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The Digitalisation Dilemma: Can 'Bob World' Bounce Back?

"In an era of increasing technological footprint and rapid digitalisation, it is critical that due emphasis is placed on managing cybersecurity and IT risks.... This necessitates highest level of vigil and strengthening of the IT systems by banks and other financial institutions"

RBI Governor, Shaktikanta Das,
Inaugural Address at the Financial Express Modern BFSI Summit,
Mumbai, July 19, 2024³

I. Background

In October 2023, Reserve Bank of India directed Bank of Baroda to suspend 'with immediate effect' the onboarding of customers on its mobile app 'Bob World' (*The Economic Times*, 2023a). This move sent shock waves across the industry: Bank of Baroda was not only a leading public sector bank but also a poster child for digitalisation drives in the Indian retail banking industry. Following RBI's action, the share price of Bank of Baroda crashed by 3.31% and continued its slump down throughout the week.

Table 1 shows the mean returns and volatility for a peer group of banks, including Bank Nifty, for the week following 10 October 2023, where Bank of Baroda registered lowest returns and highest volatility. The RBI cited 'supervisory concerns' for the action, adding that onboarding of customers on the 'Bob World' application can happen only after 'strengthening of related processes by the Bank to the satisfaction of RBI' (*Action against Bank of Baroda under section 35A of the Banking Regulation Act, 1949, Oct 10, 2023*). Certainly, all was not well with the bank's digital dreams.

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² Disclaimer: This case has been written to aid classroom discussion and has no intent to illustrate the efficient and inefficient handling of a managerial situation. The case is based on secondary data as availed through various sources cited in the document.

The views or opinions presented do not, in any way, reflect the views and opinions of the institution the author represents.

³ RBI, 2024.

Table 1
Mean Returns and Volatility for the Period October 10 to 14, 2023

Bank	Returns	Standard Deviation
BANK OF BARODA	-0.97	1.78
STATE BANK OF INDIA	-0.38	0.94
BANK OF INDIA	0.44	2.94
PUNJAB NATIONAL BANK	0.63	1.67
HDFC BANK	0.32	1.00
ICICI BANK	0.34	0.74
KOTAK MAHINDRA BANK.NS	0.62	1.32
BANK NIFTY	0.23	0.75

Raw Data Source: Refinitiv Eikon

Calculations: Author

Bank of Baroda has been on the forefront of technology adoption amongst the public sector players. Launched in September 2021, Bob World was a key milestone for Bank of Baroda and positioned at the core of the digital offerings of the bank. The bank emphasised that the adoption of digital channels led to 'improved productivity and efficiency' (*BoB Annual Report, 2021-22*, p. 56). To support the Bob World initiative, the bank relied on the BOB-NOWW campaigns, which had a host of initiatives for a 'reimagined' retail network. The strategy aimed at increasing the customer base onboarded on the Bob World platform. In FY 2022, the strategy appeared to be the right on track, with the app adding more than a crore of customers to Bob World through 'successive campaigns and the collective efforts of branch employees and BCs' (*ibid.*). The total number of app activations were more than two crores at the end of 2021-22, with a goal of reaching the three-crore mark in FY 2023 (*ibid.*). To add to its confidence, Bank of Baroda was awarded for Best Digital Banking Product⁴ for Bob World in 2021 (*ibid.*).

Bank of Baroda had earlier led several digital initiatives, and this too appeared to be a move in the right direction. Digitalisation of the retail banking space was not a choice anymore, but a necessity. ***What, then, went wrong with the retail digitalisation of Bank of Baroda?***

II. Bank of Baroda in the Digital Space

Bank of Baroda was set up in 1908 by the Maharaja of Baroda, Maharaja Sayajirao Gaekwad III. and nationalised on 19 July 1969 by the Government of India. In terms of market capitalisation (1.29 Rs Lakh Crore⁵), it was India's seventh-largest bank in 2024. The bank's international presence was well established with branches across 17 countries and more than 165 million customers.⁶

⁴ Category in the 4th Edition of The Economic Times BFSI Innovation Tribe Awards

⁵ According to Forbes India's list of top Indian banks in 2024 based on market cap, see <https://www.forbesindia.com/article/explainers/top-10-banks-india-by-market-cap/87913/1>.

