

ENHANCING COMPETITIVENESS IN BANKING FOR EMERGING MARKETS



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Abstract

Increasing competition among banks in emerging markets requires local banks to launch products that conform to international practices, while simultaneously satisfying the demands of the emerging market customers. This paper outlines a framework that offers banks a rapidly deployable solution that incorporates best banking practices, processes and standards, providing them with speed-to-market, flexibility and reliability.

Introduction

In the wake of the recent economic melt-down, the banking industry in the developed markets has been transformed — mighty giants have come crashing down into bankruptcy, and too-big-to-fail behemoths have been given urgent financial transfusions in order to revive them. However, the story is starkly different in the emerging markets, where the banks have raced ahead as their Western counterparts have languished.

Faced with regulatory and cost-cutting pressures at home, global American and European banks are losing market share in emerging economies to smaller domestic competitors. In addition, banking sectors of several emerging economies have grown at extraordinary rates over recent years. Over the next ten years, an estimated 60 percent of the growth in global banking revenues will come from emerging markets.¹

Challenges faced by banks in emerging markets

While the growth potential is enviable, it is not always a bed of roses for banks in emerging market. Faced with mutually interdependent forces of competition, regulation, technology upgrades and changing expectations of customers, banks are set for a range of challenges. The industry has to live up to the high expectations of its many stakeholders. A large part of the population in these markets is unbanked, and demands from polity to support inclusion are growing more vehement by the day. Some of the key challenges faced by emerging market banks are:

- **Increasingly demanding customer expectations:** Customer expectations from banks are rising, but loyalty is falling. This is the direct outcome of developments in technology especially on the online front. Customers find it easy to switch their accounts, thanks to the surplus of information available on products and services. However, recent research from leading industry analysts reveal that banks in emerging markets including high growth ones, find it challenging to meet rising customer demands especially in areas such as social media and mobility.
- **Demand for innovative products:** With new-found prosperity in emerging markets, customers are no longer content to be viewed as faceless constituents of a large group. They expect their banks to achieve granular customer segmentation, to recognize their individual needs and offer custom-made solutions to help them achieve their financial goals.
- **Chasing too few consumers:** De-regulation and growing opportunities in the emerging markets have resulted in too many banks chasing too few customers, especially since a large percentage of the population is unbanked and therefore has no credit history.
- **Meeting and delivering higher service levels:** Today's discerning bank customers not only demand a repertoire of services but also that the banks provide these in an increasingly efficient manner in terms of cost, time and convenience. They are also demanding fast and error-free transaction processing that run smoothly and provide accurate information.
- **Competition from peers and government-owned banks:** Many countries in emerging markets have nationalized banks with vast

branch networks and lower borrowing costs, which must now compete with nimbler new private banks on technology utilization and customer service levels.

These challenges are set to get fiercer, as western banks, recovering from the financial crisis at home, increasingly turn their attention to emerging markets in pursuit of growth. In addition, local governments are set to allow new entrants into the market. For instance, the Reserve Bank of India recently announced that it is likely to give banking licenses to seven or eight new entities, including aspirants among non-banking financial companies, as well as industrial houses.²

How can banks remain competitive?

To compete in this challenging environment where products are increasingly commoditized, banks need to differentiate themselves. In order to accomplish this, banks must

- Focus on IT as 'THE' enabler for success and efficient conduct of business, especially through a high level of automation, and
- Improve technology integration to facilitate better business decisions and improve synergies across the banks' various businesses

This will require the following business and operational imperatives:

Inculcating the habit of higher operational efficiency, not just through reducing expenses, but also generating more revenue per unit of cost. This will lead to lower Total Cost of Ownership for assets (including IT Assets) and also enable the banks to be better prepared to organically fund investments

Exploring new sources of revenue, by optimizing product offerings, enhancing the efficiency of fee collection, optimizing service pricing, introducing new products and services, entering new markets or expanding in established ones, and enhancing sales and marketing effectiveness.

