

## Q&A from Audience| July 16, 2022| C-DiT | IIM Kozhikode

VIRTUAL EVENT: *Fireside Chat on Digital Transformation in Financial Services: Challenges & Opportunities*

SPEAKER: *Ms. Shalini Warriar, Executive Director & Business Head- Retail, Federal Bank*

MODERATORS: *Prof. Joffi Thomas & Prof. Qambar Abidi, both from IIM Kozhikode*

### **1.As you being part of compliance what changes are seen in terms of RBI moving digital and paperless?**

RBI has always been supportive of digitization and innovation. In fact, RBI has created a special entity called RBI Innovation Hub, designed to bring about innovation in various spheres of Banking. RBI recognizes the importance of safety and security while promoting digitization, and has taken steps in that direction too. The regulator has come out with a Digital Payment Security Control guidelines for Banks to set up a robust governance structure and implement common minimum standards of security controls for Digital Payment Products and Services.

### **2. Many of this Fintech-s became popular because of Telecom & Internet, and spoiling the traditional banking setup. If the Fintech's didn't crowd the market, won't you think banks would have addressed this space as part of their digital transformation / digital banking?**

We do not see FinTechs as competitors. We see FinTechs as collaborators. There are areas where FinTechs do a better job than Banks, and there are areas where Banks have to provide the required trust and stability that customers need. Our view is that the collaboration will help to improve the customer's experience & enhance access to innovative products. Of course, Banks can also do this; the question really is, how we bring forth multiple products to customers in a parallel manner rather than sequential manner. FinTechs help in that respect.

### **3. How do you foresee the role of functional knowledge in laying a foundation for digital transformation? I mean the more we are automating, the future would be difficult for any upcoming changes (even if they are minor changes) or for any change in systems.**

Let us straightaway take an example. Automating a task of no/low cognizance can be done easily and if there are certain similar changes in the process that can also be accommodated. When it comes to the automation of critical activities such as a predictive modelling etc., there is a specific knowledge base required to create and recreate that model based on any changes and hence functional knowledge plays an indispensable role in such systems. The bottom line is that you must have knowledge to understand if a process can/cannot be automated in the first place. It is after this that we look into the criticality of the automation.

### **4. How the employees changed their mind-set from traditional manual to digital, and how they are equipped with the more changes happening in digital space?**

Digital migration for customers actually starts with a cultural change amongst employees. Federal Bank has been taking many steps in this direction. For example, we implemented Yammer, a digital tool for employee engagement & employee communication. This platform is used to convey various things about the Bank. The most popular post here is the post from our MD & CEO which is diligently and regularly done on every Sunday since the last 4 years or so. The Bank also ensures that training is provided to employees on the benefits of digitization. Internal processes are continually reviewed to make them paperless. Through all

these, we ensure our employees are adequately equipped to handle the changes happening in digitization.

**5. Currently there are many Fintech non-banking start-ups who can approve and originate a loan to a customer with minimal delay. How are established banks like Federal Bank seeing this challenge? How are you leveraging the digital capabilities to provide fast and secure loans to customers?**

The Bank is strong in collaborating with FinTechs. We do not see them as competitors. We do believe that our reach to customers is enhanced in partnership with FinTechs. That does not preclude us from offering our own products in a digital manner. As an example, we offer Personal Loans to our Existing to Bank customers in a completely digital way – three clicks and done! This same capability is offered through our partnership with Paisa Bazaar; so the customer can access this via us or if she happens to be on the Paisa Bazaar platform, she can access from there. That is the power of partnership.

**6. How are you ensuring the security behind digital transformation? Any specific steps have been taken to secure the end to end transactions through the tools you have? Do you have your in-house security experts or taking help from leading global firms?**

Security of the Digital Channels and Applications are of utmost concern for the Bank and the same is ensured through various means. Any product or application or a process has to go through the following checks:

1. Secure code practices while in development, usually ensured by a code review.
2. Development is in line with regulatory guidelines.
3. After the development, we conduct VA and PT and subsequently a signoff from a dedicated security team is obtained.
4. After a product is delivered there are several scheduled activities and audits that happens for this application in its lifecycle at a defined frequency.
5. The audits and necessary recommendations are rendered by cert-in empaneled auditors.
6. On a policy level, our in house security experts team up with these security firms to shape our standard policies and protocols from time to time.

**7. When we look at digital transformation for bank, it has 2 aspects - 1st educating bank employees with digital technologies and 2nd is making customers aware about the digital banking services. For the 1st aspect - structural training may be in place but how banks undertake the 2nd aspect of making customers aware about digital product, so as to ensure customers make use of more & more digital services?**

We use various channels to educate the customers' viz., SMS, e-mail, other social media tools and branch banking channels. The officials in the branches do the handholding and they also introduce, various customers visiting the branch counters to the Digital Channels and nudge them to migrate to the Digital ones. We also have Digital Angels in our branches and Digital Banking Ambassadors in various Zones, who are working on the education of customers.

