doing.
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3. **Driving bionic distribution**
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- Instead of being purely digital, future banks will be hybrid, compelled by customer demand for such a proposition.
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- They will most likely offer a “bionic model of distribution” that blends digital with a human touch.
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- Branches in the future could look like an extension of digital channels, where one can seamlessly continue what one initiates over digital channels.
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- In all probability, branches would also be smaller, taking on an advisory role, or focusing on training customers to effectively use their digital channels.
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- Institutions should establish advanced call centres that support their faceless

digital channels, with audio or video calls, whenever customers need assistance.
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4. **Going the e-commerce way**
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- Digital sales are poised to become the cornerstone of future success.
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- Today, banks feel satisfied if their electronic channels are effectively used for transactions by customers.
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- However, in the future, banks will increasingly look to drive sales and acquire new customers over online channels.
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- In that sense, tomorrow’s successful banks could quite possibly look like e-commerce companies.
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5. **Corporate transaction banking**
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- Today, the primary banker to a commercial enterprise is the one that lends it more money.
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- In the future, this role would go to the bank that provides enterprises with a technology-based transaction platform for efficient liquidity and risk management.
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- Transaction banking could then become the centrepiece of commercial banking relationships.
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- Successful banks would create sector-specific solutions that all participants across an industry value chain can embrace.
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- Banks should leverage application programming interface solutions that effortlessly integrate with client technology platforms, making the lenders

themselves invisible.
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- Further, apart from advising clients on financing issues, banks may also start counselling them on operational bottlenecks, based on insights obtained from transaction analytics.
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6. **Enabling capital markets access**
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- India will still need large-scale and long-term funding for infrastructure projects, such as huge steel and power plants.
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- The risks involved in lending to such big-ticket, uncertain projects will not dissipate overnight.
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- Banks that will be able to help clients access capital markets in a cost-effective manner, instead of taking on the entire risk by lending their own balance sheets will gain a significant competitive advantage.
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7. **Implementing next-generation credit methods**
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- Banks today rely on financial statements of borrowers to make decisions regarding lending.
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- However, the quality of financial statements, especially of small and medium enterprises and self-employed individuals, continues to be suboptimal.
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- The future belongs to banks that will institute robust systems consolidating surrogate data from a variety of sources so as to ascertain the credit-worthiness of borrowers.
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- Banks will need the capabilities to analyse transaction data in order to recognize early warning signs and take proactive action against potentially risky clients.

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8. **Customer propositions that go beyond banking**
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- Today, banks enter the scene only when a customer starts looking for a home loan, after having zeroed in on the property.
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- But in the future, banks may need to engage with customers much earlier, educating them and influencing their decision-making by providing vital information.
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- Likewise, banks could, in the future, become customers' trusted platform for getting information for making key decisions like selecting the right school for children or choosing a vehicle or a healthcare plan.
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- Banks must think beyond their conventional offerings to serve as a facilitator, creating marketplaces that permit buyers and sellers to come together.
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9. **Building effective partnerships**
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- Creating and managing partnerships has not been a strength of banks hitherto.
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- However, it will be a core differentiator in the future. Banks may find it challenging to drive changes in isolation.
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- They would do well to rely on a host of partnerships to bring together a range of capabilities.
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- Top lender management should start focusing on identifying and managing effective partnerships with non-banking entities.
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- This will help them complement their firms' core skills and create unique

value propositions for corporate as well as individual customers.
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10. **Mastering agile information technology and cybersecurity**
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- Banks would need a holistic technology-driven strategy to fulfil their vision for the future.
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- Unlike today, it will not be enough for technology to be just about procuring large systems and running them efficiently.
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- The challenge would be to raise the bar by ensuring quick service releases to get a clear pulse of what customers are relating to.
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- Apart from advanced technology capabilities, an agile organizational structure will also play an integral role in propelling banks towards success.
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- Such a set-up will allow all banking functions, including business, technology, operations, legal, risk and compliance, to work collaboratively to deliver winning products and services.
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- Banks should demonstrate their mastery over cybersecurity to give customers complete confidence that their interests are entire safe in the hands of their bank.
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Conclusion

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The future promises many changes, possibilities and opportunities. However, not all banks will be able to survive changes or embrace new capabilities. Many incumbents may be marginalized or may get acquired by rivals while new enterprises may try to enter the market. Meanwhile, several foreign banks could start looking at India as an attractive destination to make significant investments. All these possibilities have the potential to truly revamp Indian banking.
\n**Category: Mains | GS – III| Economics**

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Source: Live Mint

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