

“Rise of Digital Payments and Tech Disruption in Co-operative Banks”

Date: June 3, 2020

Live Webinar Report

Zeta in association with Elets Technomedia organised a Virtual Round Table on Democratising Banking



The virtual session was divided into two parts:

Part 1 - Evolving Customer Needs and the Impact it had on Co-operative Banking in a Tech-Led Economy

Part 2 - How Co-operative Banks are Dealing with Technology Disruption

Excerpt of Experts' Opinion:

Murali Nair, President- Banking, Zeta (Moderator)

The idea behind choosing the topic of this virtual discussion would be the rise in the usage of digital payments in the Co-operative banking sector across the globe.



MURALI NAIR
President, Banking, Zeta

History of Co-operative Banking

The movement began in the continent of Europe in the middle of the 19th century from the ideas of Hermann Schulze and Friedrich Wilhelm Raiffeisen during the economic meltdown in 1800 to provide small credit to small businesses and coarse sections of the society and that led to the movement and mushrooming of Co-operative banking around the world. In India alone, there are 15,051 urban Co-Operative banks and 96, 000 rural co-operative banks with an asset base of Rs 12, 00,000 crores and they impact around 40 million customers in a country which is 10 percent of our overall population. This is an important segment in the current Covid-19 crisis. The role of co-operative banks during this crisis would be far more significant.

Moderator's Question to the Panelists

What are some of the unique customer requirements in the Co-operative Banking sector? What are its implications?

Milind Varerkar, General Manager IT, Saraswat Bank

Co-operative Banks have a unique advantage. We Co-operative bankers are known for the personalised service that we have been offering to our customers. We are a 100 year young banks and we have customers for generations together. We have customers who have their grandfather's account. That way the generations have stayed with us. The forte of not only our bank but all other co-operative banks is ensuring the personalised services.



MILIND VARERKAR
General Manager IT
Saraswat Bank

Going forward into the digital era, we also want the millennial to choose us as well. Then in that case it becomes the need of the hour and the ecosystem to adapt the digital modes and we have been deploying digital channels. Many channels other than mobile banking and internet banking, which are provided by National Payments Corporation of India (NPCI) namely, UPI are adapted by us.

To ensure that all our customers are onboarded into these channels, we, on a regular basis, do educational programmes. Across our branches, we have created a goal pertaining to the digital evangelist. This digital evangelist ensures that every customer makes proper use of digital channels. With this, over a period, we have seen good growth in terms of digital usage.

Shekhar Atmaram Desai, CEO, Thane Sahakari Bank Ltd

Co-operative Banking is relationship banking. In Co-operative banks, one-third of the database comprises of the senior citizens. They are not really tech-savvy but despite that, they have now started taking an interest in technology.



SHEKHAR DESAI

Chief Executive Officer
The Thane Bharat Sahakari Bank Ltd.

They have started doing some banking formalities such as cash withdrawals from the ATMs and Passbook updation from the kiosk but they are still a long way to go. However, I do strongly believe that technology is a mandate whichever banking institution should follow and implement. We are no different in doing that. We have ATMs, Kiosks, internet banking, IMPS, UPI and others. So, most of the tech-based features that are required by the banks are offered by us.

Vishal Rathod, Chief Information Officer, NKGSB Co-op Bank Ltd.

Co-operative Banks were initially started to cater to the needs of a community but now there is hardly any difference between co-operative banks or any other public and private bank. People want service. Any millennial or a 30-40-year-old, he wants services such as internet banking, mobile banking, services that any other private banks offers. People's expectations have co-operative banks have gone up. We have to offer the services at par with the private banks.



VISHAL RATHOD

Chief Information Officer
NKGSB Co-op Bank Ltd.



