CHAPTER-3

Indian Banking Environment – A brief assessment
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3.1 Introduction

The speed with which Indian banking system has changed over the last decade is phenomenal. In fact, the Indian banking sector has demonstrated a great deal of resilience against global recession. On historical perspective, Indian Banking System witnessed three distinct phases:

1. Early phase from 1786 to 1969
2. Nationalisation of Banks and up to 1991 prior to banking sector Reforms
3. New phase of Indian Banking with the advent of Financial & Banking Sector Reforms after 1991

The banking sector of India is taking on the dichotomy of challenges of globalization and opportunities of the same. Over the last few years the banks of Indian origin; both the public sector banks and private sector banks have geared themselves up by adopting and upgrading them technologically, complying with the Basel-II norm by strengthening their capital base, reduction of NPAs, bringing down the operating cost to a considerable extent, implementing the corporate governance, structural modifcations of age-old systems, implementation of complex business processes like CRM, ERP, SCM, KM, BI etc and alignment of regulatory and accounting requirements.

A comprehensive assessment of the Indian banking sector can be done by focusing on certain key and critical areas namely its core competencies, its roles and responsibilities and subsequent actions and its ability to meet both short term and long term objectives – which necessarily include maximization of shareholder value, stimulating financial inclusion, contributing to nation’s GDP, managing intermediation cost, effective allocation of capital and maintains the stability of the system (source: McKinsey & Company, 2007). According to an analysis done by McKinsey & Company (2007), it has been observed that the Indian banks have met three of its key objectives namely:
(i) Return on shareholder value

(ii) Contribution to nation’s GDP

(iii) Effective allocation of capital and system stabilisation

According to McKinsey & Company (2007), the Indian households exhibit highest savings in the entire world amounting to almost 32.4% of their income. This accounts for almost 69% of the gross national savings of India. In sharp contradiction to this trend, only 47% of this savings are tapped by the Indian banking industry. To tap the huge potential market the banking sector, particularly the private banks over the last decade has penetrated in leaps and bounds to expand the geographical reach. The banks that have participated in this expansion programme are AXIS bank, ICICI, HDFC etc.

The third phase of banking sector reform has been stimulated by the integration of technology to enhance the core banking services and expansion of banking domain by encompassing cross-selling and up-selling products and services. The banking sector reforms have not only changed the banking system and procedures technically and technologically, it has also changed the perception of the customers with regard to banking transactions. The Indian banking sector has become enriched with the advent of foreign banks and with the increasing expansion of private banks. This has aggravated competition and has compelled the banks to consider new strategies to ensure competitive advantage. The nationalized public sector banks faced the heat as they were thrown into an unknown arena of technology induction, virtual banking, remote transactions etc. The metamorphosis and acclimatization of the nationalized banks to this new environment required a number of transformations namely shifting from silos-based legacy system of branch banking, enhancing electronic networking of banking system, database marketing system, disintermediation of service delivery channels, integration of adjunct service providers with core service providers and broadening the portfolio of banking products to offer customers with a wider range of investments.

India Vision 2020 envisages improving the ranking of India from the present 11th to 4th among 207 countries given in the World Development Report in terms of the Gross Domestic Product (GDP). It also envisages moving the country from a low-income nation to an upper middle-income country. To achieve this objective, the India Vision aims to have an annual growth in the GDP of 8.5 per cent to 9 per cent over the next 20 years. Economic development of this magnitude would see quadrupling of real per capita income. When
compared with the average growth in GDP of 4-6% in the recent past, this is an ambitious target. This would call for considerable investments in the infrastructure and meeting the funding requirements of a high magnitude would be a challenge to the banking and financial system (IBA Committee Report, November, 2003). The structural realignment of Indian banking sector to support rapid expansion has called for consolidation through several levels of amalgamation namely strategic alliances, mergers, acquisitions, virtual banking etc. The Public Sector Banks in India had, in the past, was heavily dependent on Government support for capital augmentation. However, with the Government making a conscious decision to reduce its holding in banks, most banks have approached the capital market for raising resources.

With the pressure of increased competition in the banking Industry, the net interest margin of banks has come down over the last one decade. Liberalization with Globalization (opening up of banking sector to WTO since 2005 onwards) has seen the spreads narrowing further to 1-1.5% as in the case of banks operating in developed countries. The banks have adopted product innovations and process re-engineering to combat with these changes.

The banking sector has therefore gone for rejuvenating their costing and pricing to segregate profitable and non-profitable business. Service charges are decided taking into account the costing and what the traffic can bear. From the earlier revenue = cost + profit equation i.e., customers are charged to cover the costs incurred and the profits expected, most banks have already moved into the profit = revenue - cost equation. This has been reflected in the fact that with cost of services staying nearly equal across banks, the banks with better cost control are able to achieve higher profits whereas the banks with high overheads due to under-utilisation of resources, un-remunerative branch network etc., either incurred losses or made profits not commensurate with the capital employed. The new equation for the banks has been: cost = revenue - profit.

