From bank to digital bank: How tech can strengthen lenders for a better tomorrow

Published: December 4, 2017 1:41 AM

Of the many fintech players in India, a few will emerge as winners, creating sustainable business models that will withstand the ups and downs of economic cycles.

Kalpesh J Mehta

Nowadays, customers expect to be at the centre of a bank's engagement model. For banks to thrive, the key is how well they respond to the seismic shift in customer demand and give them complete control of the financial supply chain. Thus, a holistic understanding of customer needs is critical for service providers to embed their offerings into customers' lives. Of the many fintech players in India, a few will emerge as winners, creating sustainable business models that will withstand the ups and downs of economic cycles. These models will focus on retaining customer loyalty by evolving customer expectations; strengthening IT infrastructure, in an environment of exponential technology advancements; using data-points to their advantage; seeking appropriate funding; lowering cost of operations; and offering value-addition.

Banks are inundated with excess demand. Adapting to technology and transitioning to digital banking will help reap the benefits of basic efficiency improvements and cost avoidance. A variety of tech tools have entered the market and banks have been seen making large-scale investments in them. Implementing advanced technology that is scalable, secure, flexible and agile will allow the 'digital bank' to effectively serve tomorrow's customer. Under tech, there are many innovations.

Blockchain: The World Economic Forum (WEF) has acknowledged its potential in transforming the financial services value chain. Using cryptography, blockchain can be used for data sharing, and building transparency and brand transactions and fraud detection. Artificial intelligence: Defined by WEF as “programmed intelligence exhibited by machines using past experiences,” AI has been around for a while. Banks can make better, quick decisions using AI tools such as chatbots, machine learning, robo-advisers.

Robotic process automation: Using RPA, processes that are rule-based and repeatable can be automated within a digital bank. Teams can be freed up to focus on higher order skills. The challenge for a digital bank will be to change the mindset and misunderstanding that automation leads to job losses. Chatbots: By using chatbots, which hold conversations with users in natural language, decipher questions, process much faster than humans, and provide responses with the right information or direction, a digital bank can offer suitable insurance plans per customer, and even instantly give a loan eligibility. Cloud computing: It allows for asset light models with lower cost of transactions by facilitating storage and sharing of data.

Visualisation tools: They analyse financial data and throw light on key insights that can be useful to top management in making organisation-wide decisions. Examples are discovery of pain points, and insights into performers and non-performers. IT infrastructure that is flexible, scalable, efficient and adjustable is important for a digital bank. This will allow upcoming technologies to be integrated with current systems, facilitating cross-industry partnerships between banks and fintech companies, to leverage fintech companies’ FS offerings (innovative products and services). A bank’s market offerings are now strengthened due to greater access to expertise outside a digital bank, i.e. of the partner. The collaboration framework, while it has the promise of efficiencies, needs to be implemented in a responsible way, as actions of the partner will impact the bank.

By digitising sales interactions, both customers and banks will benefit as the customer is being serviced immediately, in his own time and in an informed way. A digital bank, too, can lower its operational costs. Given the choices available to customers, they can be swayed midway to use a different product/service. They gather information from all sources, and compare them across metrics and make informed selections. This makes them vulnerable to being poached by competitors. A digital bank needs to manage consumer interactions across channels, and has to upgrade supply chains to create a seamless customer experience and build customer-centric businesses.
The digital era is here and banks that will emerge as the industry’s “go-to” platforms will be the ones that recognise changes taking place in the industry.