

## **Core Banking**

A sound and effective banking system is essential to keep a country's economy healthy and the banking system should be well regulated, customer friendly, and use the best technology and processes to be competitive, efficient and provide customer satisfaction.

The Indian Banking system reaches every corner of India and has been an important engine for the growth of the Indian economy by providing much needed credit for economic activity and also for savings.

The Government has stepped in whenever needed to strengthen the Indian banking system, including nationalisation of private banks as a national economic agenda and licensing new banks to operate and rescuing sick banks by merging them with healthier and profitable banks.

Indian banking has transformed into customer focused technology driven banking with non-stop digital services for customers and customer's ability to bank from any branch in any city. Indian banks today provide services which enhance customer service and ease use of banking services.

Core Banking has transformed the way Indian Banks worked and the Central Banker the Reserve Bank of India has made possible the implementation of Core Bank System by Indian Banks through a regulatory order.

The role of Reserve Bank started in the year 1935 has been significant for Indian Banking; the bank was responsible for regulation of bank notes, maintenance of reserves for stability and operation of the countries credit and currency system.

The Reserve Bank of India facilitates the Indian economy and influences the monetary policy making, foreign exchange reserves and control, interest rate regulation; oversight of banks in India, whenever needed handles the merger or closure of poorly performing banks.

Retail Banking affects every Indian and is the lifeline of the economy, the nationalised banks server a large part of the population by providing banking services for all sections of the Indian society and it numerous branches provide retail banking services to the Indians.

The Reserve Bank of India's Committees have played a stellar role in shaping customer services and also efficiency in operations of Indian banks by providing the required direction and intervention.

Many of the recommendations of these committees recommend use of Technology as a enabler and one of these recommendations has been the implementation of Core Banking Solutions which has transformed customer service and bank operations in India. Core Banking Solutions allows Indian nationalised banks to offer a multitude of services both at the branches and through digital medium bringing about a transformation in the bank customer interactions.

Core Banking Solutions is the backbone for the efficient services offered by nationalised banks and has been responsible for an increase in the reach of banking to every citizen of India with its ability to transact and serve a large section of the Indian population by the use of technology.

Various Committees appointed by the Reserve Bank of India proactively encouraged introducing technology to enhance customer service in the banking industry.

The RBI has set a Corporate Objective: "Enabling financial sector to leverage on Information Technology for better customer service, improved housekeeping and overall systemic efficiency" and believes that Information Technology will continue to be the single largest facilitating force behind the successful transformation of transactions and analytical processing of banking business in the country.

The introduction of Core Banking Solutions (CBS) which was at its nascent stages has been almost completed implemented by a majority of public sector in their branches. The introduction of Core Banking has resulted - as a natural offshoot - in the computerization and networking of branches of banks in a larger scale since these are essential pre-requisites for the implementation of Core Banking.

Because of the Core Banking Solutions there has been an explosive growth in the use of payment and settlement systems for funds transfers, with a substantial value of funds getting settled using electronic means, implying the commencement of a gradual shift away from traditional paper based transaction flows. The major developments due to implementation of Core Banking Solutions were:

1. Introduction of new delivery channels for customers, by banks. Internet Banking, Mobile Banking, Mobile Automated Teller Machines (ATMs), multi-functional ATMs, shared ATM services.
2. Large scale usage of Real Time Gross Settlement (RTGS) for quick, immediate funds transfer
3. And smart card based cards as part of initiatives aimed at Financial Inclusion are some of the landmark developments aimed at improving customer service facilitation using innovative systems.

Core Banking offers an ideal platform to meet the challenges in the financial industry; the Public Sector Banks with their constraints and compulsions have been able to implement core banking technology.

Core banking solution refers to a common technology solution wherein a central shared database support the entire banking application. Business processes in all the branches of a bank update a common database in a central server located at Data centre, which gives a consolidated view of the bank's operations. Branches function as delivery channels providing services to the customers of the bank. Core Banking Solution is an integrated application that supports real time, multi

banking and multi-channel strategies.

The single biggest achievement of implementing the Core Banking Solution is that each customer is truly the customer of the Bank and not just the customer of the Branch, where his/her account is maintained. He/she can go to a branch anywhere in the country and perform a transaction.

### **Introduction of Core Banking Solutions**

Core Banking Solutions in the public sector banks were introduced into Public Sector Banks through a circular issued by the Reserve Bank of India in September, 2004; by the year 2012 all the public sector banks had completed their Core Banking Solution implementation.