In their survey report published in the month of February, 2010, the Federation of Indian Chamber of Commerce and Industries predicted more than 20% growth for the Indian banking sector.
The banking system in India has integrated several business processes with it. One such process is the Customer Relationship Management (CRM) which puts customer in the central position of the service wheel. With the banks offering value added services to lure customers, retention and meeting growing customer expectations have become a challenging task for the banks. To face these challenges the banks are considering customization of products and services randomly, often ignoring the cost of customization and the corresponding ROC (Return on Customization). Therefore management of risks and uncertainty has also emerged as a critical area of banking operation. The FICCI survey (February, 2010) estimated the different challenges faced by the Indian banking sector which are depicted in Graph 2 below.
Technology has emerged as the major facilitator to take up these challenges, adapt to the volatile and changing banking and financial sector environment and explore possibilities of expansion and growth. The brick and mortar branches has given way to virtual branches viz., ATMs, Internet Banking, mobile banking, kiosks etc., which can be manned by a few persons and run on 24 x 7 basis to harness the real potential of these technological utilities. One of the major challenges faced by the nationalized public sector banks is its large structure and its geographic spread. Even with state-of-the-art technology, full-automation is time-consuming. For example, the State Bank of India and its associate banks have taken almost a decade to convert their operational system into an automated one. Core Banking Solutions (CBS) enabled the banks to consolidate their technology platforms across functions and geographic spread leveraging cost and at the same time acquiring flexibility and scalability for responding to and adapting changes. The integration of CBS system with inter-bank payment system has benefited banks and financial institutions in terms of realizing such facilities as CRM, customer profiling, segmentation and differentiation, customization of product and services etc. The survey of FICCI (February, 2010) has revealed several benefits of successful implementation of CBS (Graph.3)
The implementation of CBS was not an easy task for the Indian banking sector because of its enormity. The issues which are considered as potential hindrances towards successful integration of CBS with the conventional system of banking. Graph 4 points out the challenges faced by Indian banking sector towards successful implementation of CBS.
The technology imperative of the Indian banking sector is well beyond just integration of technology with the banking services. Adaptability to technology depends on the availability of human resources who can effectively harness, integrate, implement and run the system.

**Table 14: Implementation status of CBS (Source: KPMG, 2010).**

<table>
<thead>
<tr>
<th>Banking sector</th>
<th>Core Banking</th>
<th>CRM</th>
<th>IAM</th>
<th>Business Intelligence</th>
<th>GRC</th>
<th>Self Service Kiosks</th>
<th>Internet Banking</th>
<th>Mobile Banking</th>
<th>Financial Inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Banks</td>
<td>H</td>
<td>L/M</td>
<td>L</td>
<td>L</td>
<td>M</td>
<td>L</td>
<td>H</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td>Private Banks</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>M</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
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<tr>
<td>MNC Banks</td>
<td>H</td>
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<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>L</td>
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</tbody>
</table>

The technology integration with the core banking services will facilitate automation in transaction, reporting and risk management. According to Table-14, it is evident that CBS has been implemented in the Indian banking sector with high priority. Initiatives like GRC (Governance-Risk Compliance) and IAM (Identity and Access Management) are on the verge of being implemented by the public sector banks in India. The implementation of CRM is also noticeable (source KPMG). Processes; like business intelligence is still being planned by the public sector banks. Technology-enabled banking service has been well adopted and delivered by the entire cross-section of banking sector. Financial inclusion has played a big role as observed in terms of rapid expansion and penetration made by the banks across geographical areas. The areas where technology (IT) has played a major role are:

(i) Treasury  
(ii) Cards  
(iii) Retail banking  
(iv) Wholesale (including Merchant Banking)  
(v) Payment and settlement (RTGS and NEFT)

Information security and operational efficiency are two major consideration for the modern banking environment. ISO 27001 seems to be the most widely adopted benchmark across the banking sector for information security. MNC and private banks are deploying Six Sigma for achieving operational efficiency. Public sector banks have kept six sigma options open for
future adoption and implementation. Public and private sectors are actively planning to adopt the standards such as BS 25999 to enhance their business opportunity capabilities.

One of the major changes that has taken place in the Indian banking sector is an increase in size, spread and scope of activities of banks. The business profile of banks has transformed radically to incorporate non-conventional activities such as merchant banking, mutual funds, bancassurance, etc. The survey conducted by FICCI (February, 2010) found that the banks at present consider product/service development and differentiation, innovation and customization, cost reduction, cross-selling, upselling and technological upgradation as equally important to the growth of retail operations. To realize one of the key drivers of growth and profitability, the Indian banking sector has now concentrated on the increase of fee-based services. Amongst the non-interest based income, Bancassurance and forex management has emerged as the most profitable instrument for the banks. Graph 5 depicts the most profitable non-interest income opportunities for the banks.

