

Banks, IT firms must co-ordinate for implementing Basel II norms

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MUMBAI - The fact that Indian banks need to comply with stringent Basel II prudential norms by December 2006 prescribed by the Bank for International Settlements is not hidden from anyone. Experts at the recently held 6th bank.net international exhibition and conference organized by Exhibitions India Pvt. Ltd. in Mumbai called for a strong co-ordination between all Indian banks and IT firms in order to implement these norms by the stipulated timeframe.

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That apart, it's visibly noticeable that the Indian banking industry is proactively seeking new technologies – both software and hardware – for improving their services. Over 30 exhibitors showcased their innovative products and services. A concurrent two-day conference with 40 expert speakers explored all aspects of its theme – "Indian B@nking: Transformation to Enhance Competitiveness." But more about the conference later – first, the exhibition and all its new products!

Technology to the fore

Technology now plays a vital role in the Indian banking, finance and insurance (BFSI) industry. With the government of India and the RBI (Reserve Bank of India) taking firm initiatives, almost all banks – private, public or co-operative – are preparing for total banking automation. The arrival of foreign and private banks with superior, state-of-the-art technology-based services has also played a vital role in the rapid growth of technology penetrating the Indian banking industry. This makes a strong case for modernization if you're an Indian



Prem Behl, Managing Director, Exhibitions India, introducing the distinguished panelists at the bank.net exhibition. Merwin Fernandes, VP and Head-Global Sales, Infosys; Aruna Rao, Sr. VP, Polaris Software Labs; B. Chandrashekhar, Country Director, Solutions Engineering, Intransa; Punit Jain, VP-Sales and Marketing, Newgen Software Technologies Ltd.; P.K. Biswas, ED, RBI; Jyothi Ranjan, Head - Sales, India and SAARC, CR2 Ltd.; Sunil Arora, Director-Sales and Marketing, ABS India Pvt. Ltd.; Devi Mohan, Head-Marketing, SunTech; Tarun Malik, Enterprise Marketing Manager, Microsoft India (L to R)

bank trying to retain long time customers. As a result, the market for banking-technology products is expanding at an exponential rate and attracting new solution providers all the time. Certain statistics support this bullish outlook – the IT spend in India is expected to be U.S.\$ 5.7 billion annually within the next few years, of which roughly 20% is slated to be from the banking sector.

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Forbes Gokak Ltd., formerly and popularly known as Bradma, launched an intelligent money counting machine. Most note counting machines, thus far, could only operate using one denomination of currency at a time – the Forbes Gokak machine is not hindered by such limitations. They have shown great initiative by using industry feedback received through their bank.net participation last year and developed a product directly addressing market needs. Competitively priced at Rs. 47,500,

the firm expects to sell about 20-25,000 units every year. Rajiv Mhapankar, general manager, Forbes Gokak, said: "Customer service is very important. The idea and the need for such a machine in India came out because of feedback from customers. We scouted the international market, narrowed down on the suitable, cost effective product, and customized it to the Indian needs." The firm also displayed its interactive information kiosks; note counting machines, note banding and bundling machines.

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APC's (American Power Conversion (I) Pvt. Ltd.) stall was an attraction thanks to its innovative PDA tour guide. The tour focused on InfraStruXure, which fully integrates power, cooling, and environmental management within a rack-optimized design. The InfraStruXure online BuildOut tool automates the process of designing the optimum system. These customized systems are



A view of Microsoft booth at the bank.net exhibition

built from standardized components, which are modular, manageable, and pre-engineered to work together. This modular flexibility enables you to install only what is required today, and easily scale to meet future demands. InfraStruXure increases the system availability, while decreasing design and install time from months to days ñ all the while eliminating the need for raised floors in many applications. Their video presentation demonstrated how, in less than four hours, the whole system could be installed. M.L. Sridhar, marketing communications manager, APC (India), said: 'We have got an excellent response. Many from the banking industry came to our stall after our presentations at the conference.'

Another interesting display was the use of mobile phones for banking. Jargon Micro Solutions (P) Ltd, a Chennai based company, demonstrated how individuals can check their current balance, last three transactions, nearest bank address, ATM locations, etc., on their mobile phone within 20 seconds. When asked why Internet banking is the preferred medium, Subian Ganeshan, CTO, Jargon Micro Solutions, said, 'I do agree. While Internet banking is still popular, before long, mobile and phone banking will be a norm in the banking industry ñ more so in rural banking. Also, while you're on the move and want to check

something, where is the access to your computer? Even with Wi-Fi, you still have the hassle of switching on the laptop, going to the Web site, etc. Here, you get the necessary information in 20 seconds.'

