



# Impact of Gig Economy and Emerging Challenges on Banking Sector – an Indian perspective

John Ranjith R<sup>1</sup>

## Abstract

This paper explores the magnitude of changes that is happening in the Indian banking sector in terms of the technology used, human resource deployed and change in the customer experience. The emergence of gig workforce has made banks rework their strategy. Here, we will describe how Indian banking sector is battling legacy systems and trying to adopt to latest technologies. The gig economy which has been playing a major role in many other sectors have not made a significant impact in the banking industry. The paper discusses the reasons this and gives a first-hand perspective of how the banking sector is getting disrupted.

**Keywords:** gig economy, technology, banking industry, finance, India, data revolution, human resource, machine learning, banks in India.

## Introduction

Today, we are dealing with more organized sectors than we used to a decade back. In India for example, a farmer in a remote town can access reliable information regarding his food crops, use the latest methods of cultivation, sell produce online at a competitive price, earn money without going to a fair and buy household goods with his earnings. All of this is now possible because of technology. For a developing country like India, this represents a significant change in the lives of millions of people. A free market system where the prices of good and services are determined by the supply and

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<sup>1</sup>HSBC, Bengaluru

demand without government intervention will be a major benefit for both buyer and seller. Technology when combined with free market system becomes a lethal combination and can lead to a paradigm shift in the growth of our economy. A gig economy is a free market system in which temporary positions are common. Independent contractors, freelancers and project-based hires come under gig economy. These people are called 'gig workers'. They forego some of the perks that come with formal employment like paid leave, insurance and retirement benefits for independence at work and freedom. Technology has made the gig economy grow faster in India. Are all these developments good? In the following sections, we will discuss in detail how technology is accelerating the growth of gig economy. We will also see how faster growth has its own advantages and disadvantages with reference to the banking sector in India. We also discuss about how policies are going to shape the future of gig economy in India and the role of gig economy in the near future.

## **Legacy Issues**

In India we have 12 public sector banks, 21 private sector banks, three local area banks, 10 small finance banks, six payment banks, 43 regional rural banks and 44 foreign banks with presence in India (RBI, 2020). When we look at the geographical presence and the scale, it would be logical to think that public sector banks which are partly owned by the government of India are the best performing banks due to the inherent trust and the decades long history in banking. But there has not been any significant value created for the shareholders by the public sector banks (Nahar, 2020). In fact, with the exception of State Bank of India, most mutual funds have bought shares of only the private sector banks. State Bank of India being the only exception is because it is present in the major indices and is too big to ignore. The Government of India though, is of the view that merging banks will create the synergy needed to bring back growth in public sector banks (Online ET, 2018). But there are many issues within public sector banks that successive governments are not willing to tackle. First, in public sector banks, the customer experience has been very poor. In this age of gig economy where more work could be done

over a smartphone than by visiting a bank branch, the experience of a customer with most public sector banks have not been great (Nair, 2017). Senior bank employees having decades of experience in public sector banks do not give importance to reskilling. Today bankers need to know about technology in par with accounting in order to give a wholesome customer experience. Second, the technology used by various public sector banks are usually not updated frequently. This will lead to slower loading times for the banking servers and bad experience for the customers. Third, the workforce of public sector banks are not as dynamic as their peers in new age private sector banks. The recruitment process is very traditional and has not changed with times. The process of finding a substitute employee is very complex in public sector banks when compared to new age private sector banks. Finally, most of the public sector banks do not give importance to technology and do not make use of it. The importance given to technology by a bank can be determined by visiting its website or the applications (ET, 2019). There is a stark difference in user experience when using a service of public sector bank and a private sector bank. Another major factor that might be a hindrance is the government ownership of public sector banks (Roy, 2020). The dividend policy of the bank is dictated by the government which might hamper faster growth. Another major hindrance for public sector banks is the introduction of various welfare schemes and entrusting the banks to be the sole point of contact for these schemes. These schemes will have individual targets set for a branch and with this additional work load it is very difficult to manage anything beyond the usual day-to-day activities of the branch. Though government ownership plays a role in hindering the growth of public sector banks, the main hindrance to the growth of public sector banks are the legacy systems still in use (Dhasmana, 2018). Technology when used well can be a great leveller. One need not take the trouble of merging or amalgamating different banks if technology can be used in such a manner that it could offer a uniform user experience to the customers.