Moderator's Summary Point

Zeta came into being to address the urgent need to address the digital requirement of customers across all banking institutions, irrespective of their age. Zeta's founders Bhavin Turakhia and Ramki Gaddipati thesis behind establishing the firm is to make payments invisible. So they created a company from the ground-up that offers a full-stack, cloud-native, API-first neo-banking platform. It also has a digital core and a payment engine for issuance of credit, debit and prepaid products. And, our idea of working with the Co-operative banks is to grab the trend of addressing the need which is having to change to everything going digital.

Moderator's Question to the Panelists

How do you see the adoption of digital payments mechanisms across the Co-operative banks over these years? With UPI becoming the almost de-facto part of payments, how do you see the change around the Urban-Co-operative Banks, especially, with the one you are associated with?

As far as IMPS is concerned, it is really well accepted by the customers. And, in our banks, we do insist that every transfer transaction which is taking place in a branch, should take place through system owner, whether IMPS or internet banking or through any other digital medium like UPI and BHIM but it should not be done by visiting the branch. That is the target of the branch.

The transfer transaction done physically should be less than 5 percent. As far as UPI is concerned, it was definitely promoted by NPCI initially but later they really held back their permissions and promoted BHIM. Nothing wrong in that but this is my humble to NPCI that whenever you are taking any such call please take the banks in consideration that they should not have invested prior to your decision. If the final product is pushed for use when it is an apex model rather than CAPEX, a lot of co-operative banks can be benefitted.

Even if the history of co-operative banks is more than 100 years old, how many co-operative banks are scheduled, just 54. What is co-operative banks' total business in the banking sector, not more than 4 percent. They are having their own problems and how much amount they are really ready to invest in technology. But they will have to invest in technology because it is a matter of survival for them. I would like to mention that the products launched on the technological front of our bank are getting good response. Our internet banking services are one of the best in the banking gamut. Besides, 95 percent of the passbook updation are done on the kiosk.



Moderator's Question

What are the initiatives taken by NPCI in popularising digital banking for Co-operative banks?

**Arif Khan, Chief Digital Officer,
National Payments Corporation of India**



ARIF KHAN

Chief Digital Officer, National Payments Corporation of India

We work with around 1,100 co-operative banks and we have seen adoption picking up in the last few years at a much more rapid pace. As far as the ATMs and the debit cards today with the help of Wi-Fi6, Huawei can help you create a network which is 100 percent wireless, giving you the same reliability, bandwidth and latency on the network which you would not have imagined in the earlier days. are concerned, we have really seen the

graph going up. The numbers are quite flattering, I would say. We have seen the cost is picking up at the purchase side, which is indeed a good sign. As a matter of fact, e-commerce had been traditionally low in this segment but that is also gradually picking up. Essentially the customer needs are always changing. They always want great experience and simplicity. It is true that most of the Co-operative bank customers are from the senior citizen category but I would like to mention something on a lighter side that every family has a Chief Technology Officer who is the granddaughter or the grandson, the third generation to be specific, who can help in managing technology better. So, this is the space where we need to work.

If we talk about India, it is a very content-hungry country and it is extremely heavy on mobile use. A lot of our products such as Aadhaar, BHIM, UPI are designed to cater to this need. We now don't necessarily differentiate between the segments of customers of the segment of banks. Co-operative Banks contribute to 14-15 percent of our volumes anyway and thus are crucial contributors. However, there are certain areas where we can work more closely and some of them are picking up. For example, it may sound a bit niche, recently when I was talking to a young executive from a Co-operative bank our decision was focus on tokenization and he was explaining the dominance of the segment in Mandis. So, in my view, we need to come together with a find solution to edges and that is significant for both co-operative banks and NPCI.

Earlier to my mind, co-operative banks were friendly neighborhood banks but these days the friendly neighbours are gone. So, the world is increasingly becoming global.



Arif Khan, Chief Digital Officer, National Payments Corporation of India

I do agree on the point that technology keeps shifting and often it requires huge capex and that's the idea we are running through at NPCI that what can we do to heavy lift on the technology side. Some of our recent products pertaining to e-commerce and risk management are on behalf hosted services. Your set of rules of risk management and payments are run by others and it does not come at any cost and the information comes to you rather than you individually investing in early stages in technologies.