### MOST PROFITABLE NON-INTEREST INCOME OPPORTUNITIES

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forex Management</td>
<td>71.43%</td>
</tr>
<tr>
<td>Derivatives Trading</td>
<td>14.29%</td>
</tr>
<tr>
<td>Bancassurance</td>
<td>85.71%</td>
</tr>
<tr>
<td>Wealth management</td>
<td>64.29%</td>
</tr>
<tr>
<td>Selling of Mutual Funds</td>
<td>64.29%</td>
</tr>
</tbody>
</table>

**Graph 5: Non-interest income opportunities.**

With the rapid induction of CRM in the operational domain of banking system in India, it has been recognized that human resources has a critical role to play. Human resources is now been looked upon as a significant component of core competence. To cope up with the metamorphosis process which is transforming the traditional Indian banking system into a
multifunctional business operation, strategic human resource management is quite essential. There has been a growing realization that skill development and knowledge assimilation are the two most important issues facing the human resource pool that runs the Indian banking system. CRM philosophy talks about integration of people, process and technology. Therefore the ‘people’ factor is one of the most dominant factors to be considered for successful implementation of CRM. With ‘customer’ being considered at the core of CRM operation, the banking personnel are changing their age-old attitude and perception about them. Still, the Indian banking sector suffers from quality manpower and there are quite a few threats facing the human resource issue. These issues are presented in Graph 6.

Graph 6: Major HR threats faced by the Indian banking system.

The Indian banking sector is now looking beyond its domestic boundaries and thinking about global expansion. The presence of Indian banks in the global banking scenario is too limited as of now. Therefore opportunity lies for expansion. Achieving global scale of operation will empower the Indian banking sector to play a vital role in sectoral balancing. The means and modes of global expansion are categorized into two: (i) Organic means of expansion that includes expansion of business by banks’ own activities namely the expansion drive taken up by State bank of India, (ii) Inorganic means of expansion that includes mergers and acquisitions for expansion.
Consolidation of Indian banks through Mergers and Acquisitions (M&A) is strategically the most effective route to compete with the global giants like JP Morgan Chase & Co., HSBC Holding, Bank of America, Credit Agricole, Royal Bank of Scotland, Mitsubishi Tokyo,
Bank of China, HBOS, BNP Paribas etc. who are far ahead both in terms of Tier I capital (equity and reserves) and asset base.

The Indian banking environment is conducive enough to lend an inclusive growth opportunity for the Indian banks delimiting its national boundary. The banks are exhibiting their urge to make their presence felt. A gamut of structural changes is taking place which includes the banks expanding their functional/product domain to provide more opportunities for customer to invest, technology integration with the core banking functions to provide customers with value added services etc. The success of the journey of the Indian banking sector to find a position in the global map will depend on proactive execution of strategies and flexibility to meet the global best practices.

3.2 State Bank of India – A brief perspective

The roots of the State Bank of India rest in the first decade of 19th century, when the Bank of Calcutta, later renamed the Bank of Bengal, was established on 2 June 1806. The Bank of Bengal and two other Presidency banks, namely, the Bank of Bombay (incorporated on 15 April 1840) and the Bank of Madras (incorporated on 1 July 1843). All three Presidency banks were incorporated as joint stock companies, and were the result of the royal charters. These three banks received the exclusive right to issue paper currency in 1861 with the Paper Currency Act, a right they retained until the formation of the Reserve Bank of India. The Presidency banks amalgamated on 27 January 1921, and the reorganized banking entity took as its name Imperial Bank of India. The Imperial Bank of India continued to remain a joint stock company. Pursuant to the provisions of the State Bank of India Act (1955), the Reserve Bank of India, which is India's central bank, acquired a controlling interest in the Imperial Bank of India. On 30 April 1955 the Imperial Bank of India became the State Bank of India. The Govt. of India recently acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority. In 1959 the Government passed the State Bank of India (Subsidiary Banks) Act, enabling the State Bank of India to take over eight former State-associated banks as its subsidiaries. On Sept 13, 2008, State Bank of Saurashtra, one of its Associate Banks, merged with State Bank of India. SBI has acquired local banks in rescues. For instance, in 1985, it acquired Bank of Cochin in Kerala, which had 120 branches. SBI was the acquirer as its affiliate, State Bank of Travancore, already had an extensive network in Kerala.
There are seven associate banks that fall under SBI, and together these seven banks constitute the State Bank Group. All use the same logo of a blue keyhole and all the associates use the "State Bank of" name followed by the regional headquarters' name. Originally, the then seven banks that became the associate banks belonged to princely states until the government nationalized them between October, 1959 and May, 1960. In tune with the first Five Year Plan, emphasizing the development of rural India, the government integrated these banks into State Bank of India to expand its rural outreach. There has been a proposal to merge all the associate banks into SBI to create a "mega bank" and streamline operations. The first step along these lines occurred on 13 August 2008 when State Bank of Saurashtra merged with State Bank of India, which reduced the number of state banks from seven to six. Furthermore on 19th June 2009 the SBI board approved the merger of its subsidiary, State Bank of Indore, with itself. SBI holds 98.3% in the bank, and the balance 1.77% is owned by individuals, who held the shares prior to its takeover by the government.

The acquisition of State Bank of Indore will help SBI add 470 branches to its existing network of 11,448. Also, following the acquisition, SBI’s total assets will inch very close to the Rs 10-lakh crore mark. Total assets of SBI and the State Bank of Indore stood at Rs 998,119 crore as on March 2009. The subsidiaries of SBI are:

- State Bank of Indore
- State Bank of Bikaner & Jaipur
- State Bank of Hyderabad
- State Bank of Mysore
- State Bank of Patiala
- State Bank of Travancore

3.2.1 Group companies

- SBI Capital Markets Ltd
- SBI Mutual Fund (A Trust)
- SBI Factors and Commercial Services Ltd
- SBI DFHI Ltd
- SBI Cards and Payment Services Pvt Ltd
- SBI Life Insurance Co. Ltd - Bancassurance (Life Insurance)
- SBI Funds Management Pvt Ltd
3.2.2 Branches of SBI

- SBI has 20,000 ATMs.
- SBI has 15000 branches, inclusive of branches that belong to its Associate banks.
- SBI alone has 12,240 branches.
- SBI is the only bank consisting 26% participation in public sector banks and 39% participation in commercial banks in India.

