

Challenges of Core Banking Systems

Dr. N.P Hariharan

Professor, VIT University, India
drhariharannp@gmail.com

Reeshma K.J

Research Scholar, VIT University, India
Email: reeshma4kjr@gmail.com

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Abstract

Under core banking, one is not a customer of a branch but is considered as customer of the bank. All the commercial banks have interconnectivity through a common operating system. The interconnectivity between commercial banks are not utilized properly. If the banks could follow a single Loan Originating system (LOS), the credit worthiness of the consumer can be ascertained before a loan is sanctioned. In India, every bank has its own loan originating system which results in loans being dispersed well above the credit limit. A survey conducted among salaried class is a pointer to this. By making a single window LOS, the problem of NPA among the salaried class can be well addressed.

Keywords: Single loan originating system; core banking; credit limit; Non Performing Assets; salary; Employment;

1. Introduction

Core Banking System is the software used to sustain banks, most common dealings which include providing service loans, opening new accounts, processing cash deposit, withdrawals, calculating interests, client relationship management actions and maintenance of records for the banks transactions. Core banking functions differs depending on the type of banking. The individual customer's needs are taken care of in retail banking while inter banked transactions are taken care of by the wholesale banking.

During the period 1984-1987 banks in India started the branch level automation, making use of the then available MSDOS based stand alone computer. This scheme in 1988 was brought under the chairmanship of Dr. C Rangarajan, thereafter Deputy Governor of RBI introduced total branch automation. In 1994-96, many private banks started offering anytime and anywhere banking facilities to their clients. The TRAI with mission generated and nurture the growth of telecommunication, LAN (Local Area Network) was replaced by WAN (Wide Area Network). Syndicate bank was the first among the public sectors banks to implement Core Banking solution, way back in 2001.

Profits of Core Banking depend on the business rules which can reduce time for marketing the products. The product generation engine is capable of creating new products and services which meet the challenges of the marketplace. Products can be promoted independently or as product generation, there is supposed to be a single Loan Origination System (LOS) for core bank products. LOS is developed to support banks and additional financial institution processing other application. The employees work flow technology controls and monitors various steps in loan processing. The digital imaging technology is able to reduce delay and inefficiencies associated with documentation. The financial institution is able to process multiple loan types through a single LOS.

A loan application process and the loan servicing process are initiated in the core banking systems. The entire loan servicing process is like generating, the disbursement and the payment schedule, interest calculation and posting of accounting entries are taking care of core banking solutions. The LOS becomes a crucial bridge in capturing and processing the customer's loan applications. The LOS can be customized for each applicant according to their requirement. Currently most banks and financial institutions use the LOS.

In India the banks use multiple LOS for different types of LOS in banks. The clients of banks find it complicated to work with multiple LOS. It will be better if a solitary vendor is able to provide end to end loan solutions. Challenges faces by the vendors are:-

The core banking activities are changing on a daily basis. The vendor is given more work for enhancing the core

banking product to meet market requirements. There is also a keen competition in the core banking market among the vendors. Each vendor quotes different price to lure the customers.

Leading core banking system vendors are primarily manufacturers of complex software. Most of them are not system integrators or consulting firms. The rewards for core banking system vendors are measured by number of licenses they sell. Core banking system vendors focus on sales and performance and they do not worry about strategic consulting implementation and integration of services.

Loan origination is the process by which a borrower applies for a new loan and the lender processes the application. Loan origination includes all the steps from taking a loan application, processing loan application, finding out loan specific compliance condition, appraise security, document preparation and funding. Intended for a few types of loans, a loan origination fee is charged by the banker. It ranges from 0.5 percent to 1 percent of the loan amount. In modern bank technique the loan management software is being used. The software is wide-ranging and it meets the demands of the loan applicants. The loan management software operates as a service solution.