A few years back, Jargon Micro Solutions achieved a breakthrough in computer telephony Integration (CTI). Today, the company has created a niche in the telebanking sector in India and is gaining a reputation in the CTI/IVR sector within the country. 'The product is priced between Rs. 30,000 to Rs. 50,000, so its implementation does not cost much. It more than justifies the expense by the customer service it provides,' said an emphatic Ganeshan.

Giesecke & Devrient (G&D), established in 1852 ñ now a globally operating technology group ñ displayed some of its latest products. It launched its cash deposit terminal, Castella. Quite a few bankers were seen taking an interest in this product. Deepak Singhal, senior engineer (regional head), G&D India, said: 'It's the first of its kind in India. Depositing cash has always been a hassle. Now, with this machine one can deposit cash and the machine will check for counterfeit notes, total the amount and credit it to your account immediately.'

The other machine on display was the BS200. With a speed of 30,000 notes an hour, it has already been installed in major banks like SBI, ICICI, HDFC, IDBI, etc. Priced at Rs. 25 lakh, the machine counts, checks for counterfeit notes, segregates different currencies, and sorts issuable and non-issuable notes. 'We have another high speed machine, the BS1000, at Rs. 2.5 crore. Its been provided to the RBI,' said Rajiv Gupta, product specialist, G&D India.

ITI Ltd. had a prominent presence at the exhibition. On display were its note counting machines, fake note detectors, note bundling machines and info-kiosks. D2K Technologies, which provide customized MIS solutions to the banking industry, also displayed its technologies. 'Currently, our solutions are running in many nationalized banks,' said V.C. Sharma, director ñ projects, D2K Technologies. CR2, a global provider of software products for banks in areas like ATM switching, Internet banking, mobile banking, integrated channel management and card payments, displayed its mobile banking solutions under BankWorld Mobile. This also generated a fair bit of interest ñ it's a flexible solution that delivers banking services to customers through a range of mobile devices using SMS or compact-HTML and WAP.

BankWorld SMS provides banks with a way to communicate in real-time with customers using both inward and outward SMS messaging. Mobile banking uses the same infrastructure as the ATM solution, which makes it



P.K. Biswas, Executive Director,
Reserve Bank of India

extremely easy and inexpensive to implement. BakBone software bends backwards (no pun intended) to ensure that data is encrypted and protected. If something fails in a server or network, BakBone will restore and recover information. The company's NetVault backup and restore software is available with various plug-in modules that work with applications from vendors including Microsoft, Oracle, SAP, and Sybase.

† Being a leading international data recovery solution provider that develops and distributes data backup, restoration, and disaster recovery software for network storage and open-systems environments worldwide, the company is looking forward to penetrating India in a big way. BakBone delivers scalable solutions that address the complex demands of large enterprise environments, as well as SMEs. Founded in 2000, BakBone products are used by Fortune 1000 corporations, and domestic and international government entities. It is distributed through a select global network of OEM partners, resellers and solution providers.

† Vigneshwara eBiz, a global company providing IT consulting and software development services in diverse application areas, displayed its telecom and networking solutions. Spectrum Business Support Ltd., an information retrieval and knowledge management company, has developed cutting edge technologies in the areas of information retrieval and knowledge management (IR&KM). Spectrum was one of the first Indian software firms to appreciate the value of IR & KM systems and develop related technologies. These technologies have been successfully deployed in various products/services for the legal fraternity, government bodies, banking and financial services sector, leading consultancies and corporates.

† Spectrum works with structured and unstructured data to provide the following products and services ó information retrieval products and

services (multilingual text mining), DataFix suite of products and services (data quality management) and knowledge management products and services. "We have the single largest collection of law information in India that covers all Supreme Court, High Court and Tribunal decisions reported. There's also a search facility," said Uma Venkataraman, head marketing, SBM.

† **Slow computerization hampering implementation of Basel II norms**

At the conference, the inaugural session dealt with "transformation in banking to enhance competitiveness". Delivering the keynote "Technology as a key driver in the banking industry" R. Ranjivjit Singh, director, Microsoft India, said that the banking priorities today included a compelling IT vision for financial services architecture. Singh said that while he was amazed at the transformation seen within the industry, he now sees a need to strengthen platform capabilities and deliver new generation services, as well as build deep partnerships with technology partners. He cited the example of ICICI Bank. Microsoft enabled ICICI Bank to provide an integrated customer experience, as well as real-time integration between applications and delivery channels. He stressed that a bank's IT strategy is key to competing today.