3.2.3 Symbol & Slogan

Symbol is the Key Hole, whose meaning is "Welcome to SBI". Slogans are:

- With you all the way
- Pure banking nothing else
- The Banker to every Indian.

3.2.4 Products and Service lines offered

The State bank of India offers both traditional and value-added, customized cross-selling and up-selling products and services. The retail banking products offered by SBI are: (a) SBI Term deposits, (b) SBI Recurring deposits, (c) SBI Loan instruments, (d) Rent Plus schemes and (e) Medi-plus scheme. The corporate banking offers are: (a) Working Capital Financing – assistance extended both as fund-based and non-fund based facilities to corporate, partnership firms, proprietary concerns, (b) Working capital finance extended to all segments of industries and services sector such as IT, (c) Project finance, (d) Corporate Term loans, (e) Dealer financing, (f) Channel financing, (g) Equipment leasing, (h) Loan syndication, (i) Financing Indian firms overseas and (j) Construction equipment loans. The Agricultural banking offers made by SBI are (a) Micro Credit, (b) SME banking service.

Besides the traditional or conventional products/services, SBI has made serious effort to augment its cross-selling and up-selling areas also. In line with the growing expansion of banking sector by introducing new service/products, SBI has broadened its service and product domains too. Some of the initiatives taken up by SBI are:
(a) SBI Mutual Fund: India’s largest bank sponsored mutual fund with an invested base of over 3 million. SBI Mutual Fund is a joint venture between the SBI and Societe Generale Asset Management, France.

(b) SBI Life: SBI Life Insurance Company Limited is a joint venture between the SBI and BNP Paribas Assurance with SBI owning 74% and BNP 26%. SBI Life has a unique multi-distribution model encompassing vibrant Bancassurance, Retail agency, Institution alliances and corporate solution distribution channels. SBI Life extensively leverages the SBI group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans and personal loans.

(c) SBI DFHI Ltd.: SBI DHFI Ltd. is a State Bank of India Group company created by the merger of two leading companies in the domestic money and debt markets: the RBI promoted Discount and Finance House of India (DFHI) and SBI Gilts Ltd., a subsidiary of India’s largest commercial bank. As a primary dealer, it trades in Fixed Income securities (Treasury bills, Govt. Securities, State development loans, Non-SLR bonds, Corporate bonds) and short term money market instruments (certificates of deposits, commercial paper, inter-corporate deposits, cal and notice money deposits).

(d) SBI Cards: To address the growing trend to use plastic money, SBI Cards and GE Capital Services created two companies: (i) SBI Cards and Payments Services Ltd. (SBICPSL) and GE Capital Business Process Management Services Ltd. (GECBPMSL). The joint venture was set up to leverage the brand equity, customer relationship and the strengths of network of SBI and the technological processes and service capabilities of GE Capital.

SBI has entered into several strategic tie-ups to provide value-added services to the customers:

1. SBI has tied up with Reliance Infocomm to provide CDMA wireless connectivity for the bank’s ATM.

2. SBI has tied up with two major private sector banks: ICICI and HDFC to create the largest domestic ATM network.

3. SBI, in alliance with Motilal Oswal Securities Ltd. has introduced ‘eZ-traded@sbi’ a state-of-the-art online trading platform predominantly to cater to every trading need.
4. SBI and Bharti Airtel entered into a tie-up for mobile money transaction.

5. SBI and NCR Corporate, the world’s leading provider of financial self-service solutions, has entered into a tie-up to deploy ATM.

6. SBI and VST Tiller Tractors Ltd. has tied up and devised new loan scheme called SBI-VST provider of financial self-service solutions, has entered into a tie-up to deploy ATM.

6. SBI and VST Tiller Tractors Ltd. has tied up and devised new loan scheme called SBI-VST Shakti for farmers as a part of the farm mechanization programme.

