BPM in India

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Banking: The *Interest* in BPM

Banking case studies, surveys, and related studies around the globe reveal the popularity of BPM within the banking industry. Banks have reported a 40%-50% improvement in cycle time, efficiency, and cost, due to BPM adoption [1]. Account opening processes, compliance to regulations and standards, and the automation of paper-based processes are some of the more common scenarios for BPM adoption in banks. Adoption of BPM by Indian banks is along similar lines, with some unique characteristics and challenges. The banking reforms in India, in line with the World Trade Organization (WTO) requirements, will result in large transformations in the Indian Banking industry. Starting in April 2009, the second phase of the reforms will open up the Indian banking sector to foreign banks and provide greater freedom, challenges, and opportunities for improvement.

In this Column we explore the scenario for Indian banking, with its unique challenges, and we will look at a specific current BPM opportunity related to check processing.

Banking in India: A Brief Perspective

The Indian banking infrastructure has grown significantly over the last decade with over 56,000 branches covering public sector banks (PSBs) and a mix of Indian private players, MNC (multi-national) banks, and smaller regional players [2]. The regulatory system, which is one of the strong points of the Indian banking industry, is governed by the Reserve Bank of India (RBI). Since the economic liberalization of the 1990s, the banking industry, which opened up to private players, has been significantly transformed, with rapidly evolving regulations, high competition, demanding customers, and technology adoption raising the bar of performance.

Most of the PSBs are large, well-established institutions with more than a century of banking experience. The PSBs, virtually unchallenged until the 1990s, have automated their core banking operations based on RBI's directive. While this provided them with improved efficiencies in their hitherto largely manual processes, further savings in productivity and reduced manpower requirements are somewhat limited due to resistance from trade unions and employee associations. The PSBs have well documented processes, with multiple levels of controls and approvals, and are more branch-oriented. Most of the PSBs' processes still involve manual or semi-automated work, providing an opportunity for BPM in the near future.

The private players, both Indian banks and MNCs, were required to centralize and computerize from their inception. Hence, they have focused on leaner retail banking operations, consciously moving away from the bank branch as the hub, with more focus on other channels like ATMs, online banking, etc. Indian private banks have multiple entities, processes, and infrastructures for offering products and services like insurance, loans, investments, etc. The various new products and partnerships have resulted in processes that are still evolving. There is a need to create efficient processes across different product lines to provide a single-window experience for customers.

The MNC banks that brought in sophisticated technology, tested products, services, and processes, face the challenge of replicating and customizing their approaches for the Indian market and its regulatory norms. Their growth, which, until now, was restricted by regulation, is set to take off in the coming year due to the banking reforms. There is a huge population (90 million households) in the rural and unorganized employment sector who are both un-banked and under-banked. The challenge is in designing products and channels to include them.

RBI, in line with global trends, has introduced several regulations such as KYC (Know Your Customer), AML (Anti-Money Laundering), and Basel II. But Indian banks face unique challenges in adopting these; for example, KYC requires identity and address proof of the prospective applicant. Since India does not have a unique individual identifier (like the social security number in the U.S.), various other identifiers are allowed (passport, voter's ID, driving license). There are cases where a customer may not have any of these documents; for example, a senior female citizen in a rural area. There is also the RBI imperative not to deny banking service to any customer category or individual. These conditions increase the operational overheads and costs of the banks and also affect customer experience. Such situations call for flexibility to be built into process design and the underlying technology. BPM and workflow technologies have been adopted by banks to handle these compliance requirements; for example, customization of business rules for customer documentation during account opening for different customer profiles. While some of the core banking packages have incorporated BPM capabilities to handle these requirements, other package vendors provide KYC solutions by partnering with BPM vendors.

One of the current focus areas for RBI is the implementation of the Cheque Truncation System (CTS), which brings in considerable changes in the processes, technology, and other aspects of the bank, as well as changes for customers.

Cheque Truncation System (CTS): A BPM Exemplar

The "*cheque"* (also spelled "check") is one the most favored methods of payment in India. Even with various electronics payment mechanisms, the pressures on cheque clearing and settlement are huge, with India being the sixth largest in the world in handling paper-based clearing (1.46 billion cheques during April '07-March '08). RBI has launched the Cheque Truncation Initiative (CTS) (similar to the Check 21 Act in the US) with a time-based plan for adoption across the country. CTS was piloted through banks in the NCR (National Capital Region – i.e., New Delhi and neighboring areas) and has been mandated there since February 2008. CTS is being proactively adopted by other banks across the country as it reduces costs, increases efficiencies, and improves customer satisfaction. The expected results of CTS are T+0 for local clearing and T+1 for inter-city clearing, as compared to the current T+3 and T+15 when using physical cheques.