† Indian banks also have to comply with stringent Basel II prudential norms by December 2006. According to V. Chandrashekhar, CTO, Bank of Baroda, "The slow pace of computerisation is said to be the biggest challenges most public sector banks face in the implementation of Basel II norms." Currently, Indian banks are ready to migrate to Basel II at a conceptual or an academic level. The Bank of Baroda CTO said there is a need for organisational and technological readiness to actually go ahead with Basel II norms. He added that while there was tremendous enthusiasm to computerise the liabilities side, automation is done with a lot of reluctance on the asset side.

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A view of G & D booth at the bank.net exhibition

Banks also face problems of distributed databases and controls. They need to build entire IT frameworks to comply with Basel norms of providing capital based on credit risk, market risk and operational risk. This provides huge opportunities for consultants, vendors and for outsourcing activity. Chandrashekhar added: "Real-time data capture, integration of internal and external data, data warehousing, analysis and reporting, and multiple views of massive data would be the pre-requisites for Basel II."

† The session threw up the fact that today's technology can be outsourced. H. Srikrishnan, executive director, Yes Bank, said: "Outsourcing technology to specialized service providers can enable the bank to concentrate on their core banking activities." He added that bank's IT strategy should be embedded into their business strategy to make the transition and adoption of technology easier. He noted that the biggest change on the technology front in the last decade has been the enormous potential for outsourcing available today. Srikrishnan said technology personnel also need to participate in the planning and budget making process on an ongoing basis.

† **Co-ordination required between banks and IT firms**

"Emerging technology strategy for bank's" was the theme for Session 1 of the two-day conference. Currently, banks are increasingly venturing into traditionally non-banking areas such as



Gunnebo Steelage displayed its products at the bank.net exhibition

insurance and mutual funds. Prabir Biswas, executive director, Reserve Bank of India (RBI) was chairperson for the session and said: 'The main challenge faced by banks in this regard is performing their role as keepers of the public's money within the legal and regulatory procedures.' Biswas demonstrated his wisdom by using anecdotes ranging from Shakespeare to Hindu mythology to illustrate his point. While discussing emerging technologies, he stressed the need for co-ordination between banks and IT firms.†

Biswas said that while technology was instrumental in helping banks lower the cost of transactions and bringing about an efficiency in their processes – banks and IT firms should work together in the larger interest of sustained growth. He said: 'If a bank's particular business is growing faster than can be dealt with by its back-office, which does not have facilitating technology, the growth of business may not be sustainable. Hence, banks should be open to experimenting with the latest technology. RBI is in the forefront of bringing about the use of technology in banking operations, whether it is the Negotiated Dealing System or the Payment Settlement System,' he said. RBI is also among the few central banks in the world to have a centralized data system.

† Speaking on IT leadership vs. IT

governance – new rules for financial services, Tarun Malik, Enterprise marketing manager, Microsoft India, said that only through the constant optimization of both operational and customer experience excellence would an organization consistently outperform its peers.

He looked at the enterprise process management – an approach that places business process at the center of business management. It is tied to customer value delivery, supported by alignment in key business dimensions – organization, partners, technology, budget, content, and change – monitored through process-based performance metrics.

† B Chandrasekhar, country director – Solutions Engineering, Intransa, dwelt on how the vendor was catalyzing the third wave of storage by innovating and commercializing intelligent IP storage. It enables enterprise-class storage for the masses by providing SAN capabilities at fraction of FC-SAN TCO.

Sunil Arora, director – sales and marketing, ABS India, spoke about how loyal customers who purchased additional financial products drove profits. He touched upon how, by using Alcatel's solutions, operational efficiencies could be increased, while reducing costs.

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Operational risk management key

Speaking on new paradigms in risk management strategy, PeopleSoft's John O'Doherty said operational risk-management was key. He called for improving the transparency, reliability, timeliness, and accuracy of financial information. It should be approached in a manner to improve operational effectiveness. This could lead to implementing process, organisational and technology improvements. D.N. Prahlad of Surya Software Systems spoke of liquidity risks, market and credit risks, and operational risks, and how to manage those or engage in risk controls.

† Nanda Mohan Shenoy, head – IAS Operations, BNPParibas, indicated that operational risk was being introduced for the first time in the banking sector through Basle II. Operational risk is defined as the risk of loss resulting from either inadequate or failed internal processes, people and systems, or from external events. Banks now need to graduate from the basic indicator to AMA (Advanced Measurement Approach), which itself is not without challenges.

