

# With banks on digital drive, are they spending enough on IT systems?

Banks and NBFCs in India are serious about IT spends but lag global peers

## DATA FOCUS

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Domestic banks have been one of the leading adopters of IT technology, a trend accelerated in recent months by the Covid-19 pandemic.

But with the widespread adoption of mobile and Internet banking by customers, which has led to the rise of fintechs and neobanks but also frequent outages, are the investments by lenders in IT systems adequate?

### Digitisation

With initiatives ranging from digital payments, video KYC (know your customer), WhatsApp banking and paperless and online loan approval to operating call centres in work-from-home mode, banks have been unveiling measures aimed at more customer convenience and fewer branch visits.

“One of the biggest ways banks supported Indian companies in 2020 was by helping them make the abrupt shift to remote work and digital channels in the early days of the Covid-19 crisis,” says a recent report by Coalition Greenwich titled ‘Covid crisis

could contribute to continued consolidation’.

It further noted that by forcing companies to embrace digital solutions, the crisis has given banks leeway to use technology to generate efficiencies and reduce costs.

### Lacking infrastructure

However, outages like those at HDFC Bank and State Bank of India in the mobile and internet banking services have raised concerns over whether banks are investing enough in IT infrastructure.

It had also prompted Reserve Bank of India Governor Shaktikanta Das to urge banks and financial institutions to increase investments in their IT systems.

According to experts, while banks and non-banking financial companies (NBFCs) are taking these investments seriously, their annual spends are low compared to global peers. What’s more, mid- and back-office investments are often lacking.

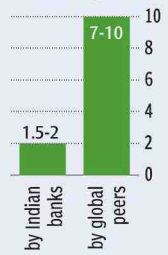
“In terms of digital banking, all banks have invested heavily in omni channel and user experience. They have not invested enough in mid- and back-office, which can be the nemesis. Now that digital

### Banks spending in IT infrastructure

Gartner’s forecast for IT spending by banking and securities industry in India (\$ million)

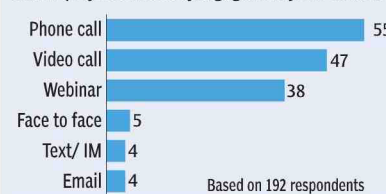
Segment	2019	2020	2021	2022
Data centre systems	618	599	635	634
Devices	1,611	1,362	1,548	1,582
Internal services	2,315	2,312	2,521	2,624
IT services	3,250	3,357	3,657	3,814
Software	1,329	1,492	1,712	1,862
Telecom services	1,293	1,237	1,221	1,240
<b>Total</b>	<b>10,416</b>	<b>10,359</b>	<b>11,293</b>	<b>11,757</b>
Change %		-0.55	9.02	4.1

% of annual revenue spent on technology



### Client engagement in the “new normal”

Clients’ preferred mode of engagement from banks %



Based on 192 respondents

Source: PwC India, S&P Global Market Intelligence, Coalition Greenwich 2020 India (Asia) Large Corporate Banking Study

is becoming a primary channel, investments over a period of time, transformation in mid- and back-office is crucial,” said Jaya Vaidhyanathan, CEO, BCT Digital.

### Increased investment

An S&P Global Market Intelligence report in April had cited a Gartner forecast that IT spending by Indian banks would increase by 9.02 per cent in 2021 and 4.1 per cent in 2022 from \$10.36 billion in 2020.

“Indian banks need to step up spending on technology as more customers shift to digital channels, straining their IT systems, that have often been found to be lacking,” S&P Global Market Intelligence had said.

Quoting PricewaterhouseCoopers India executives, the report said lenders in India, on aggregate, spend between 1.5 per cent and 2 per cent of their annual revenue on technology, compared to 7-10 per cent by global banks.