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Information Technology and its implication in the New Trends in Retail Banking.

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Abstract :

Information technology is a use of technology of managing information like storing, accessing, retrieval and dissemination of information in proper way. With a jump in the Indian economy from a manufacturing sector, that never really took off, to a nascent service sector, Banking as a whole is undergoing a change. A larger option for the consumer is getting translated into a larger demand for financial products and customisation of services is fast becoming the norm than a competitive advantage. The Retail banking sector expected to grow at a rate of 30% players are focusing more and more on the Retail and are waking up to the potential of this sector of banking. At the same time, the banking sector as a whole is seeing structural changes in regulatory frameworks and securitisation and stringent NPA norms that mean the faster one adapts to these changing dynamics, the faster is one expected to gain the advantage.

The, innovation in banking lies more in process and organizational changes than in new product development in a traditional sense. This paper focuses on the new trends in retail banking.

Keyword : Retail, IT, banking

Introduction

Financial services comprise over 4% of the Gross Domestic Product in Economy as well as employing over 5.4 million people. While impressive, these numbers belie the much larger role that this industry plays in the economy. Financial services firms provide the payment services and financial products that enable households and firms to participate in the broader economy. By offering vehicles for investment of savings, extension of credit, and risk management, they fuel the modern capitalistic society.

Competition has created a fast-paced industry where firms must change in order to survive. Nowhere is this force of change felt more strongly than in retail consumer financial services. Once the sole domain of the bank, mutual funds, brokerage firms, and other non-bank competitors have continued to enter into these markets, eroding the market share of the traditional banking sector.

The retail baking industry continues to consolidate and to invest heavily in new information technology. As a result, new electronic means of transacting with the bank continue to develop due to their relative cost advantage with the paper-based banking system. The increased competition from other players in the financial services industry continues to erode the market-share of banks. This competition, along with the explosive changes in information technology, fuels the need for banks to innovate in products, services, and delivery channels.

Given the increasing competition in the retail banking industry and rapid technological evolution, how do banks innovate to meet these challenges? This paper will attempt to answer this question through the consideration of general trends in the industry and through the description of a detailed field study at a major bank.

Regulatory Change and Consolidation

The retail banking industry is undergoing a period of rapid consolidation as well as expansion into non-traditional banking products and services. Between 1979 and 1994, approximately 5,000 banking organizations were taken over by other depositary institutions. Why? First, regulations restricting interstate banking and the broadening of product lines of the banks

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continue to weaken. Changes regarding reserve limits, bank powers, geographic restrictions, and the Glass-Steagall Act restrictions on product offerings have all fueled merger activity. Consider the drive toward national banking, wherein limits on interstate banking activities are removed. The banks are responding quickly to the deregulation of interstate limits.

Roadmap of Banks Innovation

The emergence of the PC/ electronic delivery of financial services and the creation of new distribution channel designs.

Product Innovation: PC Banking

Pushed by growing consumer demand and the fear of losing market share, banks are investing heavily in PC banking technology. Collaborating with hardware, software, telecommunications and other companies, banks are introducing new ways for consumers to access their account balances, transfer funds, pay bills, and buy goods and services without using cash, mailing a check, or leaving home. The four major approaches to home banking (in historical order) are:

***Proprietary Bank Dial-up Services* -** A home banking service, in combination with a PC and modem, lets the bank become an electronic gateway to customer's accounts enabling them to transfer funds or pay bills directly to creditors' accounts.

Off-the-Shelf Home Finance Software - This category is an essential player in cementing relationships between current customers and helping banks gain new customers.

Online Services-based - This category allows banks to setup retail branches on subscriber-based online services (e.g., Prodigy, CompuServe, and America Online).

World Wide Web-based - This category allows banks to bypass subscriber-based online services and reach the customer's browser directly through the World Wide Web. The advantage of this model is the flexibility at the back-end to adapt to new online transaction processing models facilitated by electronic commerce and by eliminating the constricting intermediary (or online service).

In contrast to packaged software that offers a limited set of services, the online and WWW approaches offer further opportunities. As consumers buy more and more in cyberspace using credit cards, debit cards, and newer financial instruments such as electronic cash or electronic checks, they would need software products to manage these electronic transactions and reconcile them with other off-line transactions. In the future, an increasing number of paper based, manual financial tasks may be performed electronically on machines such as PCs, hand-held digital computing devices, interactive televisions and interactive telephones, and the banking software must have the capability to facilitate these tasks.

