

P E R S P E C T I V E

## Impact of Regulatory Changes on Banking Channel Strategy



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Emerging regulations across Europe and North America governing telecommunications and network services will impact the online delivery of services by most industries, including banking. In particular, banks will have to adapt their mobile and Internet banking offerings in a bid to fulfill a dual objective – comply with the new directives as well as leverage opportunities presented by them.

### Network Neutrality

Network neutrality (non-discriminatory delivery of network services) is currently the subject of much debate in the United States, Europe and Canada. This issue was sparked off when certain discriminatory practices of telecom provider Comcast, such as controlling the network speed of specific customers, or charging end users depending on what they downloaded, were held illegal by the Federal Communications Commission. A similar battle rages on in Canada with the Canadian Association of Internet Providers taking on the likes of Bell for its policy of ‘throttling’ (controlling speed) and ‘traffic shaping’ (controlling access).

The case for equitable network availability across content, origination or end use and abolition of discriminatory pricing tactics is gaining ground in the U.S., with a move to free telecommunications from the control of state regulatory bodies and service providers. In Europe too, agencies such as the Electronic Commerce Commission are lobbying for the uniform provision of services to all users.

An environment of unfettered network availability presents some challenges and many opportunities for banks. At present, banks have learnt to operate their network-dependent channel strategies within defined boundaries of speed and bandwidth. Once these barriers are removed, the possibilities are unlimited. For instance, mobile banking may move into the realm of Point of Sale (POS) transactions or peer-to-peer payments, which incidentally, is already a reality in countries like Kenya. Quite naturally, banks will come under pressure to deliver increasingly sophisticated offerings on their network-enabled channels – which will not only include mobile banking, but also banking via Internet over wireless, Broadband, WIMAX and so on.

It may be interesting to illustrate just one among these myriad possibilities. The regulatory developments discussed earlier open up

opportunities not just for banks, but all participants involved in the mobile banking service delivery such as telecom/Internet service providers, handset manufacturers and other product/service vendors. Forward thinking companies can join together to offer a compelling, bundled service offering for existing users and also leverage the “new age” delivery mechanism to entice young customers. Just as built-in value additions are offered with other products, for example free insurance/warranty/service with automobiles, telecom, handset and banking providers can collaborate to create a ‘pre-packaged’ mobile banking offering. Hence, the younger generation, habituated to the mobile phone, is now presented with a banking service on the same device. This could lay the foundation for banking also to become an inalienable part of the younger generation's way of life in the future.

### Green Banking

As the world moves towards greater environmental consciousness, banking will also need to become more eco-friendly. Companies in Europe, whether in manufacturing or retailing, are being urged to pursue a green agenda by reducing emissions, earning of carbon credits, usage of clean energy sources and so on. Today, a company's eco-initiative is viewed as a part of Corporate Social Responsibility and is largely voluntary. Going forward, organisations will have to mandatorily comply with green regulations, and banking is no exception. Green Banking, Green Distribution and Green Computing are now the subject of much discussion.

The scope of Green Banking goes beyond the commonly understood eco-friendly practices, such as reduction of paper based transactions or rollback in usage of polluting energy sources. One of its key stipulations could be that banks allocate a certain proportion of their portfolio towards environmentally-conscious industries. This presents both a challenge and an opportunity to banks which will have to come up with creative strategies to build a presence in this particular niche.

Banks can achieve Green Distribution by cutting back on environmentally hazardous channels and effecting the migration of more transactions to alternate channels. Clearly, the physical branch is a big environmental offender with its brick and mortar infrastructure, air-conditioning and inevitable generation of paper and other types of waste. By

delivering services via alternate channels such as the Internet, kiosk or mobile (which in future will become mainstream channels) banks can significantly reduce their carbon footprint. That said, the efficiency and effectiveness of such channels is what will determine whether the distribution is indeed green. An Internet banking channel which requires investment in massive physical infrastructure such as data and disaster recovery centres, back up servers and the like to support it, completely defeats the purpose.

Banks can also approach their IT investments from a green perspective. Cloud computing technology enables banks to utilise software hosted with third party providers. This reduces the need for establishment of physical hardware and lowers investment in infrastructure and personnel. On the other hand, banks that already have large IT infrastructure can thoughtfully deploy unutilised capacity to serve their eco-friendly mobile or Internet banking channels.

### Consumer Protection

The above regulations, which essentially govern industry practices, could help banks and other players unlock market potential. However, without enthusiastic consumer participation, all efforts in this direction will come to naught.

A strong case in point is the European Common Market, where unification has not resulted in widespread adoption of cross-border e-commerce, especially at the consumer level. Individual customers still prefer to buy within their home country, despite more attractive offers being available in a neighbouring nation. It was found that in 2006, a mere 6 percent of all consumers made a cross-border purchase over the Internet. Even among retailers, only half of those that use e-commerce actually trade online across borders.

