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## **IDRBT WEBINAR SERIES FOR BOARD DIRECTORS**

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**Webinar No: 3**

**Topic: Digital Banking: Can Covid19 be a Catalyst?**

**Date: July 10, 2020**

**Speaker: G. Padmanabhan, Non-Executive Chairman, Bank of India**

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### **KEY TAKEAWAYS**

#### **A. Opening Remarks**

- a. Like Harari said (in 21 Lessons for the 21st Century), world is full of noise and uncertainty, and the next few decades will be determined by BioTech and AI.
- b. While Covid19 showed that digital banking can step up to the challenge, demonetisation exercise had already showed that digital banking in India had arrived.
- c. Rather than looking for new solutions, adapt the solutions already available around us.
- d. Learn, understand and be agile to emerging environment where change and uncertainty will abound.

#### **B. Covid19 and its impact**

- a. Other than technology (including AI/ML/DLT etc.) we are also paying attention to Emotional Intelligence and Mental Stability.
- b. No pre-specified rule book for regulator as well as for banks – hence experiment, observe and change things as we know and understand the situation.
- c. Usage of cash is still prevalent, despite Covid 19 (and its concerns for handling cash) and needs to be better understood, after more details are available.

#### **C. Digitization and its impact in context of Covid19**

- a. Tech and physical means should target reducing footfalls in ATM/branch locations to increase social distancing – which has been achieved.
- b. There are still many processes (both customer facing and intra bank) that are not digitized yet and rely on physical movement of papers, especially in public sector banks. One of the exception being board meetings, which heavily relies on tablets and controlled sharing of materials for board meetings.
- c. Process re-engineering is required, and Covid 19 provides opportunities to question some of the assumptions that were sacrosanct in the past.
- d. Remote audit of branches and zones/circles was enabled though remote access, and helped achieve quick audits. Issues and limitations observed in this critical exercise

should be ironed out to ensure remote audits are the norm for future, without negative impact to security and privacy.

- e. Some of the credit teams had to extend loans without physical audit of inventory etc. – increasing the risk. But multiple solutions (including AR/VR/IoT) etc. can help mitigate these risks and ensure low overhead, quick processing in future days.
- f. Board meetings are fully online now.
- g. Security issues and operational challenges have to be identified, and systems should evolve to minimize these risks/issues.

#### **D. HR Aspects**

- a. HR teams should be better prepared to ensure that the staff are ready for digital banking.
- b. Even board member's competency to add value in digital banking era needs to be ensured, by augmenting boards with relevant experts.
- c. At board level clarity on future expansion is a must – prioritizing neo-banking experiences over physical branch experience, while ensuring financial inclusion.
- d. Unless HR structure is re-organized for digital banking, we will be underprepared (like a blind date).
- e. Ten years ago, IT governance structure was proposed by teams working with IDRBT for Indian Banks, which focused more on vertical roles.
- f. Today the need is for people to cut across verticals and while role separation may still be desired, people should be aware of others roles and have the BIG picture.
- g. Board does not deal with departments, but with the whole bank. If top management is not able to bring in a cohesive view, as board members we need to ensure that they work as a team.

#### **E. New age technologies towards further digitization**

- a. Natural Intelligence should have oversight of AI/ML RPA (robotic process automation) etc.
- b. DLT (distributed Ledger Technologies) are really important in cases like KYC, remittances, settlement systems etc.
- c. Meetings and inspections via AR/VR will provide multiple benefits including reduced human errors.
- d. Biometrics, IoT, etc. will also accelerate digital transactions.
- e. If we stretch this thought process – dependency on physical branches can go away for most tasks, while we gain on transparency, accountability, auditability in an open manner.
- f. Current CBS models (with primarily three vendors for software stack) makes things slow, as a smaller set of entities need to roll out new features for multiple organizations. Open architectures, open API / data standardization is another current trend that can benefit all entities.
- g. RegTech will help digitize regulation.
- h. Out-of the-box approaches
  - i. Digital-kundli for all perspective loan seeking entities can reduce costs for banks as well as entities taking loans. This requires all financial transactions for the entities to be opened up to banks in a compliant manner.

- II. Role of ombudsman itself can be digitized through RPA for common issues.

#### **F. Impacting base-of-pyramid(BoP) through Affordability / Literacy / Trust, etc.**

- a. Indian banks – especially PSBs and rural focussed neo-banks have significant customers at BoP.
- b. One bad experience in digital realm will push these people back to physical banking.
- c. Every service should be off by default (e.g. international transactions on cards).
- d. Interestingly, new generation even at BoP is comfortable to smartphones. Financial literacy targeting BoP is a must;
  - I. social media can be used to reach many of them.
  - II. Special teams should be created within banks for customer education.
- e. On pricing best to let market decide; regulator may guide and advise. Zero pricing will discourage innovation as RoI will be negative

#### **G. Role of board members, strategy, risks and mitigations**

- a. BFS job profiles are changing – board needs to shift the future investment strategy - need to relocate and reskill people if needed.
- b. For digital banking teams in PSB face bottlenecks because of RFP / L1, etc.
  - I. Govt. may reduce holding to increase competitiveness or
  - II. subsidiary options may be explored or
  - III. board needs to devise a strategy with top-management to ensure innovation and agility.
- c. Board members will need to relook at the risks, ensure that they are properly managed in the current and future environment by exploiting technology.
- d. Advisable for few board members to visit the field and interact with real customers to understand their issues on digital channels. Many a times, visits by board members have helped improve the ranking of products and services of the bank, as the teams are aware of and motivated by such proactive steps by board members.
- e. Best-practices should be shared across banks for most common processes, since majority of the activities in PSB do not require secrecy.
- f. Many banks themselves will restructure significantly in near future.

#### **H. Loan restructuring, risks etc. (non-technical)**

- a. Since various industries are impacted in different manners, banks should device loan restructuring plans focused on industry verticals (e.g. tourism/travel vs. healthcare).
- b. Since there is no prior rule-book – both regulator and banks will continue monitoring such risks and adjusting approach as we go further.