Obviously it's a process and it takes time. So, the journey has started for us. What we have also realised and took a step forward to make this journey of ASPs, which co-operative banks use heavily, where if they certified with us once and the second time if they come with the partner bank make their life easier, reduce the turnaround time by reducing the cost and effort. So, a lot of efforts are gone behind that but it is a start of a journey and we will get there.

Milind Varerkar, General Manager IT, Saraswat Bank

With digitisation, the power of transaction has gone to the customer. Earlier, the customer was solely dependent on the bank or the branch to do the transaction on his behalf but with digitisation and particularly with mobile banking the transaction processing and initiation has gone into the hands of the customer. They can now transact at their will at their time 24X7 without bothering whether it is a public holiday or weekly off. UPI particularly is a gamechanger for small ticket transactions. Because with it there is a surge of small ticket transactions using UPI because of the simplicity that it provided. Also, some of the wallets came and started offering various cash backs and several promotional offers on the UPI channel added to the spread of the usage. Particularly, we have also reported traction in QR code based transactions. We have been issuing QR codes and the usage of QR codes through channels are also provided. In mobile banking also we provide not only the traditional transactions but we also offer scan and pay option for Bharat QR. Besides, we have enabled digital cards. So, you don't need to carry a physical card.

If you are carrying my bank's mobile banking, you are carrying a digital card and therefore can transact at any channel. We are also offering cashless ATM withdrawals through mobile banking. With all these, we have reported good traction and usage from the user's side. Today, out of the total transactions, almost 60, 70 percent of transactions reported by our banks are through digital channels.



Moderator's Question to the Panelist

How do you see the usage of digital payments by your customers on the e-commerce side?

Vishal Rathod, Chief Information Officer, NKGSB Co-op Bank Ltd

The trend has been good for us. Especially in the last few months, we have reported a huge surge on the new payments channels and which is where the trend is going towards, as stated by all the panelists. Percentage of transactions happening online towards these newer channels is increasing which is good in many terms such as from the customers' point of view.

There are several disruptive channels that have come-up and we are trying to partner with them. We should look at innovative partnerships with the new emerging channels and explore the complimentary services. It also helps with cost savings. For eg, one cheque dropped at by bank in a remote area and the amount of work on it in terms of bringing the cheque, scanning it and taking it to the clearing house involves a big cost and hassle. E-Commerce, in particular, has increased a lot and that trend after 2014-15, especially after demonetisation, is definitely picking up and that's the future.

Moderator's Summary Point:

Zeta has a huge set of capabilities on digital channels for the customers. Be it a virtual card, instant issuance of a virtual card and on the e-commerce side, we have whole list of innovations. We have super pin which is basically a dynamic pin that is generated on your mobile app which can be used as a second factor of authentication. We have swipe to pay, it is kind of gaining popularity and can be the second factor on your mobile app where you don't need to put any OTPs. It improves transaction success rates by 10 percent.

Moderator's Question to the Panelists

What is happening on the regulatory side during the Covid-19 pandemic?



There is an RBI regulation that helps you convert to a small finance bank, is that the way forward for the Co-operative Banks?

Vishal Rathod, Chief Information Officer, NKGSB Co-op Bank Ltd.

I am sharing my views on the question and this is not a response on behalf of my bank. Converting from a small finance bank to a co-operative bank is not a decision for the IT department. There are banks of different categories and RBI as a regulator offers a lot of permutation and combination to them. Converting to any other category of bank is purely a strategic decision. Converting to a small finance bank, in particular, will bring certain advantages and certain disadvantages.

The advantage would be, regionally you would be allowed to go anywhere and open your branches in India. But on the disadvantage side, it will curtail your niche focus and a lot of legal flexibility that the co-operative banks will be taken away. This is my personal take and I don't have a greater idea on other dimensions. However, I believe that rather than converting we must expand our horizon.

