



Paradigm Shift in Banking: Moving Towards a Resilient, Inclusive and Sustainable Model

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The banking landscape is undergoing a significant transformation driven by shifts in the financial ecosystem, technological advancements and evolving consumer preferences. Geopolitical tensions, cyber threats, trade wars, volatile markets and climate shocks emphasize the need for a banking model that is more resilient, inclusive and sustainable.

This shift is essential as we poise towards the vision of 'Viksit Bharat', a developed India by 2047. To prepare ourselves to serve that developed India, banks must focus on the following key issues.

Innovative Technologies

The rapid proliferation of affordable smartphones and the widespread availability of mobile internet have been key drivers of digital adoption in India. The convenience, speed and security offered by mobile-based platforms have made them a preferred choice for millions of users and have revolutionised how customers interact with banks. Technology advancements like Gen AI, blockchain, cloud computing, etc. will challenge traditional banking operations and their business models. While the good old banking is still unmatched in its stability and dependability, we can adapt these technologies into our processes and services to make them more affordable, efficient and secure.

Changing Customer Perception and Demands

India's demographic dividend, marked by a growing population of Gen Z and Millennials is changing customer's expectations. A 2021 NASSCOM report highlights that 52% of India's population comprises these tech-savvy generations and is above the global average of 47%.

These "Digital Natives" are fast emerging as a major influential consumer category in India whose aspirations and demands differ from our traditional customers. To attract and retain them, banks will have to rethink their customer engagement strategies and augment their services with hyper-personalisation and end-to-end digital journeys. This level of broad-based but bespoke solutions requires the employment of advanced data science and modeling tools. However, the strategy for providing hyper-personalised services will be to develop a fine balance between collecting enough data to make informed decisions and respecting customer's data protection rights.

Global Uncertainties and Geo-Political Challenges

The world is passing through one of its most tumultuous periods. Globalisation has coupled the world with itself in ways and forms that are not easily deducible. The interconnectedness of the global economy means that events in one part of the world can have unforeseen consequences elsewhere. The escalating geopolitical tensions, geo-economic

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fragmentation, climate change and disparate monetary policy strategies across world nations can have local repercussions. To face these challenges, banks require adept and robust risk management. Today, in our country, we have built world-class risk management frameworks. As profit-motivated institutions, the challenge is strategically balancing the risk management strategies with business objectives by carefully considering the timing and scale of interventions.

Comprehensive Risk Management

Banks need robust governance structures that can identify and mitigate risks across their entire operation. An effective enterprise-wide risk management approach considers on and off-balance sheet risks across all organisational levels and understand the interconnections between various banking operations.

A core component of risk management is cybersecurity. As digitalisation grows, so does the risk of cyber threats, affecting banking stability and customer trust. The scale and frequency of cyber attacks are on the rise, transforming cyberspace into the new frontier of geopolitical rivalry. Banks have already deployed sophisticated tools to counter such threats and ensure the security of customer data and financial transactions. Beyond technological solutions, banks must focus on strengthening their human firewall through staff training and customer awareness.

Another critical aspect is stress testing. Just as militaries rely on war games, modern banks rely on stress tests to gauge their resilience against adverse scenarios. Effective testing can reveal hidden weaknesses in a bank's balance sheet,

lending practices and risk management strategies. By exposing these vulnerabilities, banks can adopt appropriate internal controls and develop contingency plans. To be effective, stress testing scenarios and shocks should reflect the uncertainties of our times and need to be constantly updated. The outcomes of these analyses should be thoroughly reviewed to refine banks' strategies.

Inclusive Business Model

Developing an inclusive business model has become a key focus for every institution. For banks, an inclusive business model begins with prioritizing financial inclusion. The progress achieved under flagship programs like Pradhan Mantri Jan Dhan Yojana (PMJDY) stands as a testament to what can be achieved through well-planned and concerted efforts. So far over fifty-three crore PMJDY accounts have been opened, bringing previously unbanked individuals into the formal financial system. Out of these, around thirty crore accounts belong to women marking a significant stride towards gender inclusive banking.

However, true inclusion extends beyond financial inclusion. It involves a diverse workforce and an inclusive organisational environment. A diverse workforce brings diversity of thoughts, culture and a better understanding of customer needs. This leads to improved performance and profitability.

Embracing Sustainability-Environmental, Social and Governance (ESG)

Sustainability is another key consideration. The impact of business operations on the environment is increasingly becoming a key consideration among corporations and policymakers. Banks also understand the critical role they play in perpetuating

climate-compatible business decisions in an economy. Mobilising climate finance is crucial for achieving sustainable growth and development. As climate risk guidelines are still evolving, banks must prioritise sustainability while proactively developing strategies to address both physical and transition risks.

Businesses across the world have now realised the fact that long-term profitability lies in the value addition of all stakeholders, especially the societies and communities they serve. As facilitators of capital, the positive impact banks create in society is unequalled. Beyond this core function of financial intermediation, banks also have the significant responsibility of providing access to financial services for underserved populations, promoting responsible lending practices and investing in initiatives that address social and environmental challenges. By embracing these responsibilities, banks can build trust, strengthen their reputation and contribute to a more equitable society.

Good governance is one of the fundamental pillars of any organisation, especially banks, as they are entrusted with safeguarding both finances and public trust. The safety and soundness of the banking system rely critically on effective governance, so

that the interest of all stakeholders, especially the depositors, are protected. Good governance will help build an environment of trust, transparency and accountability. To achieve organisational resilience, we should continuously evolve by standardising policies, processes, organisational culture and governance.

Conclusion

As the saying goes, “The future belongs to those who prepare for it today.” The future of banking belongs to institutions that embrace innovation, adapt to change and prioritise resilience, inclusivity and sustainability. By leveraging technology, understanding evolving customer expectations and incorporating ESG principles into their operations, banks can navigate this paradigm shift and build a robust, inclusive and sustainable financial system. The journey towards a sustainable banking model requires collaboration among various stakeholders, including policymakers, regulators, financial institutions and technology providers. By working together, we can create a banking system that serves the needs of all stakeholders and contributes to a more equitable and sustainable future.



Bank Quest included in UGC CARE List of Journals

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