

Indian banks reconstruct themselves!

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Keywords

Indian Banks, wilful disruption, bank clusters

Abstract

Purpose of the research: Riding on the back of internet reach and mobile spread the Indian banks have been deconstructing and reconstructing their business models with focus on innovations. The paper tries to understand firstly how banks respond to the digital proliferation and secondly what is strategy and direction of banks in coming years.

Design/methodology: The research model followed by the paper is qualitative. The researchers approached senior management members of the banks in India and carried out semi-structured interviews. They met both private and public sector bank employees. Totally 16 banks were approached with 25 interviews with technology and business area personnel.

Results/findings: The industry has been struggling with keen competition from newer entrants besides fighting the profit pressures resulting from non-performing assets. Based on the data published by the central bank clusters were visualised and then attempt is made to exhibit wilful disruption that the banks have engaged into finally reconstructing themselves revising their revenue streams and the changing cost structures through technological implementations.

Practical implications and Conclusions: The consumers are clearly adopting to the online transactions using internet and mobile. The banks are going slow on adding branches, also going more with white label ATMs. The automation in the back office as well front-end customer services seems to be the focus. At the least the private banks are reconstructing themselves with new age automation while some of the public sector banks as well as new age banks such as payment banks are going asset light.

Introduction

Two factors spearheaded mobile revolution in India, the increased manufacturing base of mobile phones and the augmented reach of telecom. There are at least 270 mobile and accessories factories currently in India producing all types of phones ranging from low price feature phones to high priced big brand items. The manufactures are making more and more smartphones and at lower price points.

The telecom spread has been a story in India. While the telecom businesses are going through churn of acquisitions and mergers over past decade their reach to the nooks and corners of India has been on the rise. Urban India with an estimated population of 455 million already has 295 million using the internet. Rural India, with an estimated population of 918 million as per 2011 census, has 186 million internet users and that number is growing rapidly. With the consolidation happening in the telecom sector of India the reach will be better resulting in the prediction of 1.24 billion subscriber base by 2024.

Therefore, the mobile users' population has grown quickly from 500+ million users in 2013 to 800+ million users in 2019. Cisco expects that that the smartphone users in India will swell to 900+ million by 2022. Riding on the back of mobile and internet penetration the banks in India have been quietly transforming themselves, introducing more and more digital services. The government of India initiatives to make their services digital coupled with incentives offered to users for using digital payments has been transforming landscape quicker than one can imagine.

Literature Review

The banking sector in India can be categorised the four segments, the public sector banks, the private sector banks, the payment banks and small finance banks, leaving out micro-finance which is still

not as regulated as the others. The private sector banks can be further classified as the banks with Indian origin and the international banks with foreign parent. All these categories demonstrate different levels of consumer orientation and the automation. Generally, the private sector banks have been ahead in performance and have made good progress (Malyadri and Srisisha, 2015). There has been increasing awareness in the banking sector about requirement of innovative approach and restructuring businesses. Indian banks have been making attempt to reorganize themselves focusing on innovation. Yoo *etl* (2012) offer some insight into such organization in the digital world bringing out concepts of combinational innovation and distributed innovation.

There is a lot of work happening currently in the financial world directed towards improving customer experience especially in the internet and mobile applications. Banks continue to collect feedback on their products and services. Such ongoing efforts and improvement need to be supported by structured process geared towards bringing in innovation (Nylen and Holmstrom, 2014). Five areas relating to user and the processes have been proposed with the framework as a tool. Interestingly the digitization has been also proposed as a catalyst for innovation (Bleicher and Stanley, 2016). Such theorization almost sets aside the notion that innovation must be prior to digitization.

In India the bank outreach has increased substantially over 1996-2015 period (Kumar *etl*, 2015). As of March 2018, the total number of ATMs in India was 222,066. This translates into only 17 ATMs per 100,000 people. Although over 24,460 ATMs were added per annum between 2012 and 2016, only 2,429 ATMs have been added since December 2016 as reported by Livemint (2018)

Research question and methodology

Having realized that in India there was a big push for financial inclusion we decided to explore actual status of Indian banking industry. Following research questions were put forward:

How do banks respond to the digital proliferation?