⁶ See Bank of Baroda's website at <https://www.bankofbaroda.in/>.

Bank of Baroda was also a leading presence in retail digitalisation initiatives in India. In 2007, it launched India's first gen-next branch, a fusion of 'hi-tech' and 'hi-touch'. The first mobile banking app, M-connect was launched in 2011.⁷ Around the same time, the other players in the banking space were also foraying into digital initiatives. One of the earliest initiatives for a complete retail digital product came from ICICI with the launch of the Pockets mobile app in 2015 (*India Today*, 2015). SBI launched its digital banking app Yono in November 2017 (*Livemint*, 2020) and Kotak launched the 811 app in November 2018,⁸ both digital one-stop-shops for retail customers. It was in this setting, as retail digitalisation in India leapfrogged, that Bank of Baroda launched BOB NOWW as India's 'futuristic bank' and finally Bob World in 2021.

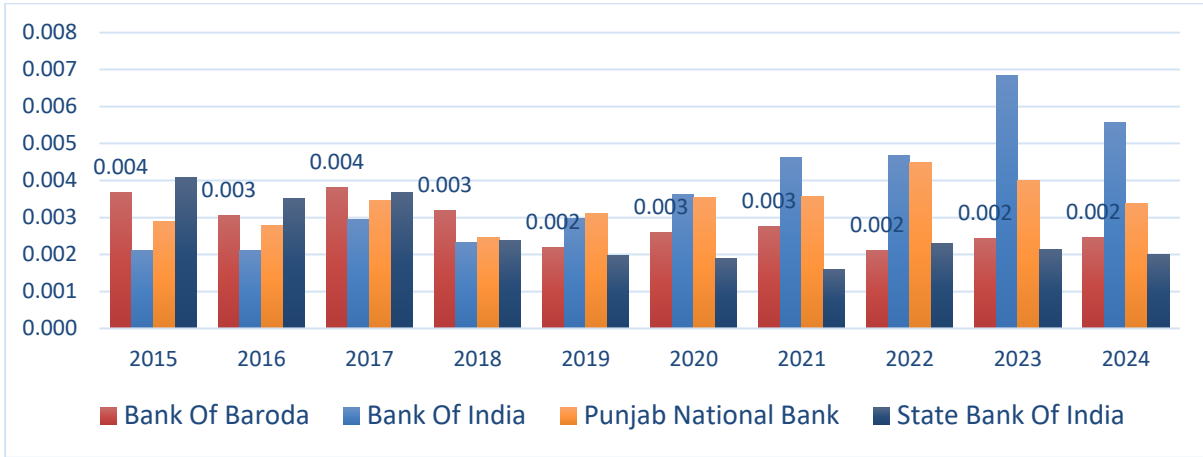
The above initiatives by the banks also gained support and momentum from the Government's initiatives. As part of the reforms initiated in 2018 for the Indian banking sector, EASE (Enhanced Access and Service Excellence), helmed by the Department of Financial Services (DFS) in 2018, focussed on digital transformation (Ministry of Finance, 2023). The EASE Awards were initiated to encourage banks who performed in terms of implementing the reform agenda. In FY 2021-22, Bank of Baroda secured the second position among all public sector banks in Government of India's EASE 3.0 index. The bank ranked first in 'Smart Lending for Aspiring India' category and earned second place in 'Tech-enabled ease of Banking' category (*BoB Annual Report 2021-22*), a strong indicator of having taken the right direction on the digital initiatives.

