ERP FOR BANKING INDUSTRY

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Enterprise Resource Planning application software is appropriate for organizations in all economic sectors including banking industry. This wide applicability is largely possible as ERP offers considerable flexibility to customize the software by tailoring it to the individual organizational needs. In this short review paper, it is attempted to enumerate potential and prospects of ERP system in the banking industry which is generally done after its system integration with other IT and web-enabled banking systems.

INTRODUCTION

Banking broadly covers deposits, lending services and money transmission. Banks play a crucial role in mobilizing and distributing a nation’s wealth to ensure a healthy growing economy. Banks normally have large branch networks, many of them comprising over a thousand branches. A bank customer can an individual or an organization with a current or similar account with the bank (Lipscombe & Pond, 2005).

ERP systems in business are typically used with an internal perspective and less with external perspective. However, in banks the applications are more with external perspective as a bank deals with money that is transferred from person to person, from business to business and from country to country. A national banking system consists of thousands of individual national banks, their branches and extension counter located in large cities and small towns across the country (NBS, 1999).

A bank owes to serve customers to the best of its capabilities for which ERP is a useful aid. A bank needs to fulfill several obligations towards its customers. For instance, it needs to maintain strict secrecy about customer affairs. As part of its typical responsibilities, it needs to receive a customer’s money and cheques as collection and to credit his account with them. It also needs to provide a statement of account with a reasonable time and a state-
ment of the balance on request. Banks are supposed to honour their cheque upto the credit balance or overdraft limit, provided they are in order and there is no stop (Lipscombe & Pond, 2005).

As the name suggests, ERP systems utilize a companywide framework that links all process driven information systems together into one large integrated system. Information determines the speed and efficiency with which customers’ orders are processed and progressed as a vital link in the overall efficiency of a nationwide banking system. ERP is basically an integrated system that links individual functions and coordinates information flows to achieve overall organizational efficiency including customer satisfaction.

In earlier days, large volume of data was stored centrally on mainframes but with the advent and growing popularity of PCs, local area networks, and client server technologies becoming the norm, a new requirement emerged whereby data was stored on desktop computers instead of mainframes. However, this transition also posed several problems. For instance, many different systems that were developed independently over the period within a company were often incompatible that created problems for sharing information. A need arose for enterprisewide data sharing and it was within this background that ERP systems assumed critical significance.

ERP helps to integrate and synchronize different organizational systems such as finance, human resource, operations, support services and other functions which may be organization specific. ERP system for banking includes complete solution which provides widespread support for financial processes, human resource management and support services. ERP enables business firms to integrate their sales, finance, manufacturing, distribution, customer service and other functions.

ERP systems facilitate companies to replace their existing information systems, which are often incompatible with one another, with a single integrated system, that is streamlined data flows throughout an organization that may result into significant gains in a company’s efficiency and bottom line. ERP systems are essentially an enterprise-wide package that tightly integrates all necessary business functions into a single system with a shared database (Lee & Lee, 2000). Extensive databases created by an ERP sys-
tem provide Banks play a crucial role in mobilizing and distributing a nation’s wealth to ensure a healthy growing economy and platform for decision support, data warehousing, data mining, and executive support systems (Sean, 2001). Decision support system helps decision maker in solving structured, semi-structured and unstructured problem by creating a decision environment.

SAP India, BAAN India, and RAMCO are some of the major ERP vendors in India which install and implement ERP systems. ERP software packages which include those developed by SAP, Oracle, BAAN, PeopleSoft, etc., practically touch all functional areas, that can go a long way in enhancing effectiveness of a banking system. ERP systems may also utilize information that comes from a bank’s functional information system, decision support systems, etc.

Competitive banks in the globalization era are those that are more customer centric, well organized, cash rich, IT and web-enabled and highly flexible in providing wide range of services to million of customers located along length and breadth of the country. Such needs of competitive and financially healthy banks can be more easily met if they are equipped with ERP software though it may need to be customized first for its more specific needs. However, before taking a decision to install ERP, it is also desirable to carry out cost-benefit analysis that the expected returns would far exceed the system costs (Piturro, 1999).

ERP has open architecture that can run on most hardware, operating systems and SQL servers. ERP systems use common hardware, common resource planning software, and common data-base systems throughout an enterprise (Gupta, 2001). ERP system supports centralized and decentralized organizational services for managing typically such areas as real estate, travel, incentives, commissions, environment, health, and safety for reduced costs and optimized sales performance.

Based on client/server architecture, ERP systems have graphical user interface and run without specific hardware requirements. ERP solutions provide banking companies real time access to numerous types of information and facilitate them to share data. System integration of ERP solutions with IT systems has greater flexibility and adaptability than mere standard ERP system. The distinguishing feature of ERP is that it enables system
integration of all kinds which improves its sustainability over a period of time.

**BENEFITS AND PROSPECTS OF ERP FOR BANKING INDUSTRY**

Being highly data-oriented banking industry offers enormous potential for ERP applications. An ERP system offers wide-ranging integration between different banking system modules. ERP integrates users, information, processes, and applications for higher productivity. It facilitates decision making with simulations for enhanced responsiveness and change. It uses portal technology, business intelligence, knowledge management, and mobile technologies that save time and reduce costs. It enables banking employees interact with bank’s top brass for reduced time and effort and reverses the usual communication ‘top-down’ to ‘bottom-up’.

ERP system provides complete end-to-end solution covering payment processing, cash accounting, cash management and security (Lee & Lee, 2000). Revamping payment processing needs a high quality understanding on how banks make payments. This may be clear cut for one branch at particular location but may become more complex while dealing with multiple branches in different countries and operating under country specific legislations. Similarly, cash accounting complexity increases with multiple locations and currencies. As for cash management, there is a need to administer available account on regular basis so that investments of funding decisions can be made in an appropriate manner.