What is strategy and direction of banks in coming years?

Considering that both questions were more along the lines of long-term lookout and the direction that banks were to take we decided to follow qualitative approach research model. Under such model researchers approached senior management members of the banks in India and carried out semi-structured interviews. Researchers met both private and public sector bank employees. Totally 16 banks were approached with 25 interviews with technology and business area personnel.

Research findings

During the interviews many interesting banking features and the dimensions emerged. It was clear that banks operating in India follow different paths. The foreign banks, private banks and public sectors banks all were at different stages in the way they viewed digital world. Most public sector banks had fewer initiatives on that front compared to private sectors banks who focussed much more on digital push. Here are some of the findings:

Some banks have structured efforts on automation creating Innovation and Digital cells

In most banks Innovation and Digital cells report to different functions. Innovation cells report to business function while Digital may or may or may not report to Technology function, depending on whether Digital is interpreted as technical or business function.

Private sector banks are generally ahead on automation efforts.

Of the public sector banks two of the large public sector banks are leading the digital and automation efforts.

Some of the older public sector banks are making little headway towards automation.

Declared Non-Performing Assets (NPAs) of banks have generally risen over past three years.

Many private banks are making efforts to augment their revenue by introducing more products and services such as insurance.

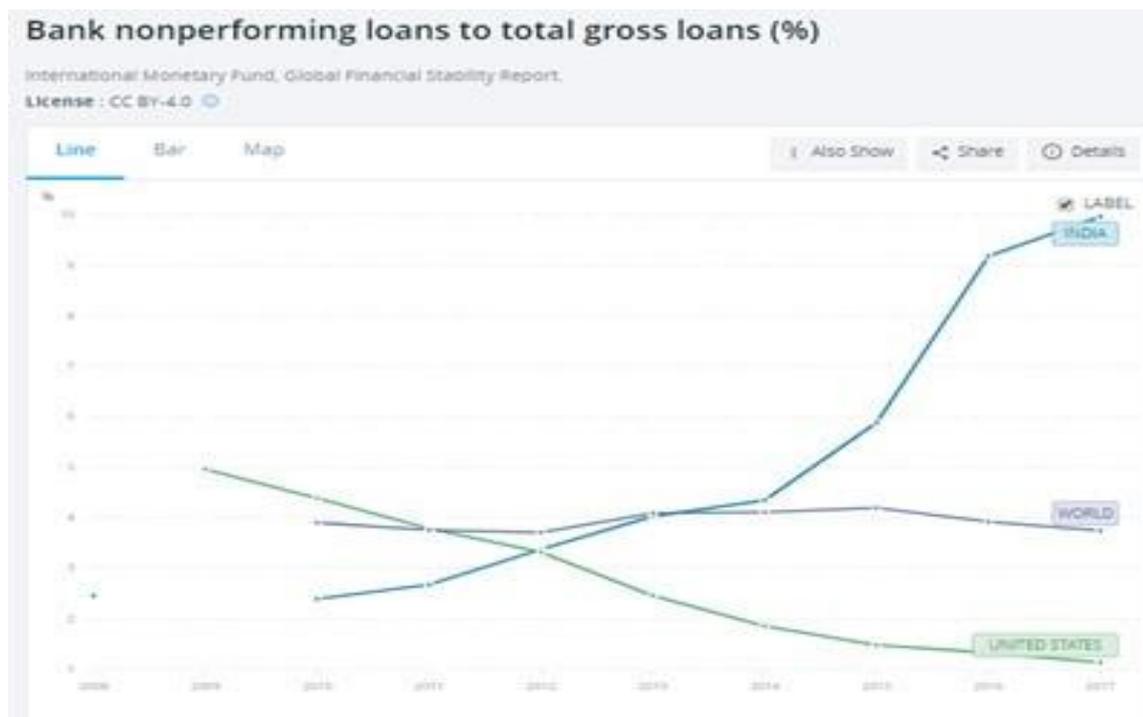
Many banks have pushed hard on newer businesses such as selling electronic toll collection cards called FASTag, this improving revenue stream.

