Banks are donning new structures

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Abstract

Purpose of the research : In order to better understand the response of the banks to the new technology wave the authors carried out research in the Indian banks, meeting senior executives of various banks. They adopted qualitative approach to gain insight into the thoughts and vision of senior banking professionals. The semi-structured interviews revealed thinking in the bank management. These were personal interactions spanning over an hour in most cases.

Design/methodology : The authors conducted research in 16 banks talking to multiple executives face-to-face. These included medium and big banks in Indian public sector nationalised banks as well as private banks. Interviews happened in two cities.

Results/findings : It was apparent that the creation of innovation and/or digital groups had influence on the progress of digitization in the bank. The progressive banks offering digital services on internet and mobile had such groups in place. The extent of influence could not be determined directly however larger the group size more was the emphasis being placed by the bank on such movement.

Practical implications and Conclusions: While organizing separate groups for innovation and digital proves to be useful in short term it will be important to examine ways in which the innovation process gets distributed throughout the organization and gets embedded into culture. This will be very critical as the digital technologies keep progressing at a rapid pace and banks will continually need to explore ways and means to thrive in the digital world.

The Changing Scenario

Traditionally banks have been in their loans and advances business, which has been the core of their earnings. People had trust and they always approached banks to meet their requirements. Although loans and advances continue to be major source of revenue for banks over a period of time newer earning models based on services emerged. Banks started charging for services such as money transfer, cheques and ATM usage, though in certain cases these charges do not apply.

The services business made it possible for even non-banking companies to look at different businesses. Past few years have seen new trends and businesses giving birth to payment industry. Initially payment firms came up, showed way with the wallet business. Banks initially ignored them and later followed suit. Banks realized that they could not let go the payment sector transactions. They took on wallets, spent money built own wallet apps. In the meanwhile the NPCI (National Payment Corporation of India) was working on seamless transfer of money. The UPI and later BHIM came in the operation, it was clear that the digital transactions were taking off much faster than anyone had ever imagined. Number of digital transactions reported crossed 1.2 billion in volume (RBI March 2018). NPCI also released Rupay as the Indian domestic payment network. SBI and some the other banks have already launched these cards. The number of merchants accepting Rupay cards will increase over a period of time. While all such events were infolding the Indian Government was looking forward to extending financial facilities to nooks and corners of India. An extraordinary initiative that the government proposed to banks was the 'Business Correspondents (BCs)'. Conceptually these are the bank representatives who are allowed to transact on behalf of banks handling cash, aimed at promoting financial inclusion.

Subsequently RBI issued guidelines for Correspondents and Facilitators in 2006. By end of 2017 the Public Sector Banks led banking through the correspondents and agents model at 73% (Microsave, 2018). Dun & Bradstreet (2017) reported that 452,151 villages were provided banking services by 30 June 2016, through various means.

The 'Payment Banks' was another initiative to improve financial inclusion. The Reserve Bank of India (RBI), the central bank, invited applications for payment banking licenses and after due process released 11 licenses in August 2015. However by end of 2016 3 licensees had backed out. Although this created bit of doubt about viability, RBI shows 6 payment banks operational in its publication in April 2018 (RBI, April 2018). At this stage totally 10 companies are authorised by RBI to conduct business as payment bank. Payment banks are aimed at financial inclusion extending reach of financial services. They depend on traditional banks for ATM services. The Debit cards are issued under Rupay payment network.

To understand the financial inclusion one has to see these numbers reported by Dun & Bradstreet (2017). By 2017 end 281.7 million accounts were opened under Pradhan Mantri Jan Dhan Yojana, 219.9 million Rupay cards were issued and 39.7 million accounts opened under Pradhan Mantri Mudra Yojana.

The Unfolding Technology

The digitization in banking sector in India has been on increase. The consumers are more demanding with the mobile connectivity spreading pan India. The younger generation expects all services to be delivered on Mobile. Mobile based banking is on rise, very few customers in urban areas walk in the physical branches. The use of ATM was growing before mobile payments came into vogue. Consumers prefer internet banking using mobile apps, instead of physical transfer of money using ATMs. Customer initiated transactions as reported by HDFC Bank were 49% ATM in 2007 with 19% internet & mobile transactions. The ATM transactions dropped to 8% ten years later in 2017 with internet & mobile transactions growing to 80% (HDFC Bank, 2017). It is also true that cost of mobile payments is much lesser than ATM or walk-in branch, thus reducing overall costs for the bank.

