

Process Innovation in Indian Banking Industry

Indian Banks' Association (IBA) and ValueNotes jointly conducted a conference on 'Process Innovation in Indian Banking Industry' at Hotel Taj President, Mumbai on January 6th to discuss various issues related to process outsourcing.

Inaugurating the conference, Dr K Ramakrishnan, chief executive, IBA suggested in his opening remarks that process transformation in Indian banking industry should be viewed against the backdrop of the impact of subprime crisis on Indian economy. 'While India has not been seriously impacted by the global financial turmoil, the current credit crunch has affected all sectors of the Indian economy,' observed Dr Ramakrishnan. He emphasised that this is a time to look internally and examine and put processes in place. Business process outsourcing (BPO) is not new to Indian banking industry, emphasised Ramakrishnan, recalling that collection of dividend warrants was perhaps the first thing to be outsourced by banks to small local companies. One of the major drivers of outsourcing by Indian banks has been the adoption of technology, he observed. He also referred to the recent policy of using the services of business facilitators and correspondents to reach out to unbanked population in remote areas. Another major area of outsourcing has been that of retail lending, where outsourcing has helped in improving customer service. He concluded his address by observing that banks need to carefully examine which activities can be outsourced and what are the risks associated with outsourcing of these activities.

Arun Jethmalani, chief executive officer, ValueNotes began his talk by observing that banking, financial services, and insurance (BFSI) sector accounts for 60 percent of global offshoring market. But, he was quick to point out that Indian banks have been slow in process outsourcing. 'Cost arbitrage is not the real driver for outsourcing by banks in India,' reaffirmed Jethmalani. Aggressive adoption of information technology (IT) has been the key driver, he emphasised. Other factors such as growth, increasing competition and deregulation, and consolidation are also acting as drivers. Among constraints he cited regulatory framework, slow adoption of technology, resistant trade unions, lower maturity and absence of cost arbitrage. 'Most of the processes are at a low level of outsourcing,' he said, 'and that presents a huge opportunity'. Private sector and foreign banks are outsourcing more, as compared to their public sector counterparts. Quoting from a ValueNotes research report on 'Outsourcing in the Indian Banking Industry' Jethmalani said that the outsourcing by Indian banking industry is estimated to grow at a compound annual growth rate (CAGR) of 47 percent in the next four

years, from the current base of INR 4.08 billion. Large scale, multiple city operations, local language capabilities, distributed delivery capabilities, and the ability to quickly ramp up operations to push growth are the key success factors for BPO companies, said Jethmalani.

Harsha Pai, head of analytics, Intelenet Global Services spoke on 'Vendor Selection: Key to Success in Process Migration'. Quoting from Gartner Research, he informed that the ability to provide customer service, process and technology expertise, low cost per transaction, referenceable accounts, low cost of implementation, trusted partner, industry expertise and cultural fit are the necessary parameters while selecting a suitable vendor. Fear of loss of control, cost, and quality of service are some of the reasons that create resistance for outsourcing, he said. 'Banks are beginning to partner with their BPO providers to also manage the obstacles,' observed Pai. Replying to a question from the audience on the lack of confidentiality in shared service operations, Pai said, 'banks can mask out the key confidential areas such as names and account numbers of customers'.

Speaking on 'Process Innovation in the Changing Regulatory Framework' Ashvin Parekh, partner, Ernst & Young observed that changes are likely in the behaviour of stakeholders, since banking industry is now owned by government in UK, US and the rest of Europe. 'Banking system will have to support economic growth,' he emphasised. 'There is no well-defined system in banking to measure performance of operational processes,' he observed. The new payments and settlement law will also bring about far reaching changes in the banking system, he said. Gaurav Bhatia, VP, BFS Solutioning Head, Mphasis spoke on 'Process Transition: Possibility and Plausibility'. With the help of several case studies he drove home the point that processes are crucial for outsourcing. Banks need to standardise and document every process before they can initiate outsourcing. Sanjay Sharma, MD & CEO, IDBI Intech spoke about leveraging technology for process innovation. He argued that 'banks still need to reach the level where processes are streamlined in a manner so that there is consistent customer service in every branch in any bank'.

Other speakers included Bindumadhav Tikekar, senior VP & regional head, wholesale banking operations, HDFC Bank; P A Kalyanasundar, general manager, Bank of India; Shrinath Bolluju, MD & COO, Deutsche Bank; R I S Sidhu, CGM (IT), Punjab National Bank; and Narayan S Bhargava, director, Shell Transource. Rema Menon, senior vice president, IBA presented a vote of thanks.