Discussion

While going ahead with automation many banks came up with interesting structures, with some creating completely new ways of handing innovation and digital initiatives (Vaidya and Roy, 2018). As a

part of such initiative the banks have embarked on newer ways of supporting revenue stream. Many have some sort of e-commerce portals selling products such as insurance and FASTag, at the back end they have tied up with relevant agencies. ICICI bank has reported to have sold over 1 million FASTag cards having tied up with more than 10000 fleet owners (ICICI, 2018). There has been a major push on debit and credit cards and the transactions that they have been handling. All such efforts help to tide over the NPAs that pull down their bottom line. Here is a picture of NPAs shown in figure 1:

Figure 1: Banks NPAs (Source: International Monetary Fund)



In the current situation there are multiple players in the banking sector in India

Private sector banks

Public sector banks

Small finance banks

Payment banks

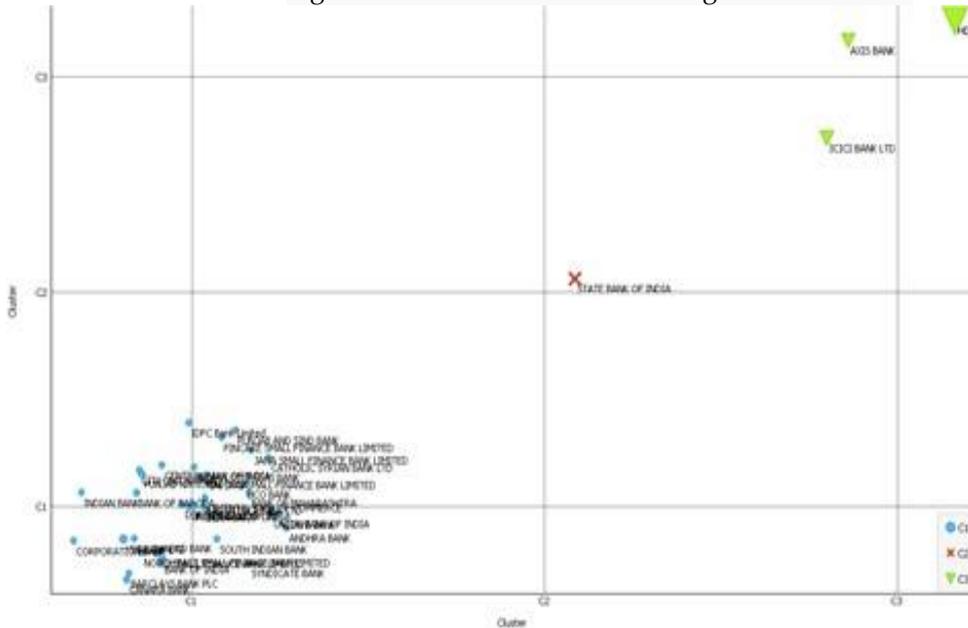
Booming payment industry with entries of Google, Amazon and Facebook besides local companies

Considering such NPA scenario and keen competition in the banking sector in India it is no surprise that the banks are making all efforts to rationalise their cost structures. If we look at reports from other countries, BBC reports that during 2015-2018 period banks have closed 2900 branches. As an instance RBS is reported closing 350 of its own branches, as well as 638 NatWest branches and 35 Ulster Bank branches (BBC, 2018). In US the big banks have been closing branches saying it's unviable to run braches as more and more customers are tuning to digital media (Shevlin, 2019). Not to be left behind Indian public sector banks are expected to close 69 international branches for the same reason (PTI, 2019). It is also clear that customers are using more and more mobile and internet combination for transactions. HDFC Bank has reported from customer-initiated transactions using internet and mobile have gone up to 85% in 2018 compared to 3% in 2008 (HDFC, 2019).

