Digital and Mobile Banking:
What it means for customers & other stakeholders
ERD Note for MD[1]

1. What does FinTech revolution means for the average consumer or business owner?

The term "Fintech," which is the short form of the phrase financial technology, denotes companies or representatives of companies that combine financial services with modern, innovative technologies. As a rule, new participants in the market offer Internet-based and application-oriented products. Fintechs generally aim to attract customers with products and services that are more user-friendly, efficient, transparent, and automated than those currently available. Traditional banks have not yet exhausted the possibilities for improvements along these lines. In addition to offering products and services in the banking sector, there are also Fintechs that distribute insurance and other financial instruments or provide third party services. In a generous sense of the term, "Fintech" encompasses companies that simply provide the technology (such as software solutions) to financial service providers.

FinTech revolution for consumers

- Traditional players are still in the early stages of customer-oriented solutions, at least when compared to what FinTechs propose. By prioritising 24/7 access, FinTechs offer services available via non-traditional channels such as social media, empowering customers to a great extent. By 2020, social media will be the primary medium to connect, engage, inform and understand customers (from the mass 'social mind' to the minutiae of each and every individual), as well as the place where customers research and compare banks' offerings.
- Over the next five years, channel diversification will be a key driver in the banking sector: (a) Over 90% of banks expect growth in the usage of mobile applications, much higher than any other financial sector, (b) A fast-paced user increase is also expected in usage of website and/or web-based platforms, (c) Traditional providers are increasingly taking a 'mobile-first' approach to reach out to consumers, e.g. designing their products and services with the aim of enhancing customer engagement via mobile.

FinTech revolution for business owner

- By observing and often experiencing first-hand what banks offer – or do not offer – new entrants are targeting segments that need to most urgently focus on the customer. By developing narrowly defined, but highly effective solutions they have managed to step into and take over segments neglected by traditional banks in terms of offerings. In particular, FinTechs are offering: (a) Solutions for customers unable to get loans with no or poor credit scores, (b) Peer-to-peer (P2P) marketplaces for customers unable to secure loans from the traditional sources, (c) Personal finance management tools.
- The fintec innovation in India is expected deliver numerous benefits. The most touted benefit is the drastic fall in transaction costs notably by adopting digital payment services. The consequent reduction in use of cash will reduce the social cost of cash

[1] Prepared by Economic Research Department, State Bank of India, Corporate Centre Mumbai 14 November 2017

which in India is expected at around 1-2% of the GDP. Fintech is cheap and can act as last mile connectivity and further the cause of financial inclusion.

- Since most of the fintechs are startups, encouragement to this sector generate employment opportunities and give thrust to high end R&D in India. Some the fintech in India are executively set up as R&D facility for foreign markets. Hence they can contribute to exports in IT enabled services.
- Being internet based and can employ big data analytics and AI, fintech are expected to procure vast range of information public, individual etc. and thus contribute in better product offering, customized solution and better consumer decision making.
- For banks collaboration with fintechs is expected to reduce overhead cost as dependence on brick and mortar banks is expected to reduce over time. This will reduce congestion in branches of large PSB such as SBI.

2. What are the factor shaping the customer expectations? How can banks put customer centricity at heart of their strategy and be at forefront of managing rapidly evolving customer expectations?

Customers are changing their expectations of everyone. Especially banks. The customer wants banking services that integrate with their life. If banks struggle to understand, but if they don't respond, they will lose customers by the millions.

This is true of all segments but especially true with the fastest growing segment (millennials) and the most profitable consumer segment (wealth management). Even worse, banks risk losing small, middle-market and even large commercial customers, because users of bank services are often millennials. Their executives are also often wealth management customers. Here are customers' latest expectations:

1) **More personalization:** It's kind of ironic that in the far-reaching, all-encompassing online world we have come to embrace, in which so many business and personal interactions can be anonymous, customers want very personalized experiences. They expect banks will put the information and products they want where they expect to find them. Most customers still want a personal one-on-one experience. Take, for example, a small-industry specific study: Wells Fargo found 60% of banking transactions are made by customers who still prefer to do business with a teller. That's despite the fact that account holders have services available to them online and via mobile devices.
2) **More options:** Customers want self-service, voice, digital and social means to interact with a company and its people - and they still expect each to deliver a personalized experience. The phone is still the most preferred tool, which makes sense when you consider that talking to a knowledgeable, kind person who is helpful is about as personal as you can get.
3) **Constant contact:** The majority of customers don't find advertising, promotions and "just touching base" as a nuisance. They expect some follow-up efforts to fill in their customer experience. It's a request that can benefit business as well. Keeping in touch can deflect incoming contacts, which can reduce costs and boost customer satisfaction and revenues.

4) **Listen closely, respond quickly:** Companies need to respond to feedback, act on it and let customers know what's been done to make their experience better based on the data. If not, customers will cease to give feedback.

5) **Give front-liners more control:** Customers' tolerance for jumping through hoops has diminished dramatically over the years. Customers now believe they should have what they want the minute they request it. That's why customers expect front-line service and sales pros to be knowledgeable enough to handle anything — and have the authority to do what needs to be done to satisfy customers.

