Our View

Beyond Digital banking and Digital Bank - it is time to reimagine a completely new banking system

All pathbreaking moves in history have taught us that transformational changes do not occur when we just try to optimize existing facilities. They occur only when we transcend to a level where we create customer value in completely new ways - when we reimagine things in entirety.

In the 90s, we witnessed a technology & regulatory intervention powered transformation in the Indian capital markets when the electronic stock exchanges, electronic stock depositories and the electronic payment system completely overtook the physical stock trading system, manual stock keeping and paper-based settlements. This reimagined, paperless, and seamless trading architecture ensured immense transparency, reach and exponential growth in trading volumes. Consequently, today, our capital markets are one of the largest in the world in terms of volume. We have also very successfully done this in the telecom sector – a completely new mobility-based system not just moved people away from fixed line, but indeed made fixed lines redundant.

Banking, with its brick and mortar format, which once was in many ways an intimidating experience, is today on our fingertips. Computerization and advanced use of technology found its roots in Indian banking with the advent of new private sector banks. The concept of payments banks gave further impetus to digital banking.

It is now time to think beyond digital banking and Digital Banks. The time is ripe for India to take a lead and catapult banking to a completely different level. The very successful experiment on the securities infrastructure makes us believe that banking of future can also be a completely frictionless and delightful experience through a centralized technology architecture, new regulatory framework and ground-up reimagination. With the right thought leadership and regulatory support, a completely electronic banking experience of Any bank, Anywhere and Anytime is not out of reach.

This concept can be developed based on the following three pillars:

1. **Central Banking Depository (CBD)** – A customer could approach the CBD to open a 'Universal Bank Account' and would be assigned a virtual banking account number. This will be one and only one bank account number that the customer needs for any transaction with any bank. The customer could then open an account/ transact with any bank of her choice. CBD would keep records of all banking transactions of an account holder, eliminating the need for multiple account keeping at multiple banks. This would provide inter-operability where customers can change banks while retaining the same account number. This is like the current stock data keeping by the depositories. Technologies like blockchain could be explored to achieve this. Banks will benefit from reduced data entry as the same can be retrieved from the CBD. This will also bring in transparency in disclosure of records.

2. **A common central KYC institution,** which is not just a repository of KYC data submitted by the Banks but is authorized to carry out various levels of KYC checks on an account holder – This would ensure a seamless on-boarding of the account-holders for banking services, and easy switch from one bank to the other. With a KYC certificate and a CBD number, one could walk into any bank to open an account/ transact. Periodic review of KYC can also be done by the designated central agency.

   While ensuring a uniform KYC process by an expert organization, this will also avoid multiplicity of KYC across different banks and for other similar requirements such as for capital market transactions, property transactions, income tax, GST, shops and establishment and many others. Multiple levels of KYCs could be envisaged as per the business requirements - from a very basic one to facilitate a limited bank account to a very detailed one to ensure compliances for more complex transactions/ business relationships. It may even be worth entrusting UIDAI with this initiative.

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3. **Shared infrastructure** –In line with the growing trend of shared infrastructure, to bring down costs and to improve efficient utilization, various banking channels can also be shared. A shared white-labelled ATM and business correspondent network already enable customers to make cash deposits/ withdrawals and AePS payments through an outsourced network. A white-labelled branch network could carry out banking services and retail operations of various banks in a non-discriminatory manner – quite like the VFS application centers which provide visa application services for multiple countries under the same roof. These could also provide last mile reach to digital banks. Sharing of telecom towers by various telecom operators for creating efficiency is a good precedence of this concept.

Further, a **banking settlement agency/ clearing agency** could do interbank settlements of fund positions based on transactions in the 'Universal Bank Account'. The **rating agencies** could also access the transaction flows in individual accounts to strengthen their assessment of individuals.

The Banks could then focus on enhancing their product suites and enriching their digital platforms for servicing of banking transactions like fund transfer, lending, payments, and wealth management.

This concept – a completely paperless, painless, and transparent model – will not only significantly bring down the cost of banking transactions but also remodel banking like the mobile or capital market experience. Of course, it will require significant think through of the entire concept, process, and the technology architecture around this. A buy-in of the regulators to make available the requisite regulatory framework, would be a starting point. We need not look west or east for a similar model to follow – if we did that, we would not have had Aadhar or UPI today! Any bank Anywhere and Anytime would indeed require a lot of ground-up creative model development.

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