Fintech sector is another crucial development that has been witnessed globally. These are typical technology companies building service based revenue models nibbling away share of banking services. Most traditional banks initially ignored them, but later on recognized them as competing in the same market. Changing outlook the banks have started considering the Fintech sector firms as collaborators rather than competitors (Dun & Bradstreet, 2017). Many banks have deployed various automation tools created by Fintechs to reduce their costs.

While the banks have accepted and adopted the early day computerisation and now digitization a completely new landscape is slowly unveiling the automation at the very different level in the form of artificial intelligence powered by machine learning.

New direction, vision of Banks

The Indian banking sector seems divided in two major categories, Public Sectors Banks established as Public Sector Undertakings (PSUs) and the Private Banks. Here are snippets of published direction of some of the banks:

1. *Your Bank has embarked on a 'Mobile First' digital strategy that builds on the last two decades of investment in technology* (HDFC, 2016).
2. *To have superior technological prowess, customer-centric human resources and robust risk management practices your Bank came up with a paradigm transformation in its internal and external processes. This transformation was named Project Utkarsh* (UBI, 2016).
3. *The thrust of project Navoday is building the next generation capabilities and unleashing the organizational talent to make our Bank future ready with the ability to deliver a differentiated world class customer experience* (BOB, 2016).
4. *The Indian economy is witnessing a transformation. The emergence of new entrepreneurs and start-ups coupled with rapid developments in technology is shaping newer business models and challenging existing paradigms. Against this backdrop, to make ourselves even more agile, to place ourselves firmly ahead of our competitors on the path of innovation and to ensure that we are future-ready, we have embarked on a new journey of transformation, #LeadTheNew. #LeadTheNew is an umbrella initiative under which our*

endeavour is to be ready for the opportunities being created in the economy, which will enable us to sustain our leadership position across products and segments. We have reinforced our organisation culture with the acronym DYNAMIC (Digital, Young, Nurturing, Agile, Mindful, Inclusive and Connected) - an organisation which harbours a greater readiness to experiment and which embraces new ideas. A DYNAMIC ICICI will continue to be an organisation where the customer is the prime focus and employees act with speed and constantly learn and re-learn to provide exemplary customer solutions (ICICI, 2016).

5. *Our digital strategy has helped us broaden our reach in growth markets like India and Indonesia. In these large geographies, digital has enabled the creation of new distribution models which reduce dependency on expensive brick and mortar outlets. Digitalisation has helped DBS work smarter, reducing manual processes, and increasing productivity. From improving the way our customers pay for their everyday coffee to growing and preserving their wealth and business for the next generation, DBS understands that our customers want to live more, bank less. 2017 was a great year for DBS' business franchise. However, it was not without challenges. With technology continuing to disrupt the business of banking, the need to stay on top of the digital agenda was keenly felt* (DBS, 2017).

Such publically declared intentions convey the way banks visualise changes in the external worlds, especially customers. All are very keen to serve customers better, more efficiently simultaneously offering more facilities and services to customers taking advantage to new changes happening in technology space. All are gearing up their organizations in some way to face new challenges.

Our Research finding – newer structures

In order to better understand the response of the banks to the new technology wave the authors carried out research in the Indian banks, meeting senior executives of various banks. We adopted qualitative approach to gain insight into the thoughts and vision of senior banking professionals. The semi-structured interviews revealed thinking in the bank management. These were personal interactions spanning over an hour in most cases.

We conducted research in 16 banks talking to multiple executives face-to-face. These included medium and big banks in public sector nationalised banks as well as private banks. Interviews happened in two cities.

During interaction Interesting structures were found through the research. Here is a summary of our findings with respect to the organization structures:

1. Authors came across mix of Innovation, Digital and Technology groups..
2. Some of the banks formed Innovation team, some Digital teams, some had both Innovation and Digital teams. One bank had a group titled as "Innovation and Digital".
3. Reporting of Innovation and Digital is in functions other than technology or IT. Only one bank has the Innovation group reporting into CIO.
4. Some public sector banks had none, neither Innovation team nor Digital team
5. In some of the banks the 'Chief Information Officer (CIO)' title seemed to have been replaced completely by a different title. One has to say this did not appear to be only a title change, it involved totally new thoughts and ideas in terms of organization structure. It also reflected a new vision and direction of the bank.
6. It also appears that the technology group is supposed to be acting as service provider to the innovation and digital groups.