In FY 2022-23, the Annual Report of the bank highlighted that two crore customers were added on to the Bob World platform. The activation in Bob World in the year 2022-23 increased substantially from 101.45 lakh during 2021-22, registering a growth of 1.2% during the period. With new accounts, financial transactions on the app grew by 25.66%, while non-financial transactions grew by 26.51% to 27,745 lakhs in FY-2023 from 21,931.55 lakh in FY-2022 (*BoB Annual Report 2022-23*). In terms of investment in Information Technology, Figure 1 gives the expenditure of IT and communication as percentage of non-wage expenses for the leading public sector banks from 2015 to 2024. We can see Bank of Baroda has had a consistently higher investment in IT than other PSBs till 2018, and thereafter there has been fluctuations in the investment, and a fall in the ratio from 2021 to 2022. However, it still maintains a comparable ratio in the public sector space. Figure 2 compares the ratio of IT expenditure to non-wage expenses for Bank of Baroda and a few leading players in the private sector. Compared to the private sector players, where especially Kotak and ICICI have increased their IT expenditures substantially in this period, Bank of Baroda falls short in IT investment as seen from Figure 2.

⁷ Ibid.

⁸ See <https://www.kotak.com/content/dam/Kotak/about-us/media-press-releases/2022/kotak811-5th-anniv-new.pdf>.

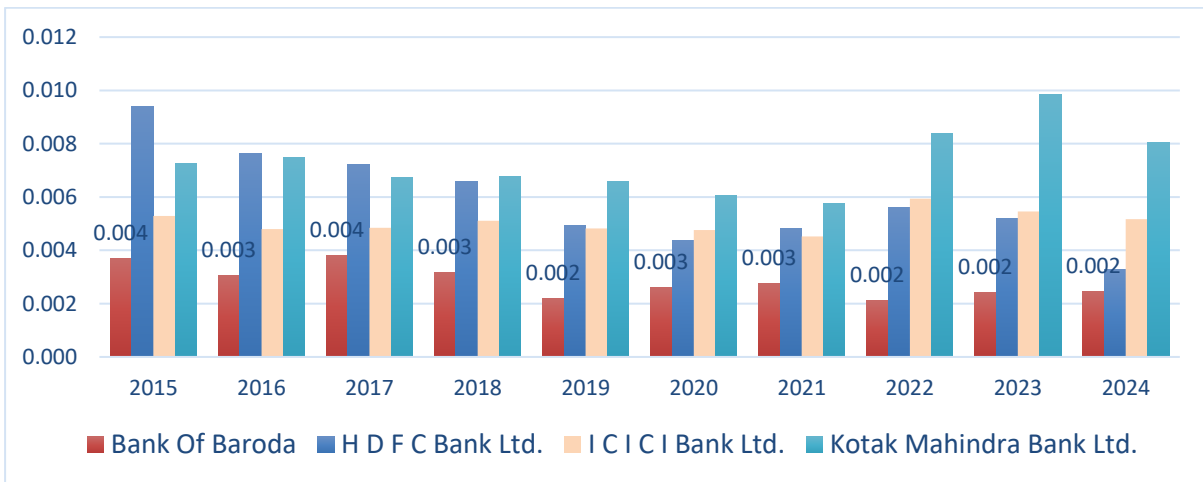
Figure 1
Expenditure of IT and Communication as Percentage of Non-Wage Expenses
(BoB and Public Sector Banks)



Raw Database: Prowess IQ

Calculations: Author

Figure 2
Expenditure of IT and Communication as Percentage of Non-Wage Expenses
(BoB and Private Sector Banks)



Raw Database: Prowess IQ

Calculations: Author

That said, the investment in IT is comparable to other public sector players. A host of digitalisation initiatives of the bank from 2018 suggest that its strategy was keenly bent on occupying the digital space. By all accounts, Bank of Baroda was doing the right thing at the right time.

III. What went Wrong in the Digital Paradise?

The problems with Bob World that led to the Reserve Bank of India suspending the onboarding of accounts on the digital platform surfaced first from whistleblower narratives. In a bid to increase onboarding of customers, an elaborate modus operandi had been set by some unscrupulous employees in the bank. The employees involved first identified the accounts which did not have any mobile number linked to them. Next, these accounts were linked to mobile numbers of staff members, sanitation, and security workers. Using these mobile numbers to generate One Time Passwords (OTPs), the accounts were onboarded on the digital Bob World platform. After using the numbers for registering on the digital account app, the numbers were deregistered from the app. The same mobile numbers were then used to link another set of bank accounts (*The Economic Times*, 2023b).