The implementation of Core Banking Solutions has provided banks a solution to make fund transfer faster as compared to the earlier manual process used earlier.

The banks by use of Core Banking Solutions today can offer more services and products through their retail branches and also allow customers a digital interface through internet, mobile, kiosks and ATM to handle their banking transaction by use of self service delivery. Banks today have a 360 degree view of their customer's relationship with the bank and allows them to cross sell and also customize various financial products and solutions to their customers thus improving the bottom line of the banks.

A Central database has allowed a centralized monitoring of customer interactions with the bank thus providing a powerful Risk Management Tool for banks; also automated setting of limits for various transactions by banks by use of Core Banking solutions has helped the banks to reduce the errors caused by manual interface in the earlier systems.

Core Banking Solutions use has made the branch more efficient with automated backend decision making which is rule based and driven by technology; it has reduced a number of mundane manual tasks which burdened the bank's branches, today the branch employees have more time and technology enabled solutions to serve their customers.

The introduction of digital delivery channels for self service banking by customers by integration with Core Banking solutions has significantly empowered the customers of the banks.

Training employees in the use of Core Banking Solutions has resulted in a motivated bank team which are customer centric at all the bank branches of public sector branches.

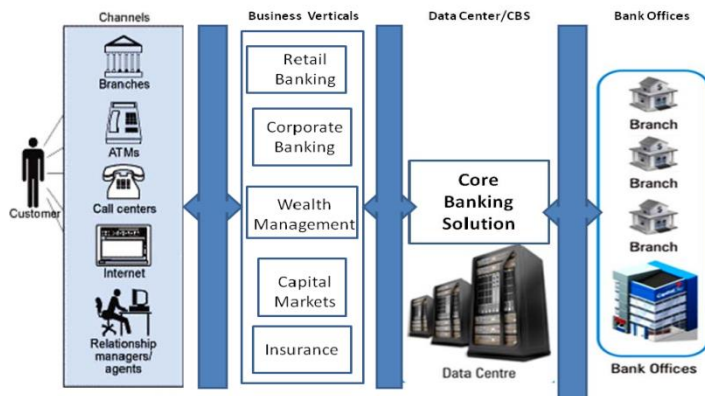
#### **The key benefits of Core Banking Solutions for customers are:**

- Customer can conduct their banking transaction from any branch of their bank.
- Quicker and efficient fund transfer for customers.
- Availability of electronic delivery channels like ATM, net banking and Mobile Banking, providing customers alternate channels outside branch working hours.

- Introduction of new products by banks which are useful to their customers like online bill payment,
- Ability to Offer improved services to the customers Of the bank by use of a Centralized Database Which provides real time information to the customers of the bank.

**The key benefits of Core Banking Solutions for Banks are:**

- Banks have been able to introduce standard operating procedure for conduct ng their business.
- Have the requisite tools and information to make enhance customer service.
- A unified view provides for effective Risk Management in the bank's operations. The diagram below gives the Generic schema of the various components of a Core banking Solution used in a Bank.



Channels supported by the Core Banking Solutions are Bank Branches, ATMs, Call Centers, Internet/Mobile connectivity and Bank Relationship Agents.

The Business Verticals are Retail Banking, Wealth Management, Capital Markets and Insurance.

The Data Center hosts the Core Banking Solution and is connected to the channels and bank locations by the use of a data communication network, this is the heart of the system where all the data of the bank is stored for operations and transactions.

The Banks offices include the Branches, Head Office, Regional Office, Area Offices and Back Offices of the Banks and they all need to be connected to the Core Banking Solution at the Data Center to conduct their banking business.

### **Changes in Banking Operations due to Core Banking Solutions:**

The significant change in Banking Operations brought about due to Introduction of Core Banking Solutions are as follows:

1. The delivery of new product capabilities to all customers : The centralised and unified properties of CBS has enabled the banks to roll out new product capabilities to all its customers both in urban and rural areas seamlessly and at the same time at all locations. Thus the CBS provides a wonderful platform for quick and efficient roll out of innovative products offered by the bank.
2. The unification of processes across the bank: The Processes are standardized in the CBS and hence the same processes are followed by all bank employees who allow the bank to realize operational efficiencies and improve customer service. Also the Bank has one unified view of its assets and liabilities at any given point of time and also allows the bank to introduce newer customer channels build around the CBS. A centralized database also allows the bank to introduced solution like Customer Relationship Management (CRM) and Business Intelligence (BI) and Data Mining tools which help in better business decision.