The walk-in customers as well as visits to ATMs have reduced in urban areas on account of digital transactions while the rural area people still work mainly on cash. 50% to 75% of the customers from Asia-Pacific (APAC) markets use online/internet channels at least weekly, and a third use mobile channels (RBI, 2016) also the banks have been developing new branchless technology-based approaches to serve underserved customers. Indian banks are going slow on opening new branches while focusing on digital banking. Growth in (the number of) branches was flat in urban areas (in financial year 2018) after

witnessing 10% year-on-year growth in fiscal 2017, while rural areas saw a slight pickup after a decline of 3.5% in fiscal 2017 (Anand, 2019). Using data published by Reserve Bank of India (India’s central bank) we clustered banks based on the digital transactions, using machine learning unsupervised algorithms. The outcome was three clusters as shown in figure 2.

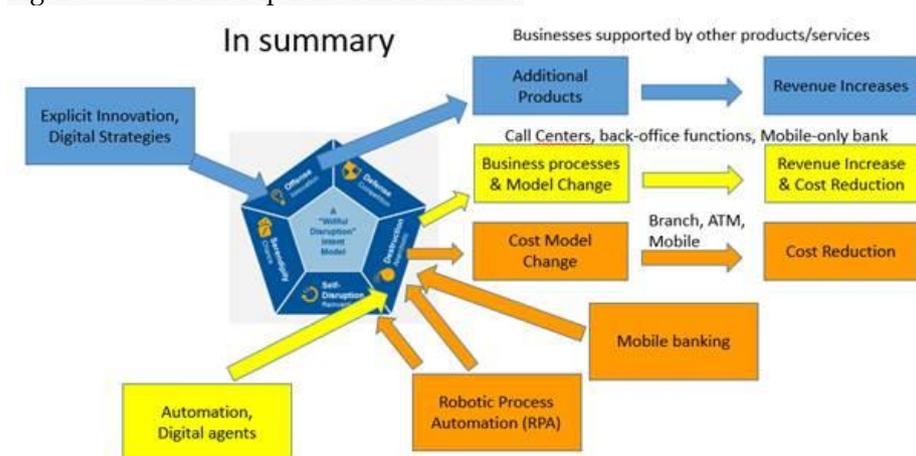
Figure 2: Indian Bank Clusters – Digital Transactions



As discussed earlier three private banks seem to be doing similar in digital transactions, State Bank of India (SBI) appear stand alone on basis of large amount transactions and rest form a common cluster.

Gartner has proposed a ‘wilful disruptive’ intent model explaining five strategic directions that businesses undertake based on intents (Smith, 2018). Analysing the banks in India using same model produced this picture, shown in figure 3 here:

Figure 3: Wilful Disruption of Indian Banks



The banks, mainly private banks, are on offensive strategy riding on the back of innovations and digital initiatives are working on cost models as well as new revenue streams.

Conclusion

The evolving direction and strategy of banking sector resembles deconstruct and reconstruct principles. The consumers are clearly adopting to the online transactions using internet and mobile. The banks are going slow on adding branches, also going more with white label ATMs. The automation in the

back office as well front-end customer services seems to be the focus. Robotic process automation at the back end and the conversational chatbots, the digital agents, the front-end robots and the self-service branches seem to be the move forward. At the least, the private banks are reconstructing themselves with new age automation while some of the public sector banks as well as new age banks such as payment banks are going asset light.

Limitations and Directions for future research

The banking in India has been transforming itself at a rapid pace, especially with entry of technology giants in payment space and the Post Bank as payment bank one can expect further changes. The public sector banks have been merging to create stronger entities, further other Non-Banking Financial Companies (NBFCs) are also making forays in banking. One needs to keep an eye by continuously examining the changing scenario over next few years. The research presented here is at a point of time when one anticipates further evolution. To that extent it is limited to current players in banking. Going further it will be prudent to include others also in the research.

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