We run a large number of campaigns to encourage customers to move to digital and get them to experience digital banking. For example, right now, we are running a campaign linked to Independence Day, where customers are encouraged to pay utility bills via FedMobile (our Mobile Banking platform).

We have a standard running program called “Twice is Wise” which educates customers about how to use digital capabilities in a responsible and safe manner.

**8. How well equipped is Federal Bank with digital security and tracking scams?**

We have one of the best infrastructure to deal with security related aspects. There are dedicated teams which undertake real-time monitoring of applications and associated processes to ensure that even if a fraud/attack happens it is not because of the vulnerabilities in our system.

**9. Has Federal bank started or adopted cloud journey or it is on-prem?**

We have a fairly high proportion of our applications running on cloud such as the whole credit card ecosystem, Feddy, CRM etc. Our strategy is “Cloud first”. We evaluate every application and assess the implications (from a cost and security perspective) to ascertain if they can be hosted on the cloud. We do have mission critical applications on premises where data security or regulatory concerns inhibit us to move the application to cloud.

**10. For someone who's aspiring to move to leadership roles in Digital Transformation: A. what are the top three skill-sets required to be sharpened? B. How much technical experience or depth one should have to succeed in digital transformation role?**

A.

1. Get the basics right for the field you wish to transform. For example, in banking you should know how a branch works and other associated processes.
2. Getting one skill right is no more sufficient, you should be jack of all trades and master of at least one. This may include technology skills and business understanding.
3. A right mix of Intelligence Quotient/Emotional Quotient and a constant edge of the seat attitude when it comes to novel ideas.

B. It is not about technical experience, one should have an aptitude, understanding and willingness to learn new technologies and embrace new ideas without any prejudice but, with an open mind.

**11. As technology enablers like Google is getting into banking providing seamless products like selling insurance, deposits and mutual funds, how do you see the existing established banks in the near future shaping to meet the competition?**

As per the law of the land all Tech-fins should be backed by a regulated entity for all relevant offerings to the customer, be it insurance or other financial products/services. The situation is more of a collaborative one rather than a competitive one but yes, traditional banks have also stepped up their game on war footing to update the technology infrastructure and also ride on the tide of FinTechs.

**12. On a digital landscape of varying technological footprint, partnerships and collaborations, the complex supply/value chain creates inefficiencies and dependencies, how do you manage these frictions or blind spots? E.g. incomplete regulatory implementations across supply chain, bad loans given by certain portion of the process chain, even cybersecurity lapses.**

A product is like a human body with different organs working in unison. If one malfunctions, the whole system suffers. Similarly, for a product/process there are multiple subsets of processes working in tandem to achieve the desired objectives. The obvious challenges include the synchronization among these processes and ensuring that quality is maintained. Each team in this value chain is responsible for a specific process and ensuring compliance with the guidelines. If a vulnerability is identified either pre-mortem or post-mortem, there are protocols set to deal with any such eventualities.

**13. I have been working in Hospitality IT for last 20 years, involved in Digital transformation for all this years. I am planning to switch to Fintech. Please suggest on the technical/non-technical skills required for this switch.**

It depends on the role, for a developer and other similar roles, know-how of various programming languages and tools with basic understanding of banking is sufficient. However, with roles such as data science and other managerial roles, a deep understanding of the financial space with the know-how of technology is usually preferred. In addition to these acquired skills, a knack for collaboration, team-work and an entrepreneur mindset is an added advantage.

**14. Can you please share the challenges that the bank is facing for digital transformation especially in the rural areas and what are some of the measures taken to overcome these challenges?**

Challenges:

- a. Financial Literacy
- b. Technological challenges with feature phones which are still predominant in rural areas.
- c. Fear of safety and security

- d. Dependency on cash due to either unwillingness or unavailability of the supporting infrastructure.

**Measures:**

- a. Partnership with, rural demography oriented Fintech's such as DGV & doorstep lending platforms such as Rupeek, new street technologies etc.
- b. Opening of satellite branches in rural areas to push banking/financial literacy.
- c. Introduction of SMS banking for customers with features phones.
- d. Launch of UPI123 by NPCI.
- e. Launch of AA services to make the lending process completely digital.
- f. Digitization programs are run across branches in association with the government and regulator.

**15. With increasing use of UPI, which is not very secure and is prone to misuse by the fraudsters using mobile binding infrastructure, what are the initiatives taken by the Federal Bank?**

UPI is a completely secure system and is in compliance with the AFA guidelines issued by RBI. NPCI had put in enough controls to secure transactions on UPI rails. Fraudsters are exploiting the lack of customer awareness on the system and not due to the lack of security on the system. Bank is taking every step to educate the customer with respect to the Digital Transactions and Applications using various channels at its disposal.