**3.2.5 Modernization and CRM implementation in SBI**

With the boom in information and satellite-based communication technology, the banking sector operations in India started to change. The first to respond to these changes were the smaller-sized private sector banks which didn’t suffer from any legacy issues and procedural complexities. The private sector banks were mostly operative in the metropolitan cities whereby it became easier for them to access, integrate and transfer the benefits of technology to the customers by establishing ATMs, auto-vending machines, 24 x 7 banking concept, EFT, RTGS etc. Demographically the metro-customers, who were already enlightened with technology breakthrough got a unique platform to gratify their psychographic inclinations. SBI found itself under tremendous pressure from smaller, private banks like HDFC, ICICI etc., which already implemented state-of-the-art technology and flexible core solutions. While taking a decision of modernization which necessarily included technology integration, SBI didn’t want to shift its focal objective and basic positioning strategy to remain as a ‘banker for the mass’ whereby it plays a dual role of earning a profit and expanding banking services to the population throughout India. The basic strength of SBI has been its networking, reach and penetration and for years it remained as the sole USP of the bank apart from reliability and assurance of services. Therefore technology integration and up-gradation was considered very carefully because again it has to create a virtual network across thousands of branches spread across the length and breadth of the country particularly at the rural and micro-interior level. Another vital issue that was given a threadbare discussion was to run all the eight banks (SBI and its 7 associate banks) on a unified technology platform. The technology perspective of banking system automation of SBI also took into consideration building up of electronic database of existing customers, segmentation of customers according to their nature and value of banking transactions, identification of valued
customers, profiling individual customers, tracking customer demographics and to identify service quality perception amongst the customers. Here comes the applicability of a proactive CRM system which will integrate people, process and technology for SBI. It will also justify the ‘Service Market Trinity’ by integrating the organization, its employees (internal customers) and consumers. Fig. 34 depicts the integration of CRM philosophy with the Service Market Trinity.

![Diagram of CRM and Service Market Trinity]

**Figure 34: Integration of CRM and Service Market Trinity**

### 3.2.6 Initial system redundancy

When SBI automated its branches via computerization in the early part of 1990s, it set up individual LANs at the branches, introduced a customized version of Bankmaster system of Kindle Banking System and trained the staff on its applicability, usage and maintenance. There was no networking of branches and each branch maintained its own database of customers. This limitation of localized automated branches prevented a centralized operative function whereby the customers may enjoy the privilege of seamless banking experience across all branches of SBI. The initiative, although, increased the operational efficiency level of individual bank branch, the localized implementation restricted the customers from getting a taste of seamless banking across the length and breadth of the country and abroad. The
advantages in products and efficiency of the private sector banks became increasingly evident in the late 1990s as SBI lost existing customers and could not attract the rapidly growing middle market in India. In response to this threats and entreaties from the government, SBI engaged KPMG Peat Marwick (KPMG) in 2000 to develop a technology strategy and a modernization road map for the bank. The objective and requirements of the bank was laid down before KPMG in no unclear terms. The blueprint of modernization rotates around a pro-customer attitude which included:

- Delivery of new product capabilities, including those in rural areas.
- Unification of processes across the bank to realize operational efficiencies and improve customer service.
- Provision of a single customer view of all accounts
- Possible operational amalgamation of cross-selling and up-selling products and services with the core service thereby providing customers a wide domain of product line.
- The ability to merge and affiliate banks into SBI
- Support for all SBI products
- Behavioural migration of employee attitude to fit into the theme of ‘pro-customer banking’.
- Reduce customer wait-times in branches
- Make remote transactions possible irrespective of geographical location
- Reversal of customer-defection trend
- Make technology the driver but not the sole of the bank
- Human interface with technology
- Enhancement of communication flow between organization, employees and customers.

The initiative of modernization, which included integration of CRM philosophy with the conventional and traditional SBI-banking system operation, witnessed an intensive vendor solicitation process. The focal area were identified:

1. Technology migration
2. HR system and approach migration
3. Operational migration
4. Communication and networking migration

5. Marketing process migration

After much search SBI zeroed down on two consortium of vendors. One lead by IBM and the other lead by TCS. The TCS group included Hewlett-Packard, Financial-Network Services[FNS] (Australia based) and China Systems (for trade finance). Thorough analysis of the vendors were done and TCS won the favour. Scalability tests were done at the laboratory of HP at Germany to verify the system was capable of meeting the bank’s scalability requirements. These tests confirmed the capability of TCS BaNCS (an UNIX-based CBS platform) to support the processing requirements of 75 million accounts and 19 million transactions per day.

TCS got the right to modify the source code in association with FNS. Before the customization could take place, however, a few significant changes had to be made. Recodification of architectural components were done. Once these technical changes were made, TCS had to undertake the functional customization. The transactional solutions is also optimized to operate across a variety of network solutions including leased lines, dial-up lines and VSAT.

The BaNCS system is based on service oriented architecture (SOA) and is platform and database independent. The conversion effort began in the month of August 2003, when SBI converted three pilot branches to the BaNCS system. Between August 2003 and September, 2004 SBI converted 350 high-net-worth branches. After the software and procedural changes were implemented, SBI converted an additional 800 branches between December 2004 and March 2005. After the second round of changes, the systems and processes were functioning smoothly and the authority were convinced that the conversion of branches can be accelerated. An assembly line approach was then employed in April 2006 to speed up the branch conversion process:

- Branch personnel were responsible for data scrubbing and cleaning of their customer information on the existing system. For this a systematic refinement and filtration process was undertaken for data purification.
- Test conversion of pilot branches by using a test version of BaNCS.
With the introduction of assembly line approach the branch conversions, SBI was able to convert 1200 branches between April and May, 2006, completing the initial 3300-branch conversion. The success of first 3300 branch-conversion for SBI showed that:

- HR approach change was necessary to fit into the new system
- Customer demand for technologically new product lines

A second scalability test was conducted during 2007 after which the process of another 4700 branches took place. By 2008 all 10,000 branches were running on BaNCS.