The loan originating system has vendors. They offer direct access to desktop originator or to the desktop underwriter or the early check operators. These vendors are authorized to find out the details regarding the loan applicant, his financial credibility, the nature of business and about the risks involved. In India, Accenture mortgage cadence provides interface with the banks. There are a number of other software companies which provide required data.

2. Objectives

1. The personal loans are taken by individuals from many banks at the same point of time. The high percentage of personal loan becomes Non Performing Assets. The paper makes an attempt to find out the reasons of personal loans becoming Non Performing Assets.
2. In core banking systems, there is interbank connectivity and the paper aims at utilizing the interbank connectivity to create a single loan originating system.

3. Methodology

The paper takes into the account of various loans and sources of the loans, primary data were collected from 200 random samples. The persons were selected from the organized sectors of employment. The deficiencies in multiple loan sanctioning windows were analyzed. For an in-depth understanding of single window loan originating system literature review has been done from both published sources and unpublished sources. Simple mathematical treatment was done on the collected data.

4. The Problems of Loan Origination System (LOS)

The LOS has the problems of:

- 1) Scalability, automation and flexibility issues
- 2) Lack of process for case allocation and tracking
- 3) Lack of integration system with third party system
- 4) Bulky and unmanageable code case

The technological issue surrounding the loan originating system can be solved by

- a) Development and implementation of best practices: For developing an improved LOS, all the issue is supposed to be fixed by re-architecting the power of sales force platform. This is can provide a deeper domain knowledge and improve and product portfolio.
- b) Introducing architectural changes to address the issues: The banks and the vendors should aim at implementing structural change. For example the bank / vendor should have all the information about the customer, like the various loans taken by the customer, the banks from where the loans were taken, repayment loan has been done, whether the customer is a defaulter –these requirements should be intervened.
- c) Enhancing the ORGSs for supporting customer products: For supporting the customer products the present websites should be upgraded. There should be enhancement of computer based internet based information which is available for everyone.
- d) Creation of automated process for a new product: In the modern world lot of new product enter the market. The producers of such new products we have excellent demand in the market, which the banks and the

vendors are not used to it. Therefore it is suggested that wherever new products enter the market it is better to create a new automated process providing all the necessary information about the products.

- e) Use of separate object and pole mechanism: An existing customer may like to call the vendor or the bank for future transactions. It is better to provide a separate and polling mechanism to minimize future calls.
- f) Integration of third party system: There should be linking of all the transactions of the customers. Namely the bank wise, repayment wise, credit worthiness wise and income wise and in collaboration of all the variables this will improve LOS and reduce delay.
- g) Implementation of customers services cloud for case monitoring: When all the data for a particular customer service cloud, the credit worthiness of the client will be recognized. When an individual vendor goes through the credit worthiness of the clients, vital information might be missed.

Sample of 200 from government and quasi government employees, and university and college professors and teachers from aided educational institutions

Table 1: Employee Category

Employees category	Respondents
Government employees	80
University and College professors	30
Financial institutions	50
School teachers	40
Total	200

All of them draw a relatively higher salary after the implementation of new pay scales. Salary is credited into a nationalized bank and every one of them has debit cards. They all have provident fund accounts from which they can draw loan, at zero rate of interest and 70 of them, who have put in more than 10 years of services, are eligible to make part-final withdrawal from their respective provident fund accounts. They get festival advance and take loans on khadi/coptex, at the initiative of the state government, which is equivalent to a month's salary.

The respondents are member of cooperative society, from which they are able to get personal loans without any bondage to their movable or immovable properties. All the 200 respondents have housing loans, financed by commercial banks. Incidentally 160 of them have taken housing loans from banks/ financial institutions where their monthly salaries are not credited. Of the 200 respondents, 150 have multiple debit cards, issued by various commercial banks. Survey was conducted during December 2014. The bank wherever the respondents hold their primary salary account is not aware of the various loans raised by any of the respondents. It was found that the average salary of the 200 respondents worked out to be Rs: 50,000/= per month. The loan repayment schedule works out to be an average of Rs: 54,630/- from known sources. A detailed survey was undertaken and results are given below.