Legacy systems can be a big hindrance to employing gig workers. Gig workers are mainly skilled in latest technologies which are in

demand and do not want to work in legacy systems. This could narrow their job prospects. Banks who shift from legacy systems to cloud based servers would like to hire people who are willing to put in more time and effort to look into legacy data and how it could be transformed to new age servers. Gig workers do not have time by their side as they would like to complete projects and move on to next assignment.

### **Influence on Industry**

The Gig economy of today has been a driving force in Indian economy. Due to technological revolution and the strong mobile network infrastructure across India, new age technology like Internet of Things (IoT), cloud computing and application based companies are able to thrive and take on already established global giants in the field. In healthcare, companies cater to all medical care needs. They work as aggregators and give a platform to doctors as well as to pharmacists to reach out to people in need. Practo is a good example. The customers also benefit as it gives them the trust and accountability. A similar example could be given in the food delivery business. Another prime example where gig workers have played a major role is in the payments industry. The payments industry could be considered a sub sector of the banking industry. Though the gig economy took off extensively in many industries, banking was one sector where gig economy was slow to take off. This is mainly because it involves high regulation and trust issues. The only path through which the *gig technology* could enter banking industry was through payments (Sahu, 2019). After getting the trust of the government and the public they entered lending business and then started offering allied services.

Banks as institutions primarily deal with providing three basic services: collecting money as deposits, giving credit as loans and advances and transfer of money. Today as we know, all these services can be provided without human intervention or with very limited intervention. Most of the banks nowadays have cash deposit machines and automated teller machines at their branches to lower

the burden of employees and to reduce redundant tasks. Branches have now become customer service resolution centres and banks are using their employees to sell para banking services (Narasimhan, 2020). In private sector banks most of the workforce in the branch premises, apart from senior management, are contract workers. This reduces the permanent workforce being deployed. Most of the redundant work that can be performed outside the branch have been outsourced to third party companies who look after cash management services, annual maintenance services and auditing. Most of the clerical services inside the branch premises have been reduced to a larger extent. New branch openings in rural areas and setting up of new automated teller machines have also slowed down. As people move to cashless transactions, automated teller machines are being replaced by applications in smartphones and branches are being replaced by cash and printing machines. These provide a better experience for the customer and better productivity for the banks (Aldred, 2020).

### **The Transition Phase**

Banks are not specialist organisations which cater to a small section of people. When technology is being used by banks, it is expected to have a far-reaching impact. Today we have banks implementing new technology but with same manpower without reskilling them to meet the demands. Banks are taking steps to reduce redundancy and increase the talent pool in areas where they anticipate the need for manpower in the coming years. As more people retire, banks will think twice before filling the vacant positions as technology can help them in scale up without new recruits (Baral, 2020). Banks are themselves setting up data centres to maintain their servers and system maintenance instead of outsourcing the maintenance to technology companies . Building up data infrastructure and skilled workforce is very important. It is not easy to develop systems that connect seamlessly and provide services 24x7.

Another major area in banking where technology could help is in the identification of non-performing accounts. Today, most of the banks

are reeling under bad loans. This might be due to 3 factors: poor identification of correct customers, wilful defaulters, and banker frauds. In India the Cibil score is used to check if a particular credit could be given to the customer. But what if the customer is new without any track record? There is no system to track all the financial details of the customer. This is an easy loophole. One solution could be to get the support of the income tax department. Individuals earning above a certain income is mandated to file income tax returns. It will be useful for banks if they could get hold of this information. Today it has become stricter to provide PAN (Permanent Account Number) as ID when buying items above a certain limit. Instead of banks asking for this information from customers, the IT department could directly provide the details of customers to banks, which could be valuable information for assessing the credit worthiness of the customer. Another main area where technology could be used is to track wilful defaulters. Wilful defaulters are customers who have the ability to but are not willing to pay back the loan. They go incognito once they decide to stop paying. Technology should be used in banks so that they do not exist as solitary institutions (Attigeri et al., 2019). Banks would need the help of other institutions to recover bad debts. Bank frauds are not a new phenomenon. Wherever money is involved, frauds tend to happen, and banks are not an exception. Most of these bank frauds happen due to the intervention of humans in some step of the process. If these could be eliminated with use of technology, these incidents could be greatly reduced.

Integrating gig workers into the mainstream workforce of the bank could be a tough task. Since these workers demand flexibility in terms of work location and independence, personal connection with gig workers is tough to build. In spite of these difficulties, banks are trying to include gig workers in all their conversations as they see the benefits of the synergy. Banks give special incentives to gig workers who conduct trainings to reskill their permanent workforce, give good feedback which adds credibility to the worker while trying to get a new project and so on.

