



BANKING 4.0 – ERA OF INNOVATION

ASHWINI KUMAR SINGH, Chief Manager (Research), SBICRM Gurgaon

Traditionally banks have supported vast branch networks, large staffs and expensive legacy systems. In present era as the consumers are embracing a digital lifestyle, they prefer online interactions through their mobile devices and expect convenient and personalized experiences. Banking sector has already seen groundbreaking changes to meet the expectations of Tech-savvy customers and to deliver seamless experiences. Banks have enabled services like mobile banking, e-banking and real-time money transfers which have enabled customers to avail most of the banking services at their fingertips anytime, anywhere. However banks are prone to the competition posed by nimble Financial Technology (FinTech) players. Banks have woken up to the need to provide personalized advice and services that are both scalable and profitable. Customer expectations for their banks are changing and there are great opportunities available as the technology enables banks to deliver the same set of services in totally new customer-centric ways. But as this technology is available for everyone there is also a sense of fear of cannibalization from FinTech companies. Banks are continuously improving by adapting the newest technologies to win rivalry with competitors and provide the most efficient services for their clients.

INNOVATIVE WAYS FOR BANKS TO STAY RELEVANT

Open banking is challenging the traditional rules of engagement for banks as they are competing not just with each other but with new competitors, often from different sectors. Open banking is a unique branding opportunity for banks to consider what makes it stand out and also what it stands for. It provides an opportunity for banks to become data-driven to deliver customised services in context for customers. The legacy of Core banking system of a bank ties it to a vendor product but fortunately technology exists to create a digital bank which is API-led and open to integration with internal and third-party systems. In modern times banks can adopt digital native banking platforms in addition to their existing platforms thus making a front-end transformation to address the need of customers. Banks have learned from FinTech and other financial product companies who build the best



possible product that they could ship to the market. For example Brett King founded 'Moven', a bank account uses a mobile phone, a debit card and technology to show users not only their current balance but also what they can safely spend and thus helps them save money. Digital applications like M-Pesa in Kenya, Alipay and We-Chat Pay in China have expanded financial services to billions of people who never had an easy way to save or transact before. Initially many of such users had not entered financial services through traditional branch access. In future we may see experiences like firms providing credit and then monitoring spending to discourage unnecessary spending so that customers can pay it back.

Banks today are providing Omni channel means particularly for transactions. Further, the Banks are trying to evolve to the consumers demand and to deliver the right products to the right customer segments and are making transition from convenient transactions to personalized, value-added interactions. These solutions have been made possible by the Internet of Everything (IoE) which is a networked connection of people, process, data and things. Banks are utilizing IoE driven intelligence and leveraging IoE enabled capabilities like video, mobility and analytics to provide interactive banking solutions that will transform the customer experience. Through IoE Banks can also deal with disruption across the industry from new competitors and consumer behavior.

Banks still have superiority over most of their FinTech counterparts in access to customers and their information. Retail banks have huge latent potential in the user data they already possess. Banks have deep understanding of each individual's financial needs and the ability to offer a new dimension in services and convenience. Little by little we are seeing fundamental changes across multiple lines of business in financial services over the last few decades, being transformed by technology. By embracing Banking 4.0 banks can shed aging legacy systems that are holding them back and emulate the agility and speed of their FinTech competitors. Today the tools and technology exist to offer customers seamless, information-rich experiences no matter where they are or what they use. Using technology solutions banks can build the systems and applications that attract, win, retain and increase



customer lifetime value. In the Bank 4.0 the core utility of the bank gets delivered through execution capability.

Banks are now banking on Artificial Intelligence (AI) as it brings the power of advanced data analytics which enables banks to manage huge volumes of data at record speed to derive valuable insights from it. AI bots and digital payment advisers lead to higher quality of services for customers. All this translates to increased revenue, reduced costs and boost in profits. AI is strengthening competitiveness of banks through enhanced customer experience. Based on past interactions, AI helps bank develop a better understanding of customers and their behavior. AI enables banks to customize financial products and services by adding personalized features thus build strong relationships with its customers. AI by analysing past behaviours helps banks predict future trends which helps banks make customer recommendations to successfully up-sell and cross-sell. AI can also carry out fraud management as it can detect suspicious data patterns among humungous volumes of data.

Banks are continuously exploring new ways to perform transactions quicker for an enhanced customer service, while ensuring cost efficiency in its operations and assuring transparency to customers and regulators. Block chain can be used in banking process optimisation as it inherently helps eliminate intermediaries, maintain immutable log of transactions and also facilitates real-time execution of transactions. Block chain can potentially reduce the TAT for banking transactions, reducing costs of manual work, and leading to enhanced customer service and satisfaction. Banks can choose areas in which to use Block chain to reduce operating costs and fees, increase transparency, speed and security.

Chat bots working as realistic interactive interfaces are automating its knowledge workforce saving time and improving efficiency. Robotic Process Automation (RPA) through AI enables automation of repetitive work processes. Thus employees can dedicate more time for value-add operations requiring human intervention. In future AI will enable banks to leverage human and machine capabilities optimally to drive operational and cost efficiencies, and deliver personalized services.



The 5th Generation cellular network technology (5G) will impact all industries by the lightning speed of internet and communications will be faster than ever before. With speed of digital offering increasing considerably, customer expectations from their banks will increase as well. For banks it will be an enabler as it will provide the capability and platform to carry out financial services at the speed of thought. It will give boost to technologies like Augmented Reality and Virtual Reality, Video Calling and conferencing, verifications and communication between different systems. Applications like Chat bots, call center handlings that heavily rely on AI in banks will get tremendous acceleration in speed for execution.

There is an increase in biometrics uses as apart from being a solution for payments they are also useful in security the sensitive data. Use of biometrics in addition to multifactor authentication for improving personal security trends may impact how technology companies provide access to devices and applications in the near future. Banks may have to offer biometric authentication for remote transactions alongside existing PIN and password verification. As digital channels are gaining preference of customers for banking services, banks will also need to leverage advanced authentication and access control processes.

The disruption and hence demand for innovation in banking is endless. The next set of challenges for banks is going to come from embedded banking adoption and roll out. The challenge is that customers are demanding banking services to be available integrated with different points of sale, devices, service providers etc. In short, banking services are expected to be embedded into virtually anything and everything. The end state is that banks no more own the banking relationship with customers alone.

Despite the many challenges of adapting to the new trends, creating efficiencies that reduce costs and empower innovation has already helped many banks to revitalize traditional ways of working. Banking today is more about approaching the customer for his needs rather than waiting for him come to bank. Today banks value proposition encompasses both digital innovation and traditional values to meet their customers' needs. To conclude, we understand the endless possibilities that Bank 4.0 brings on to table for banking industry.



Better prepared and adaptive banks have better chances of thriving on such possibilities in future.

REFERENCES:

1. Recent news on Digital Banking trends
2. Reimagining the Digital Bank – Cisco
3. Bank 4.0 - www.brettking.com
4. www.worldretailbankingreport.com
5. Beyond Digital: How can banks meet customer demands – Accenture

“The views and opinions expressed in the Article are of Author and not of the Bank”

Biodata of the Author: Shri Ashwini Kumar Singh joined State Bank of India in year 2001 as Probationary Officer. He is a graduate with Hons. In Economics and has completed CAIIB. He has worked in Credit, Branch Operations, HR and Research during his 18 years service in bank. He is undergoing assignment of Research Officer for last four year at State Bank Institute of Credit and Risk Management, Gurugram.