Table 15: Key Core Banking Project and CRM Benefits Realized

<table>
<thead>
<tr>
<th>People</th>
<th>Technology</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>A large, scalable technology architecture and infrastructure to support the existing intensified cross-geographical network operations and future expansions.</td>
</tr>
<tr>
<td></td>
<td>Standardization of platforms.</td>
</tr>
<tr>
<td></td>
<td>Ability to smooth introduction of new applications such as a planned payment gateway, RTGS system, remote transactions.</td>
</tr>
<tr>
<td></td>
<td>Improved IT governance</td>
</tr>
</tbody>
</table>

| Process | |
|---------| A large, scalable technology architecture and infrastructure to support the existing intensified cross-geographical network operations and future expansions. |
|         | Standardization of platforms. |
|         | Ability to smooth introduction of new applications such as a planned payment gateway, RTGS system, remote transactions. |
|         | Improved IT governance |

| Overall | The SBI group now has a single platform for group-level consolidation of SBI and its associate banks. |
|         | A common platform allows the group to realize synergies and economies of scale. |
|         | Customers can build loyalty to SBI as an integrated entity, as |
opposed to their branches. This anytime/anywhere banking makes SBI a formidable competitor because of its enormous domestic reach.

- SBI branches are now channels and focus on value-added activities around sales and customer service. Noncore tasks and processes have been removed, and new services such as the Grahak Mithra meter-greeter have been introduced to assist customers.

Human resource (‘People’ component) play a major role in successful implementation of CRM technology. State Bank of India (SBI) deployed the mySAP ERP to automate and seamlessly integrate its human capital management (HCM) processes across State Bank Group. The ERP application from SAP would serve State Bank Group’s global strength of more than 3,70,000 employees and retirees, making it one of the largest HCM applications. Implementation of mySAP ERP will help SBI in pursuing innovation in areas of human capital management and enterprise resource planning such as e-learning, virtual classrooms, career development and succession planning, competency assessment, performance management and property management.

![Figure 35: Time Line of State Bank of India and Affiliate Banks’ Core Systems Modernization](source: TCS)
3.2.7 CRM philosophy adaptation in bank

The idea of CRM is that it helps business use technology and human resources gain insight into the behaviour of customers and the value of those customers. If the philosophy is adapted in its true sense it can:

- Provide better customer service.
- Make voice interactive call centres more effective.
- Helps staff close sales deal faster
- Simplify marketing and sales process
- Discover new customers
- Increase customer revenue
3.2.8 Purpose of CRM implementation in banks

The basic purpose to introduce and integrate a CRM architecture in a banking system which is as intensive as SBI is to provide product information, usage information and technical assistance on websites that are accessible 24 hours a day and 7 days a week. It will also help to identify how each individual customer defines quality and then design a service strategy for each customer based on these individual requirements and expectations and provide a fast mechanism for correcting service deficiencies. The internet cookies can be used to track customer interests and personalize product offerings accordingly. It will provide fast mechanism for managing and scheduling maintenance, repair and ongoing support.

The service blueprinting (service mapping) of a basic banking service is no different in case of SBI. Therefore introduction of CRM in SBI operation will integrate and harmonise several operations like

a) Front Office Operations
b) Back Office Operations
c) Business Relationships – Vendor/Supplier integration, lobbying groups, trade association integration etc.
d) Analysis – key CRM data can be analyzed in order to plan target-marketing campaigns, conceive business strategies and judge the success of CRM activities.
Analysis are decided according to business priorities.

Figure 37: The process of Relational Marketing

Figure 38: Relational marketing process is supported by a computing infrastructure
3.2.8.1 Introduction of ‘OnlineSBI’ – a major web-based customer integration project by SBI

Followed by the rapid modernization and technology integration process, SBI launched its online banking portal ‘OnlineSBI’ in the year 2001. The development of OnlineSBI has been gradual, implemented through a series of add-on functionalities, originally beginning with the need to meet customers’ information requirements. Subsequently, enhancements were made to add fund transfers, bill payments, purchase of railway tickets, and the ability to receive bank balance alerts via Short Message Service (SMS).

Although SBI was a first-mover among public sector banks to provide such services, the focus was more on provision of features and less on site usability. As a result, even though the services were enticing, the complex usability experience actually deterred customers. A cluttered, repetitive, and text-heavy interface made it difficult to locate the functions they needed to use. The average SBI customer profile may also have contributed to low usage of the site. Typically, public sector banks deploy branches to reach smaller towns and remote villages, where Internet connectivity may be less available. In these areas, customers have less exposure to the Internet and would find the online banking interface challenging to navigate. OnlineSBI’s deviation from industry best practices resulted in an online banking experience that, even to a seasoned Internet user, would not be easy to operate.

IBSG was given the responsibility in association with CISCO to revamp the online portal and make it more dynamic in terms of its usability. The basic objective of SBI is to provide a virtual banking transaction platform where internal customer and external customer will interact with each other using technology interface. A joint project team, consisting of members from Cisco and three to four representatives from SBI, worked over four months to evaluate OnlineSBI against 12 world-class online banking sites from leading U.S., European, and Japanese banks. OnlineSBI was compared against global online players such as Chase-JPM, Bank of America, HSBC, ICBC, INGDirect, National Australia Bank, Bank of New Zealand, Hana Bank, Citibank-Korea, and Citibank-Turkey. In this survey, SBI’s existing site fared poorly in customer usability (one out of five), but scored adequately in service features.

