

## Digital Banking in India - What do customers really want?

### Executive Summary

With industry's financial pressures and global economic uncertainties, there is increased urgency and opportunity to adopt a holistic approach to going digital and integrating digital strategy across the banking ecosystem.

Connectivity, automation, innovation, and decisioning form a clear model of success for digital banking.

The analysis covers the transformation drivers like retailing, customer experience and technology adoption, which play a vital role in differentiating one bank from the others.

On addressing challenges to above respective transformation factors we could define digital banking model under three elements:

**Digital Ecosystem Bank:** which talks about providing value added service (VAS) as one stop service for all major services such as bill payment, online shopping, and other feasible ecommerce business for fast and easy transaction.

**Social Engaging Bank:** wherein an application which simulates and gives insight to customers on what it means to manage a business and how to navigate the potential pitfalls it involves.

**Intellectual Omni Channel:** focuses on providing a seamless customer experience

that delivers focussed advice, products and service. This helps in understanding the customer, streamline systems and focus attention on the most profitable areas.

On capitalizing the above elements in smart way, big bets can be made towards the future.

### Digital Banking

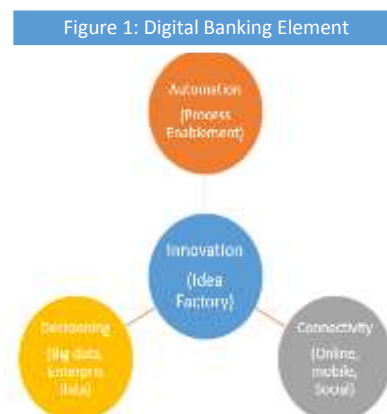
Digital banking can be approached by having below four interconnected, mutually reinforcing elements:

**Connectivity:** Using social networks to build loyalty and competition offerings.

**Automation:** Harness digitalization in process re-design for a better customer experience and more effective use of resources.

**Innovation:** Renewing and reinventing operations to match the rapid pace of change in the industry.

**Decisioning:** Big data can be used to make better, faster, and more accurate decisions regarding customer purchase choices as well as banks' decisions on issues such as risk mitigation and maximizing returns.



## Breakthrough Technologies in Banking Industry

Big data to refine the targeting of specific services to customers and catering specific needs to customer

### Real time money management –

Customers can track their recurring debits and daily expenses against their monthly salary deposits. *Capitec* recently launched a money management tool embedded in its banking app.

**Wealth management solution** – Providing innovative solution for retailers and institutional brokerage firms.

**Portfolio tracker** - The app tracks a client’s portfolio, tests it against critical risk factors and flags when it deviates from the client’s investment strategy, as well as providing access to bank articles and updates, customised to their portfolio.

Drivers with respective demand for transformation in digital banking are as follows,

Transformation Drivers	Challenges
Retailization	Restoring customer trust and engagement Defending payment services against new, emerging competition Differentiating services in an increasingly commoditized market
Customer Experience	Providing a tailored and relevant customer experience Consistency across different channels Achieving a return from investment in

	social media
Technology adoption	Articulating a clear digital vision across web, social and mobile Leveraging customer data efficiently and competitively Evolving legacy technology to compete with newer firms

*Table 1: Transformation Drivers and Challenges for Digital Banking*

On addressing above challenges for respective transformation factors we can have three digital banking models.

### Digital Banking Models

- Digital ecosystem bank
- Social engaging bank
- Intellectual Omni Channel bank

#### Digital Ecosystem Bank:

Become the centre of an ecosystem-powered by mobile; selling financial and non-financial services. Alliance and partnership with nonbanking operators. Focal point to bring in merchants and customers through any kind of mobile devices.