† Speaking on an audio-conferencing system for managing crisis communication, Jerry Bindra, national sales manager, Compunetix Inc., said that in times of crisis, management is judged by the decisions made immediately following the event, which includes who they consult in making those decisions. In such situations, an audio-conferencing system could be an organization's most effective first



V. Chandrasekhar, CTO,
Bank of Baroda

response system for crisis management. It is a collaboration tool to facilitate effective communication aimed at enhancing business productivity and competitiveness. Vigneshwarasí e-biz is its exclusive channel partner in India.

† Network Solutionsí Bala Chitoor spoke on driving business value of IT using infrastructure intelligence. According to him, IT is expected to create a demonstrable business value. Yet it lacks solutions to manage infrastructure. Infrastructure intelligence enables a real-time enterprise.

† Speaking on data lifecycle management, Kim Low, territory manager ñ SEA and India, BakBone Software, said that information lifecycle management (ILM), also referred to as data lifecycle management (DLM), is one of the most promising, but also loosely defined, and hyped terms of the year. Software and hardware vendors are using it to describe both old and new products ñ with the result that many users are unsure whatís new and whatís not. Despite all the excitement around ILM, the uncertainty around definitions and applications is causing confusion within the end-user community, she said.

† An ICICI Bank spokesperson, discussed business continuity planning (BCP). He called upon making crisis management teams responsible for BCP. It should cover all critical functions for continuity, and ensure regular mock exercises, training and documentation. Sanjay Sharma, head ñ IT, IDBI Bank, highlighted some myths about business continuity in his presentation. According to a Nasscom-KPMG 2003 survey, 40 percent of the BFSI sector attaches maximum importance to BCP initiatives.

However, BCP is considered as an ongoing initiative by 95 percent of the respondents. A speaker from PortWise discussed application access trends, saying that customers and partners demand anytime and anywhere secure access. He dwelt on SSL VPN and the PortWise mVPN.

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Trends in e-Security

Speaking during the session on e-Security ñ Current Trends & International Best Practicesí ñ Alok Shende, director ñ Technology Practice, Frost & Sullivan, highlighted the need to protect proprietary and transaction information, as well as the need for information security. Forecasting the Indian network security market for the period, 2002-2010, he said the Indian market for network security was valued at US \$29.9 million, with the firewall/VPN markets estimated at about US \$25.2 million and the IDS market estimated at about US \$4.7 million. The overall security market is likely to grow at about 25 percent over the forecast period; the firewall/VPN market is likely to grow at a CAGR of about 24.2 percent. Adoption by the BFSI and SP verticals will lead to the VPN market growing at a faster rate. The IDS/IDP markets are likely to grow at a CAGR of 28.8 percent.

† BFSI is the leading vertical in the adoption of network security technologies, catalyzed by the government mandate to bring all banks online by 2005. Current spends are skewed in favour of public sector banks. Next, strong growth in the telecom and software sectors has led to the service provider and software firms being the other two major contributors. Large businesses are key contributors to the network security markets. However, there is a trend toward growth in revenue contribution from the SMEs, which is growing at a CAGR of about 35.1 percent. SME spends are likely to be on fundamental security infrastructure like firewall and VPN solutions. As security awareness and needs mature, large enterprises are likely to migrate toward and drive growth in IDS spending.

† According to Shende, the intrusion detection devices segment is at a nascent stage in India. Its predecessor, IDS, is barely a few years old. As for managed services, the concept has already caught on in developed countries like the US and Europe. Globally, it is likely to have



Ranjivjit Singh, Business & Marketing Officer, Microsoft India

touched around US \$497.3 million in 2002 (Frost & Sullivan estimates) and grow at a CAGR of around 24 percent from then on.

† Taking snippets from the 2004 World Wealth Report, Koen Van den Brande, president ñ Product Group, Polaris, pointed out that global HNWI wealth grew by U.S.\$ 28.8 trillion (7.7 percent) in 2003. The number and wealth of HNWIs in North America and Asia Pacific grew at faster rates than in Europe and Latin America. Hong Kong, China, India and Korea were the standout countries for the Asia Pacific region, and India is currently one of the fastest growing markets for HNWIs.

As for loan processing, NPLs in Asia represented US \$1 trillion of a global total of US \$1.3 trillion. India alone has been estimated at US \$29.9 billion and considered ñemergingí alongside China and Germany. There are also over 8 million cards in use in India. For larger banks seeking to reduce internal spending on IT, Polarisí Intellect Suite offers re-usable components called GeneS. Unlike monolithic universal banking systems, Intellect Suite offers readymade and easy-to-integrate components toward a services-oriented architecture.

This year'sí bank.net brought together a dynamic industry in the midst of change ñ leading to the dissemination of a great deal of valuable information. Absorption and the resulting application of that information will be a clear challenge thatís sure to keep many in the industry very busy till next year'sí event. **CP**