As a result of this survey, IBSG produced a report in February 2005 proposing several significant changes that SBI and its outsourced developers could implement based on
customer usability design best practices. The consumer online banking site was revamped based on these recommendations and released to the public in December 2005. Among other things, the revamp reduced clutter in page layouts, improved the intuitiveness and consistency of navigation, simplified access to functions driven by customer scenarios, and updated the aesthetics and branding consistency.

OnlineSBI is now a world-class online banking portal to be emulated. Best practices in Web design have been applied to OnlineSBI to reduce reading fatigue, guide the customer’s eye to key messages, place focus on transaction-based (instead of explanation-based) navigation, and provide only one major area of execution per screen per page.

The new OnlineSBI also provides a more linear flow to carry out banking transactions. Rather than having all possible transactions occupy screen space, simpler drop-down menus have been incorporated to enable customers to drill down for further detail. The result is a navigation system that does not interfere with the main body of the page.

3.2.8.2. Performance of SBI during the phase of automation

The financial performance of State Bank of India during the pivotal and critical phases of their automation process, expansion of service domains and implementation of new philosophy like CRM, is quite impressive. The financial performance further supports the fact that the transition of SBI from a domestic giant into a truly multinational and technologically integrated banking system. The financial highlights of SBI for the financial years 2005 to 2009 are appended in the tables below:

Table 16: State Bank of India – Financial Highlights 2005-2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>3670.48</td>
<td>3800.46</td>
<td>4355.21</td>
<td>5374.05</td>
<td>5425.03</td>
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<tr>
<td>Advances</td>
<td>2023.74</td>
<td>2618.01</td>
<td>3373.36</td>
<td>4168.95</td>
<td>5425.03</td>
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<td>Investments</td>
<td>1970.98</td>
<td>1625.34</td>
<td>1491.49</td>
<td>1895.01</td>
<td>2759.54</td>
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<tr>
<td>Total Assets</td>
<td>4598.83</td>
<td>4940.29</td>
<td>5665.65</td>
<td>7215.26</td>
<td>9644.32</td>
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<tr>
<td>Interest Income</td>
<td>324.28</td>
<td>359.80</td>
<td>394.91</td>
<td>489.50</td>
<td>637.88</td>
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<tr>
<td>Interest Expenses</td>
<td>184.83</td>
<td>203.90</td>
<td>234.37</td>
<td>319.29</td>
<td>429.15</td>
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<tr>
<td>Net Interest Income</td>
<td>139.45</td>
<td>155.89</td>
<td>160.54</td>
<td>170.21</td>
<td>208.73</td>
</tr>
<tr>
<td>-------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Non-Interest Income</td>
<td>71.20</td>
<td>74.35</td>
<td>57.69</td>
<td>86.95</td>
<td>126.91</td>
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<tr>
<td>Total operating Income</td>
<td>210.65</td>
<td>230.24</td>
<td>218.23</td>
<td>257.16</td>
<td>335.64</td>
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<td>Staff Expenses</td>
<td>69.07</td>
<td>81.23</td>
<td>79.33</td>
<td>77.86</td>
<td>97.47</td>
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<tr>
<td>Overhead Expenses</td>
<td>31.67</td>
<td>36.02</td>
<td>38.91</td>
<td>48.23</td>
<td>59.01</td>
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<tr>
<td>Total Operating Expenses</td>
<td>100.74</td>
<td>117.25</td>
<td>118.24</td>
<td>126.09</td>
<td>156.49</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>109.91</td>
<td>112.99</td>
<td>100.00</td>
<td>131.07</td>
<td>179.15</td>
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<tr>
<td>Total Provisions</td>
<td>66.86</td>
<td>68.93</td>
<td>54.59</td>
<td>63.78</td>
<td>87.94</td>
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<tr>
<td>Net Profit</td>
<td>43.05</td>
<td>44.07</td>
<td>45.41</td>
<td>67.29</td>
<td>91.21</td>
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Table 17: Market related ratios of State Bank of India

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<th>Market related ratios</th>
<th>MAR 05</th>
<th>MAR 06</th>
<th>MAR 07</th>
<th>MAR 08</th>
<th>MAR 09</th>
<th>MAR 10</th>
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<tr>
<td>Market Price (₹) as on the last day of the year/quarter</td>
<td>657</td>
<td>968</td>
<td>993</td>
<td>1599</td>
<td>1067</td>
<td>2079</td>
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<tr>
<td>Price to book ratio (%)</td>
<td>1.44</td>
<td>1.84</td>
<td>1.64</td>
<td>2.67</td>
<td>1.12</td>
<td>2.14</td>
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<tr>
<td>Market Capitalization (₹ in billion)</td>
<td>345.75</td>
<td>509.48</td>
<td>522.56</td>
<td>1009.72</td>
<td>677.13</td>
<td>1319.92</td>
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<tr>
<td>Earning per share (₹)</td>
<td>81.79</td>
<td>83.73</td>
<td>86.29</td>
<td>126.62</td>
<td>143.77</td>
<td>144.37</td>
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<tr>
<td>P/E ratio (%)</td>
<td>8.03</td>
<td>10.40</td>
<td>11.51</td>
<td>12.63</td>
<td>7.42</td>
<td>14.40</td>
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Table 18: Performance on key financial indicators