CTS implies that the physical check will not be moved across banks for settlement and will be truncated at the presenting bank. The image of the check is captured along with the MICR data, and, based on this, the clearing process is completed. The exact point of truncation has been left to the individual banks. The check then moves as an image and data through the clearinghouse to the payer bank, which verifies the signature and availability of funds, and completes the clearing process. The verification of the validity of the mandatory aspects of the check, like signature, date, alteration to the check, is done by the presenting bank. RBI has defined the time frames for the storage of physical checks and images and also the technological standards (e.g., grey scale imaging, Public Key Infrastructure, etc). RBI has provided the legal infrastructure for CTS by modifying the relevant laws (Negotiable Instruments Act and IT Act). The entire process involves various entities, formats, and rules, and is ideal for a BPM implementation involving governance, process changes, workflow implementation, application integration, document management, definition of standards, change management, etc.

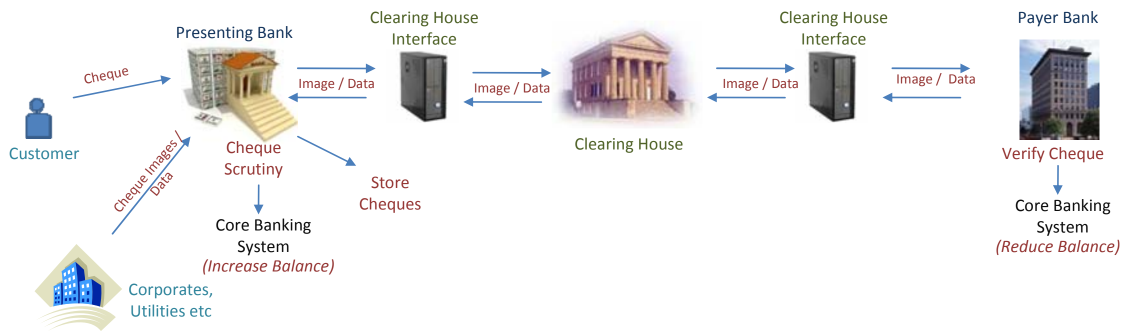

Figure 1

Adopting CTS brings unique challenges, such as the multiple languages in which the check may be written, lack of complete automation in banks to enable STP (Straight through Processing), etc. The business processes of the banks, related to payments, cash management, interfacing between banks/clearing houses, will need reengineering. IT processes need changes to handle electronic payment, imaging, storing/retrieving, business continuity, and security. Process training and process documentation need to be planned.

Various business opportunities exist for different players. There is a need for consulting around BPR, security, imaging, and network infrastructure. A new line of business, related to image bureaus, is being created, that can handle the imaging, storage, and transmission facilities for smaller banks. An outsourcing opportunity exists around providing imaging services to a group of banks or as a business service to larger banks in rural areas. Many vendors have built CTS solutions on their BPM and document management platforms that are gaining popularity with Indian banks. Their solutions integrate with the existing core banking solutions and provide the required customization. Local vendors – namely Newgen, Vsoft, ICICI Infotech – and global players like IBM, NCR, Alogent, etc., are active in this space. Leading core banking solution providers, like Finacle (Infosys), partner with other vendors to offer this solution, while others like Flexcube (Oracle) have built it into their stack. BPM opportunities also exist in corporations, institutions, and government organizations that have to redefine their accounts payable and receivables to take advantage of CTS, which provides better cash management and funds realization. For example, utility companies and credit card providers can truncate the cheques at their locations instead of physically moving them to their banks.

The current global financial crisis has not had the debilitating effect on the Indian banking industry that it has had in several other countries. Nevertheless it will constrain market growth, heighten competition, and increase flux in the regulatory environment. A McKinsey study [3] on how the Indian banking sector needs to gear up for high performance by 2010 mentions (among other things) the need for processes to create efficient banking organizations. Further, it also mentions the need for investments in technology as a key enabler for high performance and for providing innovative banking services to lower income and rural markets. Opportunity exists for Indian banks to view BPM in its entirety (and not just as a technology option) and to manage its processes better as one of the strategic levers – to not just survive, but to succeed, in turbulent times.

References

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