*Figure 1: Digital Ecosystem Bank*

**Target Customer:** Urban and rural population-Employees, Student and entrepreneurs of age 20 to 35

Application provides customers with additional value added services with normal banking operation. This application integrates all merchants and provides one stop service to all major services such as bill payment, online shopping, and other feasible ecommerce business for fast and easy transaction. This helps in analysing spending behaviour and offer best deal for the customers. For merchants, this digital ecosystem provides access to wider customer base.

### Capital Budgeting

Cost incurred in creating and managing application with Promotional cost= ₹ 30 Lakhs Promotional cost

*Assumption:* Average number of customers in a bank = 2 Million customers

Conversion rate of service user = 1% of total customer = 20,000

Service charge for value added service per customer = ₹ 150 per year after one quarter free service

Total earning per year = ₹ 30,00,000

From the above calculation we are able to recover our cost and can reach payback for this VAS after one year.

### The Social Engagement:

Leverage social media interactions to increase customer intimacy and understand what the customer behaviour is and use that to increase customer interaction.

Gamification application: Fosters goodwill, extends customer engagement cycle across multiple channels and social presence by educating customers on

operations and the bank products and services.

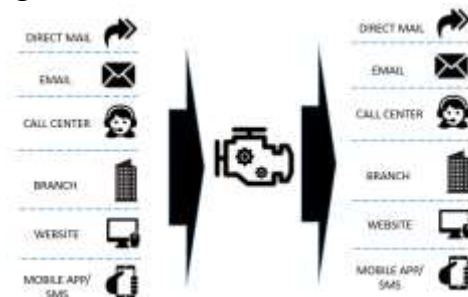
**Target Customer:** 20-50yr aged customers of tier 1 and tier 2 cities

Application which simulates the ins and outs of doing business. The game allows the bank's customers to simulate buying and selling goods. Players have to go through various steps like pay taxes and go through different simulations on the impact of different types of loans for their new hypothetical business. The game gives insight to customers on what it means to manage a business and how to navigate the potential pitfalls it involves.

### Intellectual Omni Channel Bank:

Banks can take need based and not product based approach through digital touch points.

**Target customer:** MSME's



*Figure 2: Intellectual Omni Channel Bank*  
For the customer, Omni channel focuses on providing a seamless customer experience that delivers focussed advice, products and service. This helps banks to understand the customer, streamline systems and focus attention on the most profitable. Having integration of data from different channels, bank can provide better credit rating or health scores to improve non-performing assets (NPAs) and help in providing better loans.

This benefits bank in,

- Overall cost advantage: Shift in channel traffic from call to online
- Growth agenda: Additional cross sell and up sell

MSME growing at an average of 12% year on year attract banks to lend loan. But the NPA being high at 15% need to be considered with care.

Using Altman Z-Score, a statistics based model we can calculate the Z score for each MSME's and assess the quality of loan

NPA can be reduced by implementing revised Altman Z score model:

$$\begin{aligned}
 & Z \text{ score} \\
 & = 1.2 \frac{\text{Working Capital}}{\text{Assets}} \\
 & + 1.4 \frac{\text{Retained Earnings}}{\text{Assets}} + 3.107 \frac{\text{ebit}}{\text{Assets}} \\
 & + 0.420 \frac{\text{Book value of equity}}{\text{Total Liability}} \\
 & + 0.999 \frac{\text{Sales}}{\text{Assets}}
 \end{aligned}$$

Z-Score	Zone	Comment
Above 2.9	Safe Zone	possibility of company's bankruptcy is very low
1.23 to 2.9	Grey Zone	Possibility of company going bankrupt within next two years
Below 1.23	Distress Zone	Possibility of company going bankruptcy is high.

Table 2: Z-Score table

Qualitative analysis can be done by company profiling through credit rating agencies or vendor analysis.

To assess, the bank requires three years of taxes, current proof of any income, a financial statement, memorandum of

association and, if the company is already operating, financials for the company for at least two years.

Using Omni channel for reaching to customers will improve the process efficiency and will have the following benefits in the undermentioned key areas.



Figure 3: Payback for Using Omni Channel



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