Milind Varerkar, General Manager IT, Saraswat Bank

Considering the current operational size of our bank, I believe converting to Small Finance Bank will limit our capabilities. For us, it may not be the right kind of switch.

Shekhar Atmaram Desai, CEO, Thane Sahakari Bank Ltd

In my view, the scheduled banks who are already working on universal basis may be in a position to explore this new offer and can switch to small finance bank mode.

Moderator's Question to the Panelist

What is your suggestion to Co-operative banks on partnering with Fintech?

Arif Khan, Chief Digital Officer, National Payments Corporation of India

This is my personal take. In the age of digitisation, when you are talking to your

customers on WhatsApp and mobile banking, we have lost the human touch of relationship somewhere. Human relationship is all about trust and emotions. It may sound very crude but I don't remember any bank sending me a Whatsapp message that has a smiley or any other emoticon on it. On a regular conversation, I will use a thumbs up or a smiley.

We have drawn boundaries for ourselves. Especially for Co-operative banks relationships are their forte. So, I think that factor should be included. Sometimes

Advice from the panelists pertaining to preparedness and business continuity during Covid-19

Vishal Rathod, Chief Information Officer, NKGSB Co-op Bank Ltd.

This is an era of co-operative banks and we have a huge scope of improvement. The public and private banks have already saturated their limits because they have been investing in technology for a long time. We have a set range of customers who are loyal to us. So, the co-operative banks are the next in line. We have put customers at the centre prior to making any deployments and keep that in mind how the technology can make their lives easier. Services should be provided to them at a faster and cheaper manner. Customer experience is going to play a big role. Secondly, NPAs are going to become a huge challenge after covid because a lot of businesses are not going to do well. So, forecasting those NPAs upfront and helping our Business Recovery Teams to come up with right strategy to deal with the account in terms of measures and strategies that we are working on. So we need strong data and analytics. Thirdly, creating a good and secure infrastructure is our priority. We have to be ready with situation where our employees are working from home and we all know that COVID scare is not going to evade so soon so infrastructure and security services to deal with the situation should be ready. So, cybersecurity is significant for us.

Milind Varerkar, General Manager IT, Saraswat Bank

Post covid, customers would be coming back to the branch. So, we should have a strong people management policy in place as well as employee friendly policy where they will feel confident and safe to come back to their work stations and customers should also feel secure to visit the branch. Besides, we will have to explore the area of convergence with Fintech for the deployment of better technologies and API would be on the priority list to capture the customer information.

People would also be hesitant to visit the branches and in that case how should

we reach them to complete their demands on loans and advances. So, in that case, there should be a system in place where they can submit their documents such as Video KYC and others. Additionally, we need to have a robust cybersecurity infrastructure in place to deal with threats.

Shekhar Atmaram Desai, CEO, Thane Sahakari Bank Ltd

The first and foremost priority would be to re-establish the trust and relationship with our customers. Because the recent happening of discrepancies from several banks have actually shaken people's trust on lenders. As far as NPAs are concerned, the moratorium granted by the Reserve Bank of India would help in keeping things in place. My request to the lender would be pertaining to a further extension on the moratoriums to 12 twelve months rather than granting three months on installments.

Advice from the panelists pertaining to preparedness and business continuity during Covid-19

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Arif Khan, Chief Digital Officer, Nation Payments Corporation of India

I strongly believe that co-operative banks should now seriously look at technology deployments for rebuilding the trust factor. For me, technology is first. And at NPCI we are building better technologies to make lives easier. Besides, we need to go back and rethink our design mechanisms to deal with crisis like covid.

Concluding Remarks by the Moderator:

The world was anyways going digital, covid has accelerated that pace further. With this, the customers and changing, the regulators are changing. But in all of this, trust remains the same. Technology will be the oxygen and design thinking will rule the world tomorrow. Post-COVID people management and a strong data analytics to handle NPAs should be the priority.



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