## Getting There – Slowly but Surely

Financial sector has not been the leading light in innovation or disruption like the other (e.g., e-commerce, healthcare). This is due to the fact that banking is highly regulated and even a small change is subject to minute scrutiny by the authorities (Roongta, 2017). Even a small change in fee structure could have a large impact on the customer base. For example, a 1% increase in cash handling charges would be scrutinised more than a 5% increase in burger price at a popular restaurant. There is every reason to be cautious, as money is involved and even a small lapse could knock down trust and value. Banks function on trust and if that is lost then banks would flounder.

Before the emergence of private sector banks, customer service was not a priority for Indian banks. Now customers expect good service and the availability of a variety of banks gives them the option to easily switch accounts. In telecom, we have the mobile number portability (MNP) where a mobile number could be transferred to a different mobile network based on owner discretion. Similarly, in the near future a single account number could be transferred to a different bank if the account holder requires. The account holder might be having his savings account with one bank and getting a loan or an advance from a different bank. Both these scenarios are possible with technology but regulations and the regulator should have faith in banks and their technology to safely implement these innovations which could benefit the customer. With the advent of foreign banks in India some aspects of the way in which they operate could be replicated in India.

Can we have a 100% gig workforce in a bank? While this might be ideal from a human resource department perspective to cut costs, it might not be possible to that extent. Any bank would like to have a certain number of employees who work solely for the company. Due to privacy and secrecy laws prevailing under banking regulations, there are certain financial data which cannot be accessed by a contract worker. There are certain access restrictions placed on certain data as some countries do not allow data to pass to other countries without

encryption. Some banks mask their data before allowing gig workers to work on them.

## **Into the Future**

India has a huge human resource talent pool of machine learning specialists and data scientists, who are good at new age technologies. It is up to the top management to tap this potential and push the banks forward on to a new path. Technology will be ruling all sectors in the future and no sector will be seen as a isolated. All sectors will be tightly interconnected with technology. Banks would be hiring more technology-oriented people than finance professionals. Finance as a domain would still be relevant but not as relevant as in the past. Data will decide the rules of finance. There is so much data available with the banks that if right people are available who have the skills to use it, it will be a boon to the management (Ghosh, 2020). Banks will need people to understand data, clean the data, to make it meaningful and to present the insights to management. Recruitment will focus more on skills for building applications, personalisation, software development, research and user management.

Personalisation will be a key development area for banks. Other sectors, such as e-commerce, retail, healthcare, are at the forefront of giving personalised solutions and products. But banks despite having a good product line could not do so as it might be considered as privacy intrusion by the customer since money and financial data is involved. Nowadays, credit card companies have begun providing targeted products to customers using their extensive data research into the spending patterns of their customers. Banks have not been able to use data similarly or are still reluctant to, due to the fear of alienating customers. These changes are not far away. Banks must evolve along with other sectors and cannot be left behind. Banks will have to hire specialists for key areas as each domain will require its own expert (Akula, 2020).

If we look at the gig workers working in finance domain, it is not as simple as before. Earlier, workers in other sectors were not able to switch to banks due to lack of domain knowledge. Soon that might



not be the case. Banks will be giving targeted trainings to workers from other sectors. The only change will be the data they work on, everything will feel similar. Workers will not need the deep domain knowledge that was previously required. Workers will be able to switch from healthcare to banking and vice versa. These changes have already started. One big change that might happen pertains to job security and stress levels.

Workers are not machines. If they are hired on short term contracts they would be required to search for jobs frequently once in every two, three or five years. This can negatively impact their work life balance. Stress levels might increase. This uncertainty can be reduced with the help of management and human Resource departments. Though much has been talked about how gig economy is here to stay and how gig workers will largely benefit the economy and the industry, less has been talked about the workers' welfare and their benefits. It is hoped that both the industry and the worker thrive together to create a better future for the economy as a whole.

## **Conclusion**

Gig economy in the banking sector is about to take off in the next few years. Innovations in the banking industry is already afoot but it is up to the regulator to approve their implementation. Data revolution in banks will change the way people look at the industry. Recruitment process will change, and workers will need to keep adapting to the change. Banks will need to upskill their existing employees. They should also look into the wage differential that might be existing between permanent and temporary workers. Data protection in the banking industry is of paramount importance and ethics have to be practiced in a much larger way than done before. Banks will also have to forecast their skill requirements well in advance as certain workers will be in high demand during certain cycles. It is going to be an exciting time for the banking industry and for their employees and customers. There are challenges but overcoming them will benefit the industry, in the long run.

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