

Digital banking took big strides but outages pose a challenge

Banks need to reinvent systems to handle the rising volume of digital transactions that 2020 spawned

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In a world that is increasingly going digital, outages cannot be entirely ruled out. Recently, one of the world's biggest technology companies Google, suffered an outage that impacted many of its services. Even many banks experience outages from time to time. But for the first time in 2020, the Reserve Bank of India (RBI) took action against HDFC Bank and officials are also looking into State Bank of India's (SBI) YONO app outages.

"Their (banks') legacy systems are not suitable to handle volumes of digital transactions. If they don't reinvent, outages could continue," said Murali Nair, president, banking, Zeta, a technology provider to banks.

So what prompted RBI to start taking action against banks, and will customers continue to experience outages in banking services in 2021?

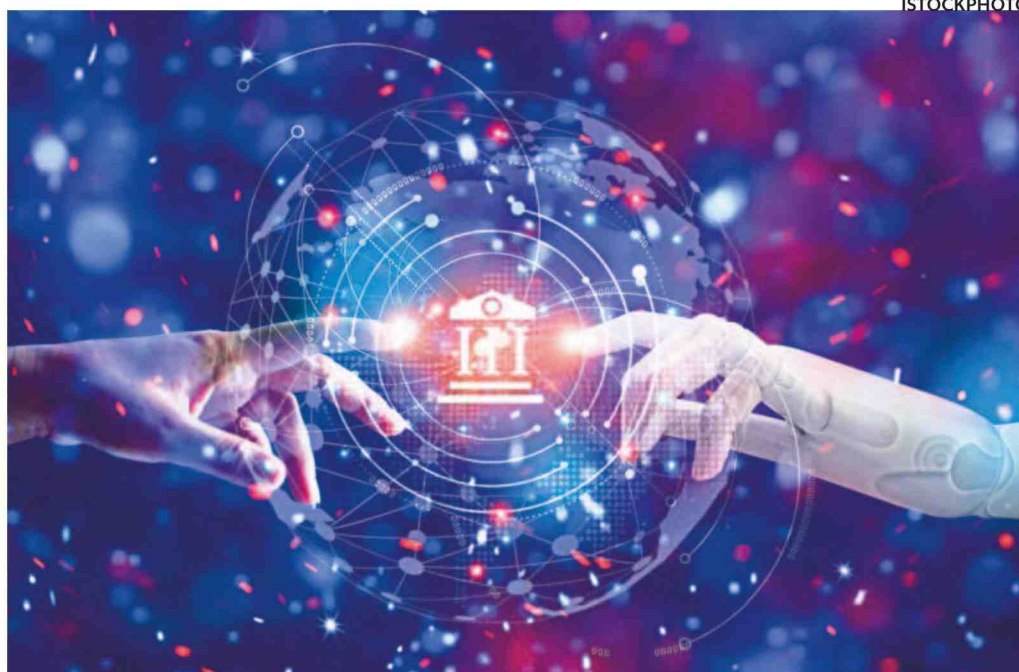
SIZE DOES MATTER

RBI has ordered HDFC Bank to temporarily stop sourcing new card customers and activities under its Digital 2.0 initiative until the technical glitches are fixed.

RBI took action as there were several episodes of outages. As the bank has an "overwhelming" presence in the payments and internet banking space, the regulator wanted HDFC Bank to strengthen its IT (information technology) infrastructure, according to RBI governor Shaktikanta Das.

"While not common, outages can happen. But it matters how an organization responds to it and the time it takes to fix the issue. The better the resiliency, smoother the customer experience," said Vivek Belgavi, partner and fintech leader at PwC India.

How soon HDFC Bank man-



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aged to get the systems up and running in the recent outage is not known. But the bank's MD and CEO Sashidhar Jagdishan said in a statement that there was an outage on 21 November due to power failure. Last year, when the outage happened at the bank in December, Jagdishan, the then executive director, had said that they underestimated the volume of transactions due to which it happened.

RBI's action has made other banks cautious. "With RBI taking cognizance of the outages and taking stern action, banks are more careful about system outages," said a senior official with a private bank, on the condition of anonymity, as he is not authorized to talk to the media.

REASONS FOR OUTAGES

One of the reasons for outages at banks is legacy systems. Banks have systems that were deployed years ago. They have been building newer systems and applica-

tions on them. The newer and older systems need to work together, and when they don't, outages happen. "On an average, a bank has 200-400 IT applications. These must work together all the time for smooth functioning," said Belgavi.

He gave an example of a payments transaction to highlight the complexity. A simple payment transaction could hit five to 10 systems, which must work within milliseconds for it to be successful, and the infrastructure should be able to handle volumes of such transactions. If the volumes spike and the systems are not equipped to handle them, there will be downtime.

Indian banks need to adopt newer technologies to be relevant. The best example of this is the UPI (Unified Payment Interface), launched in 2016. The growth in UPI transactions shows the pace at

which consumers are going digital. By the end of calendar years 2018 and 2019, the transaction volumes were 620 million and 1,308 million, respectively, according to data from the National Payments Corp. of India (NPCI) that operates retail payments and settlement systems. In November this year, the volumes were 2,210 million.

The covid-19 pandemic posed another challenge. Banks had to fast-track their technology implementation though, like other corporates, they had to operate with a thin staff. If banks had to get new accounts or lend, the only way was to go digital.

Consequently, banks rushed to implement digital KYC (know your customer) and started processing card and loan applications online. "Banks were under pressure to do too many things too fast. Building new-age applications on

old legacy systems can lead to problems," said Nair.

Banks have also been facing competition from fintech firms, which are using latest technology for lending or offering consumers new ways to transact, such as via payment wallets. It's easier for fintech firms to begin with a mobile-first approach. But it's not as easy for banks, though they also introduced rival products to be relevant.

REGULATORY HURDLES

According to people familiar with the banking industry, the only solution to minimize outages is for banks to adopt cloud computing. "There are, however, some regulations on data localization where banks need clarity when they start to move to the cloud," said Belgavi. For example, regulations need to define cases in which banks need to have "graded security" for different kinds of data. Some part of banking, like card activation, happens internationally. Banks also need clarity on what can be done in India to comply with the data localization norms.

The government has also mandated banks not to charge for UPI and Rupay card transactions to increase digital adoption. The view is that digital transactions will result in savings for banks as they may need to focus less on physical infrastructure like branches and ATMs. Most companies in the banking space, including fintech and payment gateways, however, believe that not charging consumers will affect innovation and investment in technology.

Whether the government changes its stand or not in the future remains to be seen. As customers, be prepared for outages at your bank on rare occasions. With RBI focusing on smooth consumer experience in the digital banking space, the least banks would do is fix them faster.

Lenders have to overcome several regulatory hurdles before they can take the next step towards digitalization