In terms of progress on digitization and digital products and services

1. It became clear that many private sector banks were pursuing the digital and innovation path in some way, some of leading banks were far ahead of others.
2. The public sector banks were generally slower, although two of the large banks are extremely serious and invest heavily in the digital initiatives.
3. At the same time it was an intriguing observation that some of the large banks have still not addressed these challenges in any structured manner, there was little evidence to suggest that these banks were even considering taking significant steps towards newer technologies.
4. Foreign banks get their directions from parent, but also follow own initiatives in digital space.

It was apparent that the creation of innovation and/or digital groups had influence on the progress of digitization in the bank. The progressive banks offering digital services on internet and mobile had such groups in place. The extent of influence could not be determined directly however larger the group size more was the emphasis being placed by the bank on such movement.

Another observation related to reporting of teams. In most cases the Innovation and/or Digital groups have come into existence over past 2-3 years. The technology/IT group has been around much longer. In some cases the Digital group reports into technology/IT Head while in some banks the Digital group reports into business.

Analysis

Preparing organization for new initiatives….org structure for innovation. Three main types of organization structures identified have been Hierarchy, Heterachy and Holacracy (Berntz, 2018). Hierarchy has been practiced for a long time, Heterarchy is known in the form of matrix organization, the Holacracy was a newer form asking individuals to decide how they would contribute to the organization directly. Washington Post article in 2014 pronounced "Zappos says goodbye to bosses" (McGregor, 2014). Zappos replaced its traditional structure with Holacracy, the self-governing organization. While the goal was noble it was yet to evolve into a more structured and well thought out form of organization with the customer feedback embedded into the process (Denning, 2014).

Organizing the 'digital' and 'innovation' teams seem to have significant influence on banking services currently. The banks that are perceived to be doing better on automation and innovation seem to have followed this path of setting different teams in place. This structure is well supported by Nylen and Holmstrom (2014). Under theme of 'organization' they state "*In order to reap the benefits of digital innovation, firms need to acquire new skills both internally and externally while establishing new digital roles*." The seeming threat of Fintech and automation challenges have driven some of the banks to rethink on the organization structure and the relationship amongst different groups. Many cases the model followed is of collaboration of peers and not hierarchical models. The collaboration and cooperation are somewhat loosely defined in most of the banks leaving it to the individuals to develop own relationships. In a way old concepts of networked organization is coming back to fore. In his article Satell says 'silos aren't an issue', clustering is an effective way of grouping the functions the the path between clusters need to be shorter (Satell, 2015). Alibaba made a conscious move in 2015 to a new structure bringing focus in Digital Services Division (FT, 2015).

The organization structure and the business models need to be aligned to effectively derive benefits from the new formation. While it is clear that the maturity levels need to dictate the adoption and the change in organization structure there is little evidence that banks have thought through about the new formation. In almost all the banks that we studied the hierarchical structure stays in place the innovation and the digital business groups have come into existence without much of integration into the overall organization. Many seem to be experimenting with the new teams. To be effective Innovation centers need be created identifying clear goals and measurable outcomes (Fenn *etl,* 2016). In the banks that authors researched while there are certain documents in place for innovation groups those need to be clearer and meaningful.

Interestingly one of the senior executives remarked 'Shouldn't innovation be DNA of the bank embedded in every team, rather than assembling into a separate group'. The thought expressed resonates with the idea of distributed innovations democratising the innovation process further supported by combinational innovations (Yoo etl, 2012).

Inference

It is clear that the banks will need to introduce culture of innovation with digital products and services in times to come. Most of the banks are taking steps in that direction, some more aggressively than others. Banks have structured separate teams for innovation and digital. Some of the banks have more business people in innovation team while some have more technology people. Any case every innovation team seemed to have both business and technology competencies embedded, though in various proportions. It is believed that Innovation team when separately structured and reporting to senior leaders in organization bring better results (McKinsey, 2012). However it true that success and the outcome of such efforts will depend on how well the innovation and digital teams are integrated in organization and work in collaborative manner. To raise the innovations to a higher level network of organizations may add greater value in bringing out the newer services (Spil etl, 2016). Indian banks exhibit this level of collaboration in developing the 'Bankchain' project where 22 banks participate.

The digital groups have been formed in many of the banks. Their contribution to the process modernization depends largely on their position in organization and closeness to the technology groups. Whether the digital group should report to the technology head or CIO of the organization depends on maturity of technology organization to understand the digital requirements. Ultimately any digital initiative to be successfully implemented needs strong support and collaboration of the technology group. While organizing separate groups for innovation and digital proves to be useful in short term it will be important to examine ways in which the innovation process gets distributed throughout the organization and gets embedded into culture. This will be very critical as the digital technologies keep progressing at a rapid pace and banks will continually need to explore ways and means to thrive in the digital world.

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