The bank vendors are expected to sell some of the bank products like credit cards, motor vehicle loans, consumer loans, demand draft, ticketing etc. the vendor approach is customers throughout the sales. They offer credit for 1 to 2 lakhs without any kind of security. Each commercial bank target customers based on profession and overall income structure. No individual assessment of the customer is under taken by the banks. All the 200 respondents have borrowed from commercial banks, co-operative societies and their own provident fund accounts.

The housing loan is taken from a commercial bank, both nationalized as well as non-nationalized and from housing finance companies. The borrowers get loans based on their personal friendship with the lending company or bank. Of the 200 respondents 180 have taken such loans from the banks where their salary is not credited. The legal requirement of gross pay certificate (Which is issued by the salary dispersing office) is provided by the borrower to the housing finance company. The gross par certificate does not reflect the deductions made in gross salary.

All the 200 respondents have taken vehicle loans. Every one of them have got the loan only from the bank where their salary is credited. The advance is deducted from the monthly salary of the borrower. A few of them had taken loan for purchase of two wheelers, while others have taken loan for cars. The average loan amount of the respondents works out toward be Rs. 1, 00,000.

In aided educational institution and university, a statutory minimum of 10 percent is deducted from salary towards the provident fund. The subscriber of provident fund is eligible to take loan from the accumulated provident fund account. After putting up the required number of years of experience, they are qualified to take loan or to make part final withdrawal from provident fund. The head of the institution is the recommending authority for provident fund loan and advance. No inconvenient questions are raised up and the loans and advances are sanctioned as a matter of course.

The government of India has been encouraging banks to provide education loan without mortgaging movable or immovable belongings. For education inside the country the banks give Rs. 400,000- 500,000, which is used by 120 of the respondents.

Table 2: Employees Head Accounts

Head of accounts	Deduction	Payments
Salary of the respondents		50,000
Statutory provident fund	3,000	
Vehicle loan Rs: 1,00,000 @ 12% interest	3,500	
Provident fund loan repayment Rs: 1,00,000 of 40 months	2,500	
Education loan Rs:4,50,000 @ 14.5 % interest and refund	5,430	
Housing loan Rs: 30,00,000 @ 10.5 % interest plus EMI	30,000	
Society loan Rs: 5,00,000@ 10 % repayment within 36 - 60 months	9,000	
Income tax per months works out to	1,200	
Total deductions works out to	54,630	

The housing loan is taken from other commercial banks and housing finance co-operations. Every permanent employee is a member of co-operative thrift and credit society and is eligible for personal loan of Rs. 300,000 – 400,000, without mortgage of property. In the case of 80 percent of the respondents the deductions are additional than wage. At the end of each few months, they take advance from provident fund, loan from co-operative society or surrender the earn leave and with proceeding they manage the monthly expenses.

According to Indian labor law says about pay and minimum pay; as mention in section 7 of the act, the entire amount of deduction be supposed to not exceed 75 percent of wages of the employee in any wage period if whole part of the deductions is meant for the payments to co- operative society. In other cases it should not go beyond 50 percent. The simple reason is that in spite of the commercial banks operating under core banking system (Anywhere anytime banking), they do not have either the will or the reason to analyze the credit worthiness.

5. Conclusion

Before the introduction of Core Banking Systems in Indian commercial banks, the deposit accounts were maintained by one bank; the individual customer had the liberty of a choosing a commercial bank to get loans. The lender banks may not have required information's about the credit worthiness of individual at the time of sanctioning loan. The banking statistics reveal the high percentage of personal loan becoming Non Performing Asset. After the introduction of Core Banking Systems there is interbank connectivity. If minor adjustment can be done it may be possible to correctly estimate the credit worthiness of the borrower. The single loan originating system should be able to provide the required solution for the personal loans not becoming Non Performing Assets.

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