Following an approach that offers scalability and agility, by rationalizing legacy systems, using current and efficient computing

¹http://www.mckinsey.com/insights/financial_services/tapping_the_next_big_thing_in_emerging-market_bankingtt

² http://www.business-standard.com/article/finance/rbi-may-allow-7-8-new-banks-113042200661_1.html

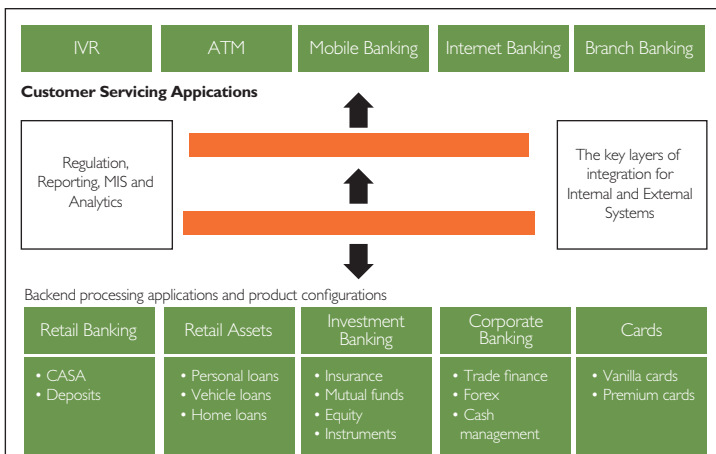
platforms, utilizing Service-Oriented Architecture (SOA), instituting automation tools, virtualization, etc.

Innovating and shortening time-to-market for products and services by improving communication, introducing agile methodology, exploring the possibilities of Big Data, and analytics to understand customer behavior and expectations.

Implementing and adhering to enterprise-wide process standardization to drive efficiency and reduce costs.

Putting in place and continuously monitoring controls and checks to ensure strong risk management, governance and compliance to regulations and laws.

To implement the above mentioned imperatives, banks must ensure that IT and business strategies align and deliver not only cost-effective solutions but also reduce time to market. It is here that an integrated implementation framework of banking technology solutions plays a vital role (see Figure 1). Such a framework should include pre-configured and ready-to-market products, industry-wide established processes, ready-to-roll-out templates, along with detailed documentation to allow the bank to hit the ground running, and begin operations as soon as possible. Key features of such a solution would include:



INTEGRATED IMPLEMENTATION FRAMEWORK OF BANKING TECHNOLOGY SOLUTIONS

1. A framework of technology products, solutions and processes, riding on a robust and powerful architectural platform, with the ability to perform 24x7x365
2. A secure, integrated re-usable set of components covering transactional banking, backend processes and channel systems
3. Comprehensive service offerings for retail banking across internet banking, mobile banking, and ATMs — configured in a very short time

4. Tailored offerings for corporate customers across Trade Finance, Cash Management, Salary Processing, Integration with Corporate Host Systems
5. Easy-to-use business process rule engines which allow users to align the framework to suit their functions
6. Easy to deploy and manage both on-shore and off-shore models with inter-convertibility
7. Portfolio of several technology solutions across core banking, channel banking, risk and compliance (Risk, AML, etc), financial inclusion, rural/agri/micro banking, retail lending, treasury and payments – both domestic and international, across geographies and currencies

Benefits

Such an approach can be implemented within reduced timelines and delivers several benefits:

1. Reduced staffing requirements, leading to a reduction in total cost of operations
2. Adoption of industry practices right from Day 1
3. Ability to deliver diverse products and services to customers right from the start
4. Availability of state-of-the-art infrastructure
5. Completely integrated and pan-enterprise approach for solutions and services right from the beginning

The increasing competition among banks in the emerging markets requires local banks to quickly launch products that conform to international practices and regulations, while simultaneously satisfying the demands of the emerging market customers. The recommended framework in this paper provides banks with a rapidly deployable solution that incorporates best banking practices, processes and standards, providing them with the ultimate speed-to-market, flexibility and reliability. This represents an enabling opportunity not merely for new industry entrants, but, perhaps, a new approach for established financial institutions as well.

About the author

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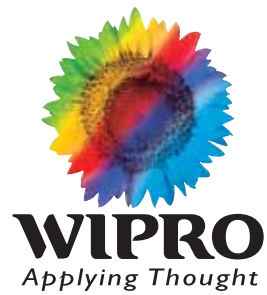
Narasimham is a Certified Information Systems Auditor (CISA) and a Provisional Auditor for Information Security Management Systems (ISO 27001). With rich experience in various Banking Domains such as Retail Banking, NRI Banking, Corporate Banking, Credit, Trade Finance, Clearing, Cash and Regulatory Reporting, Nittala uses his expertise to develop relevant Technology Solutions in several areas of Banking.

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