3. Provision of a single customer view of all accounts: The customer is allowed a single view of all his accounts held with the bank whether it a savings account, current account or other deposits and investments offered by the Bank. This single view allows the customer to go to any branch of the bank irrespective of the location and conduct his transactions with the bank. This single view also allows him to bank through other banking channels like internet, ATM and Mobile banking.
4. Support for all existing products of the bank: The CBS provided support for all existing products offered by the Bank at the Branch level Automatic Ledger Posting Machine (ALPM). Thus the customer is allowed to interact at the bank and avail of not only the services offered before implementation of the CBS but also avail of the new services and products offered due to the introduction of CBS.
5. Anywhere banking services: The bank offers anywhere banking services through the CBS rather than branch dependant banking which were the earlier practices. With newer channels like internet, mobile and ATM the bank is also able to offer anytime banking to customers.
6. Reduced customer wait times in branches: Customer service levels have improved tremendously at bank branches and the customer wait times in branches have also been reduced due to the efficiency of streamlined processes and centralized operations through CBS. The front office of the bank is a cheerful bank employee and also lesser wait times have resulted in delighted customers. Introduction of new channels like internet banking and ATM for banking transactions have also made the customer less dependent on the bank branches.
7. Reversal of the customer attrition trend: Due to implementation of CBS the attrition rate of existing customers has reduced significantly and also the business realization per customer due to new product offerings has meant enhanced revenue per customer for the bank. There has been a trend of customers preferring Public Sector Banks because of the improved service and products offered after implementation of CBS.
8. New revenue streams: New revenue stream have been created by tapping the system capability to directly debit/credit accounts without manual processing and reconciliation. Examples are employee salaries and customer payments, stock market trading and payment of utility bills through the CBS.
9. Sweep Accounts : Sweep accounts are a bank accounts that automatically transfers amounts that exceed (or fall short of) a certain level into a higher interest earning investment option at

the close of each business day. This provides the customer with the greatest amount of interest with the minimum amount of personal intervention.

10. **Business Process Management:** Business Process management is achieved through rule and role-based operations workflow; which has allowed the bank to have workflow and processes standardization. Better process management has improved the efficiency of the Bank's employees and has significantly improved customer transaction processing and customer service.
11. **Business Process efficiencies:** Business Process efficiencies are achieved through a clear distinction between front-office and back-office operations. Thus the front office focuses on customer care and services while the back office operations which are mostly centralized due to CBS has allowed the banks to be more efficient and effective.
12. **Centralized control of critical functions:** CBS facilitates a centralized control of critical functions, making it easier for banks to implement Risk Management and also compliance requirements like Asset Liability Management and BASEL II norms.
13. **Promotion of Straight Through Processing :** When there is a need for payments that needs to be effected urgently, usually on a same day basis, within very quick timelines it is done electronically thorough the CBS system thus eliminating paper work in the process.  
The Common modes of such payments offered by the banks are EFT, SEFT and RTGS which are gaining popularity since these are faster and more efficient & reliable compared to traditional paper based payments. Thus there is a replacement of paper- based transactions with electronic payment channels.
14. **Central Cheque Book Process facility:** The bank is able to replenish cheque books automatically because the CBS keeps track of the cheque leaves used by the customer. The Cheque books are dispatched from a central operations center to the customer.
15. **Cash Management:** CBS implementation facilitates better cash management for customers across various locations and accounts maintained with the Bank. Cash Management is a broad term that refers to collection, concentration and disbursement of cash. It encompasses a company's level of liquidity, its management of cash balance and its short-term investment strategies. Managing cash flow is an important activity for the banks customer across the various accounts held at a various locations of the branch.

16. Online Tax Accounting System (OLTAS) : The introduction of the Online Tax Accounting System (OLTAS) for tax related payment for the Central Board of Direct Taxes and the electronic accounting system in excise and service tax for the Central Board of Excise and customers have revolutionized the method of tax payment to the Government by the banks customer. This has been possible only because of the introduction of the CBS in the banks.
17. New Customer Delivery Channels: One of the major benefits of the CBS implementation has been the ease of introducing new delivery channels for customers by banks like Internet Banking, Mobile Banking, Mobile Automated Teller Machines, multi-functional ATMs, shared ATM services, large scale use of Real Time Gross Settlement (RTGS) for quick immediate funds transfer and smart based cards in the banks. This has improved customer service facilitation by use of innovative systems and also allowed the Banks to leverage on the electronic systems provided by the RBI for these interbank transactions.