Loans, advances and bills discounted or purchased are the principal components of bank assets and main source of income of banks. Collectively they represent total bank credit to the commercial sector. While advances are in the form of cash credits and overdrafts, loans may be demand loans or term loans. Demand loans are more or less temporary financial arrangement granted to customers to meet unforeseen situation but customers are required to pay heavy rate of interest (*The Economic Times*, May 15, 2006).

Term loans are extended for longer time period such as 1 to 15 years. Term loans are usually secured and granted for a variety of purposes such as renovation, expansion and modernization of industrial units, meeting requirements of core working capital, and for repayments of bonds prefer-
ence shares, etc. Term loans have a fixed or floating charge against the assets of a company. They are granted on the basis of a formal agreement, which contains the terms and conditions of providing loans.

ERP system offers facility of sharing bank processes with vendors, customers, and other partners for optimum use of bank assets. It combines planning, reporting and analysis of all bank assets in one process. ERP for banking solutions make available on one platform a widespread variety of functions, numerous industry-specific features, a wide collection of augmentation options, and support for bank assets.

An ERP system is essentially module based, multi currency, multi linguistic, multi user and multi-firm in operation. It provides online support, online trading and can generate online manuals. In banks it can be integrated with all financial systems and back-office systems. It can simplify processing of incoming and outgoing payments for efficient cash flow. ERP system provides a far-reaching range of services and tools to monitor all financial accounting transactions in real time. It strengthens the logistical capability in handling bank notes, valuable metals, and non-banking specific goods and services for a more efficient, streamlined business.

ERP systems for banking industry are generally very helpful for operational planning, tactical planning and strategic planning decisions. Accounting and financial management functions of the banking industry using ERP system may cover a number of important responsibilities such as monitoring and analyzing an enterprise financial condition, managing accounting systems, and preparing financial statements and reports (Fig. 1).

Bottom level (operational) planning is done by employees at lower level in the hierarchy who are generally assigned with responsibilities to complete day-to-day tasks such as payroll, banking inventory and fixed assets. Middle level (tactical) planning is done by middle level employees in the hierarchy who are concerned with system support decisions such as resource allocation. Top level (strategic) planning is done by the bank’s top brass who are concerned with strategic directions and long term strategic goals of a bank.

A case-in-point for strategic thrust at top level could be for decision making for such issues that a bank often makes money from a business
account in three ways: (i) fees, (ii) interest on loans, and (iii) reinvestment of deposits. Money market conditions will often determine which of the three is most profitable. For example, in periods of high interest rates (tight money), deposits will be worth more than in periods of lower rates. Designing a customized financial solution for banking services requires banking industry expertise. An ERP system in bank facilitates decision making for such issues in holistic manner.

Financial management solution for banking industry with an ERP system integration for issues of this nature is designed to facilitate and customize a roll out plan for implementation by standardizing information, processes and applications across all departments of a typical banking system.
CONCLUDING REMARKS

ERP systems in banks create considerable flexibility and ease in various banking functions such as access to business data from anywhere. ERP systems are however far more complex than one may think and may require significant investment to maintain, integrate and operate (David, 2003). There are several examples when ERP banking systems could not yield expected returns. ERP helps in developing management and information system for very profitable areas such as lending but that are very risky activity for banks. An ERP like software can help in monitoring risk involved and cash security. For all round success an ERP system should be integrated with other banking systems after customizing and tailoring to individual banking needs and integration with other banking systems.

REFERENCES


Distinguished Careers

KAMLA CHOWDHRY

Kamla Chowdhry is well-known for her vast experience in developmental issues particularly environment related. After obtaining her B.A. (Mathematics) degree from Calcutta University (1940), she obtained her M.A. (Philosophy) degree from Punjab University (1943) with first position, M.A. (Psychology) from University of Michigan (1946) and Ph.D (Social Psychology) from the University of Michigan (1949). She has written extensively on the ethics of development, Gandhian economics, and ecological security. The real value of her writing lies in a continuous and cumulative engagement with social issues from a Gandhian perspective.

She started her career at Ahmedabad Textile Industry’s Research Association (1949-60), and later worked as Research Associate at Harvard Business School (1960-61), Visiting Professor at Harvard Business School (1967), Professor at Indian Institute of Management, Ahmedabad (1962-72); Adviser with Ford Foundation, New Delhi (1972-82) and finally Consultant with the National Waste lands Development Board, New Delhi (1983-86). She was the Founder-Director of the Vikram Sarabhai Foundation.

She played important role in building several institutions of repute which included Ahmedabad Textile Industry’s Research Association; Indian Institute of Management, Ahmedabad; Institute of Rural Management, Anand; Centre for Science and Environment, New Delhi; and National Foundation of India and the Centre for Women’s Development Studies, New Delhi.

She had worked on the board of numerous institutions including Society for Promotion of Wasteland’s Development; Centre for Development Studies and Activities (Pune); Centre for Science & Environment (New Delhi); Aga Khan Rural Support Programme (Ahmedabad); Administrative Staff College (Hyderabad); Institute of Development Studies (Jaipur); National Foundation of India (New Delhi); Food Corporation of India (New Delhi); Indian Petrochemicals Corporation Ltd (Vadodara); National Institute of Design (Ahmedabad); Institute of Rural Management (Anand); World Commission on Forestry and Sustainable Development (WCFSD), World Summit for Sustainable Development (WSSD) and several others.

She died in 2005.