<table>
<thead>
<tr>
<th>Key Financial Indicators (%)</th>
<th>FY 2005</th>
<th>FY 2006</th>
<th>FY 2007</th>
<th>FY 2008</th>
<th>FY 2009</th>
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<tr>
<td>ROA</td>
<td>0.99</td>
<td>0.89</td>
<td>0.84</td>
<td>1.01</td>
<td>1.04</td>
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<tr>
<td>ROE</td>
<td>18.10</td>
<td>15.47</td>
<td>14.24</td>
<td>17.82</td>
<td>15.07</td>
</tr>
<tr>
<td>EPS (₹)</td>
<td>81.79</td>
<td>83.73</td>
<td>86.29</td>
<td>126.62</td>
<td>143.77</td>
</tr>
<tr>
<td>BVS (₹)</td>
<td>450</td>
<td>525</td>
<td>606</td>
<td>598</td>
<td>953</td>
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<tr>
<td>Dividend Payout Ratio</td>
<td>15.29</td>
<td>16.72</td>
<td>16.22</td>
<td>20.18</td>
<td>20.19</td>
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<tr>
<td>Cost/Income Ratio</td>
<td>47.83</td>
<td>58.70</td>
<td>54.18</td>
<td>49.03</td>
<td>46.62</td>
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<tr>
<td>Capital Adequacy Ratio (Basel I)</td>
<td>12.45</td>
<td>11.88</td>
<td>12.34</td>
<td>13.54</td>
<td>12.97</td>
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<td>Capital Adequacy Ratio (Basel II)</td>
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<td></td>
<td></td>
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<td>14.25</td>
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<td></td>
<td></td>
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<td></td>
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<td>13.39</td>
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### Key Financial Indicators (%)

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</tr>
</thead>
<tbody>
<tr>
<td>Cost of deposits</td>
<td>5.11</td>
<td>4.77</td>
<td>4.79</td>
<td>5.59</td>
<td>6.30</td>
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<tr>
<td>Yield on advances</td>
<td>7.68</td>
<td>7.78</td>
<td>8.67</td>
<td>9.90</td>
<td>10.15</td>
</tr>
<tr>
<td>Yield on resources deployed</td>
<td>7.94</td>
<td>7.10</td>
<td>6.88</td>
<td>6.92</td>
<td>7.10</td>
</tr>
<tr>
<td>Net Interest Margin</td>
<td>3.39</td>
<td>3.40</td>
<td>3.31</td>
<td>3.07</td>
<td>2.93</td>
</tr>
<tr>
<td>Gross NPA ratio</td>
<td>5.96</td>
<td>3.61</td>
<td>2.92</td>
<td>3.04</td>
<td>2.86</td>
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<tr>
<td>Net NPA ratio</td>
<td>2.65</td>
<td>1.88</td>
<td>1.56</td>
<td>1.78</td>
<td>1.79</td>
</tr>
<tr>
<td>Provision coverage (Excl AUCA)</td>
<td>57</td>
<td>49</td>
<td>47</td>
<td>42.17</td>
<td>38.42</td>
</tr>
<tr>
<td>Incl. AUCA</td>
<td></td>
<td></td>
<td></td>
<td>56.98</td>
<td>59.23</td>
</tr>
</tbody>
</table>

### 3.3 Conclusions

The Indian banking sector is going through rapid changes, both structural and systemic. Globalization has dished out both opportunities and challenges for the Indian banks. Negotiating competitive threats from the well-groomed foreign banks have become strategic imperatives for most of the nationalized and private sector banks. The speed with which the private banking sector has responded towards complying with the global norms is comparatively faster than the public sector banks which suffered from initial redundancy of silos-based system. Studies done by McKinsey and Company (2007) referred to achievement of three important objectives by the Indian banking sector namely return on shareholder value, contribution to nation’s GDP and effective allocation of capital and system stabilization. One of the major area that has undergone a major upgradation in the Indian banking sector is its operational system which has become extremely technology dominated. Automation of banking system with the implementation of core banking solution and multichannel integration in the Indian nationalized public sector banks is offering the customers with services and products at par with their foreign and private counterparts.

The largest public sector bank in India, the State Bank of India (SBI) initiated and virtually completed its phase-wise automation and modernization process. SBI has focused on expanding its product and service line by adding more cross and up-selling products/services. By forming a number of strategic alliances with other service partners, SBI has started providing value-added services to its customers. Consulting organizations namely, TCS, KPMG etc. supported SBI with this huge and large scale make-over process. Implementation and adaptation of CRM practices in SBI has been critical to their upgradation process. mySAP ERP has helped SBI streamline its human capital to acclimatize in this new
environment of customer-centricity. Technology enhancement has allowed SBI to combine with their customers on a virtual platform by rapid disintermediation and thereby providing the customers superior services at a faster rate. With a brand name having already achieved the status of ‘household recognition’, the migration of SBI from a traditional banking organization to a financial conglomerate is taking place.

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‘Competitiveness of the Indian banking Sector – Public Sector Banks’ by O.P. Bhatt, C&MD, SBI Group at ISB Hyderabad.