Customer Centricity

- There could be a view that the too much of customer orientation or customer centricity in provision of banking services could impose a heavy cost on the banks, which are after all commercial organisations engaged in the pursuit of profit. It can also be argued that the customer-centric regulatory guidelines stipulated by the RBI or other regulators do entail the burden of compliance cost for the banks, albeit it might be in the ultimate interest of the customer.
- Banks are "special" all over the world and would continue to be so for a variety of systemic reasons. Also, banking is one of the most closely regulated industries in most of the countries. It needs being borne in mind that the banking licence granted by a banking regulator, such as the RBI, is the regulatory authorisation given to a bank for accepting uncollateralised deposits, at a relatively low cost, for virtually unlimited amounts, from the members of public, who may not be financially very savvy. Moreover, the banks are also allowed to deploy a very high degree of leverage through mobilisation of deposits, on a relatively small capital base, but subject to meeting certain prudential requirements, such as capital adequacy ratio.
- The banks are able to do this primarily on account of the confidence of the customers in the bank concerned and in the banking system, as a whole. Since offering good quality customer service is one of the ways of winning the customers' confidence in the operations and efficiency of the bank, it is only logical that the banks should strive to provide the best possible standards of customer service to their clientele, so as to ensure their continued patronage. In this backdrop, it is only reasonable to expect that the bank customers, who entrust their hard-earned money to the banks in good faith and are the primary source of low-cost funding as well those who provide revenue to a bank, deserve to be treated fairly and efficiently in provision of various banking services.

3. How financial regulators can encourage financial innovation while containing the risks associated with these new technologies, (i) Cyber security, (ii) Consumer protection, (iii) Financial stability

Technology is being increasingly used in delivery of banking services in recent years. However, it has also brought in associated risks of security as is evident in few high profile cyber-incidents in the recent past. There have been several incidents of theft of personal information, fraudulent use of ATMs, net banking frauds, ATM/ Debit card incidents or cases of unauthorized access to bank servers. Hence, there is an immediate need for plugging all the gaps and vulnerabilities in tech-enabled service delivery.

With greater thrust on digital banking especially in the wake of withdrawal of legal tender status of specified bank notes and consequent increase in complaints relating to unauthorised/fraudulent transactions, a need for having a comprehensive policy to limit the liability of customers cannot be over-emphasized.

- **Cyber security:** Globally, the focus has now shifted to cyber security. Cyber security is no longer an isolated incident affecting one industry / one country. Several cyber-attacks in recent times have been designed to achieve political /religious objectives as also for securing funds for promoting terrorism. This has assumed frightening dimensions as it has an important bearing on financial stability. The importance accorded to the issue can be gauged from the fact that global standard setting bodies as well as reputed central banks have been committing extremely large resources to address this menace.
- In India too, we have been working on strengthening the defence against cybercrimes. Government of India has taken several steps to tackle the menace of cyber-attacks and important institutional arrangements have been made. Indian Computer Emergence Response Team (CERT-In) has been established which monitors Indian cyberspace and coordinates alerts and warning of imminent attacks and detection of malicious attacks among public and private cyber users and organisations in the country. Banks / Financial Institutions have been identified as critical infrastructure for the purpose. A National Cyber Coordination Centre has also been established.
- **Consumer protection:** A prime motivation of all financial regulation is to protect consumers. The relationship between financial firms and their customers is one where, many times, the outcomes may harm customers. These problems are not sporadic or accidental; but are often rooted in basic problems of information and incentives and will not be alleviated through financial literacy campaigns. The central purpose of financial regulation is to intervene in the relationship between financial firms and their customers, and address market failures. This requires a comprehensive consumer protection framework that covers both the problem of prevention (interventions that induce financial firms towards fair play) and cure (addressing consumer grievances).
- Financial consumer protection sets clear rules of conduct for financial firms regarding their retail customers. It aims to ensure that consumers: (a) receive information to allow them to make informed decisions, (b) are not subject to unfair or deceptive practices, and (c) have access to recourse mechanisms to resolve disputes. Complementary financial literacy initiatives are aimed at giving consumers the knowledge and skills to understand the risks and rewards of using financial products and services—and their legal rights and obligations in using them.
- **Financial stability:** Financial stability is characterised by a condition, in which the financial system functions normally, allocates the resources judiciously and undertakes intermediation between the financial sector and the real sector uninterruptedly. Most importantly, financial stability portends a situation in which the system would be resilient to shocks, if any, through a self –correcting mechanism.
- While the economic fundamentals of the country are on a much sounder footing than three years ago, like the rest of the world we are also wary of the impending market volatility that could emerge from crystallisation of any of the risk events. As a bank dominated financial system, it is important for RBI that the banks have the ability to

undertake intermediation in a productive and efficient manner. Hence, an efficient transmission of cuts in policy rate to end borrowers has also been on our active agenda.

- There is realisation that the banking sector needs to be de-clogged and a multitude of options must be made available for better and efficient credit dispensation. Measures have also been taken to enhance resolution mechanisms, strengthen the existing payment and settlement system and to leverage technology to achieve greater financial inclusiveness. A set of differentiated banks have already been licensed for better penetration of financial services and to meet requirements of specific sectors. The framework for non-bank financial companies has been strengthened and work is currently in progress to study the entire gamut of regulatory issues relating to Fin Tech in view of the growing significance of Fin Tech innovations and their interactions with the financial sector as well as the financial sector entities. Talking of fintech, Cyber Risk which has emerged as a major vulnerability for the financial institutions across the world as the trend has shifted from targeted attacks on individuals to institutions. Cyber-attack on Bangladesh Central Bank is a case in point. Regulation of Peer to peer lending platforms is another item on RBI’s active agenda, which can potentially bring complementarity to banking services.

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