Regulators and 'think-tanks' that have tried to understand the principal barriers to cross-border buying have established that while language or cultural differences may be a factor, the root cause lies in flawed legislation.

Customer legislation in Europe comprises a multitude of heterogeneous laws at national or even state level. With consumer protection laws continuing to apply only within strict geographical boundaries, it is easy to understand why customers have not embraced cross-border buying.

The EU Consumer Market Watch, a customer investigation initiative to analyse online consumer buying behaviour, has prescribed the following remedies:

### Formulation of a unified, simple set of contract laws

Currently, banks are able to plead a specific jurisdiction when it comes to accepting liability for their services. Typically, they can claim that a certain consumer protection law applies only to a specific country or channel. With the establishment of a common set of laws, with pan-European applicability, banks will no longer enjoy such immunity. As a result, they could reap the benefits of border-less business, but will also have to grapple with concerns of fiercer competition and limitation of liability.

Thus, going forward, the interests of any banking consumer in Europe would be well protected at a regional level. Only then will consumer confidence in online transactions jump to an appreciable degree.

### Dismantling of artificial geographic boundaries

The move towards common legislation in future will spell the end of discrimination based on geography. The very premise underlying seamless, cross-border commerce is the uniform treatment of all customers regardless of domain or origin.

### Provision of digital user guides

Many participants come together, playing a direct or indirect role, to facilitate Internet commerce - ISPs, computer manufacturers, network providers, web browsers, database servers are some of them. Each one may impose their own terms of usage on the consumer. In addition, when banks transfer funds across countries, they too are subject to the regulations imposed by the concerned Central Banks of those nations. It is immediately clear that directly or otherwise, a consumer is subject to a plethora of laws, originating from diverse dispensations. In the absence of a single, unified guideline with universal applicability governing the transaction, customers have no way of knowing the full extent of the relevant legal provisions and how they may be impacted by them.

A simple illustration is the terms and conditions that are an inevitable part of any website. Users are faced with an all-or-nothing situation - that is, they must either accept the conditions in totality or desist from using the service altogether. Should they accept, they could be vulnerable to the site's

unfavourable policies especially with regard to customer privacy and data security. In the event of an unpleasant occurrence, consumers have no way of either tracing the source of the problem, nor do they have easy access to a grievance redressing mechanism.

Hence, proponents of protection of consumer interest believe that banks and other intermediaries must provide clear Digital User Guides in a bid to educate and empower their customers.

Policymakers in the European Union (EU) are well aware that while the combination represents formidable market strength of half a billion, the constituent nations continue to function in a fragmented fashion. The EU Consumer Policy 2007-2013 has set for itself an ambitious agenda, centred around the strengthening of the consumer dimension. The policy envisages the emergence of better informed and empowered consumers who have the confidence that legislation ensures them fair protection against threats that they cannot tackle in their individual capacities.

The greying of the European population and consequent high dependency ratio present another set of concerns. Lawmakers want to ensure that all classes of citizens are treated equitably and with respect by service providers, regardless of the economic value they may represent. This applies very strongly to banks, which serve almost the entire population – retirees, working class, mass affluent and so on.

For this somewhat idealistic expectation to become a reality, fully harmonized legislation, which does not discriminate against boundaries, has to be implemented.

While the road to legislative reform is arduous, a start has been made with the re-examination of three important regulations, namely:

- Unfair Commercial Practices Directive
- Regulation on Consumer Protection Co-operation
- European Consumer Centre Network

Last, but not least, the policy advocates incorporation of consumer opinion in the framing of policy.

## Technology

Regulatory changes pertaining to other industries can also impact how services are delivered from

different banking channels. A case in point is telecommunications technology. With the conclusion of the first auction of radio spectrum in the 2.6 GHz band in Sweden last May, the first rollout of 4G services is expected in 2010. Naturally, this will spawn off the development of special mobile handsets capable of delivering 4G applications.

When voice, data, audio and video converge to make mobile communication more and more interactive, banks cannot afford to lag behind in the way their services are delivered. Mobile Banking will seek to provide a richer user experience. For example, by enabling video chats with relationship managers.

Newer opportunities open up with mobile being used as a Near Field Communication (NFC) device, which enables service providers to pinpoint the location of the user. Such information, if available to banks, could help them cross-sell, right-sell or even offer 'non-banking' services in real time, at the right place. By venturing beyond pure banking, banks can play a larger, inalienable role in the lives of their customers.

## Summing Up

Shifting regulations may present challenges for banks from the compliance point of view, but they also open up opportunities to develop a more creative channel strategy. As banks look for ways to improve customer satisfaction, they must ensure that they have the right partner, channel and technology mix in place. At the same time, they must not lose sight of consumers' interests defined by their preferences and need for privacy and security.

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