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Full digitalisation of banking sector: How this can be achieved

BY ET CONTRIBUTORS | FEB 28, 2020, 11.56 PM IST

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By Sunil Sanghai

Big Change:
The end of Five-Year Plans: All you need to know

When I moved to Bombay 35 years ago, the waiting period for a landline phone was three years. Now, with one call or over an app, a mobile phone, a landline and high-speed broadband with TV connectivity can become operational in less than three minutes.

A similar transformation took place in the capital markets in the 1990s. Electronic stock exchanges, stock depositories and payment system overtook the physical stock trading system, manual stock-keeping and paper-based settlements, ensuring transparency, reach and exponential growth in trading volumes. Consequently, India's capital markets are now one of the largest in the world in terms of volume.

Banking, too, can become a frictionless experience. With the right leadership and regulatory support, a completely electronic banking experience of 'Anybank, Anywhere, Anytime' is not out of reach.

In the future, the customer could open an account at any bank, and a central banking depository (CBD) could maintain a 'universal bank account' (UBA) of customers. It would keep records of all banking transactions of an account-holder, eliminating the need for multiple account-keeping at multiple banks. This would provide interoperability, where customers can change banks while retaining the same account number.

A common central know-your-customer (KYC) agency would not just be a repository of data submitted by banks, but it will also be authorised to carry out various levels of KYC checks on an account-holder. This would ensure a seamless on-boarding of account holders for banking services, and easy switch from one bank to another. With a KYC certificate and a CBD number, one could walk into any bank to open an account.

Banks will be able to retrieve the data from the server of CBD with no incremental data entry. After ensuring a uniform KYC process, this will also avoid multiplicity of KYC across different banks and other such agencies.

To bring down costs and improve efficiency, various banking channels could also be shared. A shared white-labelled ATM and business correspondent network already enable customers to make cash deposits and withdrawals, and Aadhaar-enabled Payment System (AePS) payments through an outsourced network. A white-labelled branch network could carry out banking services and retail operations of various banks in a non-discriminatory manner — quite like the VFS Global application centres that provide visa application services for multiple countries under the same roof. These could also provide last-mile reach to digital banks.

A banking settlement/clearing agency could conduct interbank settlements of fund positions based on transactions in the UBA. Rating agencies could also access transaction flows in accounts to strengthen their assessment of individuals.

Quoting the depository number, one can perform a transaction on the specific bank's online platform. Banks could then focus on enhancing their product suites and enriching their digital platforms for fund transfer, lending, payments and wealth management. This system will not only significantly bring down the cost of banking transactions, but also remodel banking.

A buy-in of the regulators to make the required regulatory framework available could be a starting point. 'Anybank, Anywhere, Anytime' would, indeed, require a lot of ground-up model development — and a big leap of faith.

The writer is CEO, NovaDhruva Capital.

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