Innovation in Banking

With a jump in the Indian economy from a manufacturing sector, that never really took off, to a nascent service sector, Banking as a whole is undergoing a change. A larger option for the consumer is getting translated into a larger demand for financial products and customisation of services is fast becoming the norm than a competitive advantage.

With the Retail banking sector expected to grow at a rate of 30% [Chanda Kochhar, ED, ICICI Bank] players are focussing more and more on the Retail and are waking up to the potential of this sector of banking.

Potential for Retail in India: Is sky the limit?

The Indian players are bullish on the Retail business and this is not totally unfounded. There are two main reasons behind this. Firstly, it is now undeniable that the *face* of the Indian consumer is changing. This is reflected in a change in the urban household income pattern. The direct fallout of such a change will be the consumption patterns and hence the banking habits of Indians, which will now be skewed towards Retail products. At the same time, India compares pretty poorly with the other economies of the world that are now becoming comparable in terms of spending patterns with the opening up of our economy.

Foreign giants in Retail Banking

The foreign banks have identified this problem but there are certain systematic risks involved in operating in the Retail market for them. These include **regulatory restrictions** that prevent them from expanding their branch network. So these banks often take the Direct Selling

Agent (DSA) route whereby low-end jobs like sourcing or transaction processing are outsourced to small regional layers. So now on, when you see a *loan mela* or a road show showcasing the retail bouquet of an elite MNC giant, you know that a significant commission earned out of any such booking gets ploughed back to our own economy. Perhaps, one of the biggest impediments in foreign players leveraging the Indian markets is the **absence of positive credit bureaus**. In the west the risk profile can be easily mapped to things like SSNs and this information can be publicly traded. PAN is a step in this direction but lot more work need to be done. What has been a positive step towards this is a negative file sharing started by a consortium of 11 banks. However, as a McKinsey study points out actual write-offs on NPAs show a strong negative correlation with sharing of positive information. On top of this, the spend-now-pay-later "credit culture" in India is just not picking up. A swift legal procedure against consumers creating bad debt is virtually nonexistent.

Finally, the vast geographical and cultural diversity of the country makes credit policy formulation a tough job and it simply cannot be dictated from a Wall Street or a Singapore boardroom! All these add up to the unattractiveness of the Indian retail market to the foreign players.

So over the past few years, in spite of the entry of MNCs in many industries, Retail Banking has seen a flurry of panicky exits. Fewer than 40 remain in India and their share of total bank assets currently 7.2% is falling. Those that remain might be thought to be likely buyers of Indian banks. Yet Citibank, HSBC and Standard Chartered—all in India for more than a century, and with relatively large retail networks—seem to have no pressing need to acquire a local bank. Established foreign banks have preferred to take over customers or businesses from other foreign banks that want to leave. Thus HSBC, in recent years, has acquired customers from France's BNP, Germany's Deutsche Bank and Japan's Bank of Tokyo-Mitsubishi. ABN Amro took over Bank of America's retail business.

What is Innovation for Retail Banking?

The core definition of innovation and its role across the companies interviewed was varied across the organisations we talked to. Some focused on innovation 'delivering growth through new ideas that make money', many wanted to 'put the customer at the heart of everything', and others took a more operational view and focused on a 'combination of new systems, processes, and communications'. However, across the institutions investigated, a clear view came through that, on the whole, banks do not currently take a wide enough view of innovation. Traditionally Financial Services companies have focused on financial engineering in response to evident changing markets and have not explored the unmet and hence unrecognized needs of the consumer. In addition, when assessing the current innovation performance of their own businesses the banks we interviewed felt very strongly that they were at best average and most could do better. Now that innovation has become a strategic priority and is seen as one of the most important drivers of success in the next decade, they largely all agreed that they needed to 'raise their game'.

That said, we found that many senior executives in Retail Banking are very aware of innovation in the wider business world and, not surprisingly, cited companies such as Apple (product innovation), Dell (process innovation), Ryan Air (business model), Toyota (quality and growth), Virgin (brand exploitation) and BMW (technology and design) as those that are perceived as being global innovation leaders in their varied fields. Many see the clear association of well designed products with a strong brand image; something that several banks also aspire to. The executives leading the push for organic growth also made a clear link between innovation and future business success and see that innovation is one of, if not, the key to future success.

Conclusion :

The retail banking is changing rapidly by delivering growth through new ideas that make money. The banking is now becoming customer centric they wanted to put the customer at the heart of everything. Banks are offering core banking facilities, online transfer, NEFT, mobile banking etc. These services drastically transformed banking. The customer are more satisfied in this banking reforms. The IT had truly transformed banking.

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