The employees thus inflated the number of digital users through use of falsified and random mobile numbers. It clearly pointed to an oversight of the standard operating procedures. Following the regulatory action on October 10, 2023, Bank of Baroda suspended more than sixty employees, including senior bankers in the position of Assistant General Managers (AGMs) (Moneycontrol, 2023).

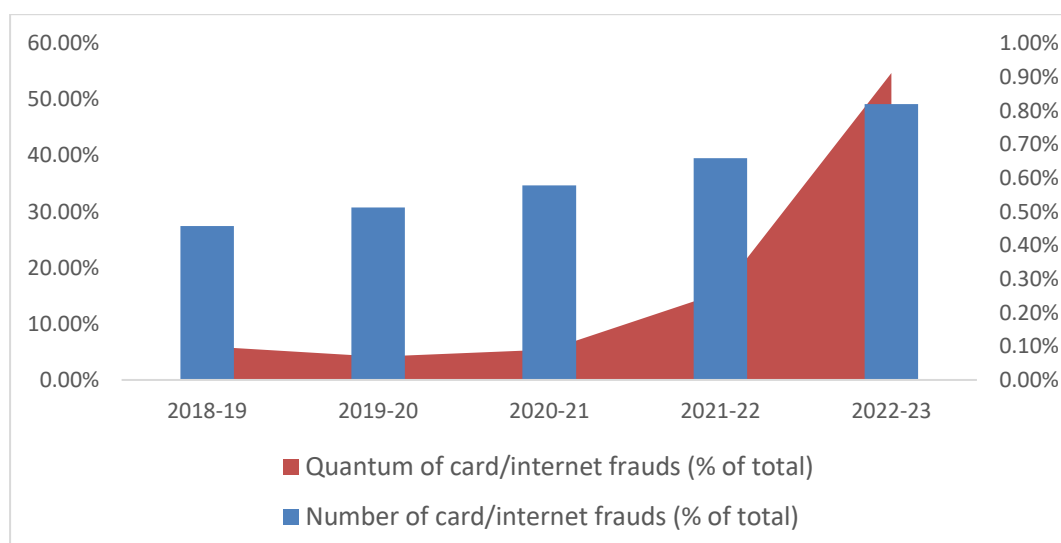
Did the customer acquisition strategy fail the bank?

IV. Why is the Regulator Concerned?

The regulator has signaled for some time the concerns with regard to the digital banking space. RBI has made it clear that it is keen to ensure consumer protection.⁹ This is pertinent given the increase in frauds in this space in recent years. The lack of optimal digital infrastructure leads to poorer fraud management. RBI Annual Report 2022-23 pointed out that frauds have occurred predominantly in the category of digital payments (card/internet). As shown in Figure 3, the quantum of frauds from credit cards or internet banking have increased significantly from 0.1% in 2018-19 to 0.91% in 2022-23. The number of frauds has also increased substantially. Given this, the regulator is unsurprisingly concerned about the optimal IT infrastructure in the banks for handling the digital banking growth, especially for the banks at the forefront of the digitalisation initiatives like Bank of Baroda.

⁹ *Financial Stability Report 2023*, https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=57005.

Figure 3
Quantum and Number of Card/Internet Frauds (% of Total)



Raw Data Source: RBI Annual Report 2020-21 and 2022-23

Calculations: Author

What happened in the case of Bob world was hardly an exception. The incident at Bank of Baroda had an uncanny resemblance to the 2016 Wells Fargo case. In 2016, Wells Fargo made a \$185 million settlement of a lawsuit filed by regulators, in effect admitting to the fact that its employees had opened more than two million accounts without customer authorisation over a five-year period.¹⁰ On 24 April, 2024, RBI hauled up Kotak Mahindra Bank Limited, directing the bank to stop the onboarding of new customers and issuing fresh credit cards. RBI cited serious 'deficiencies and non-compliances' in their IT systems (*Business Standard*, 2024). It made the industry question: while both private sector, public sector and Fintechs have clamoured for a go-ahead in the Indian retail banking digital space, were the safeguards and controls adequate? The central bank's concerns and the suspension of the onboarding was more than a business loss: it was for Bank of Baroda bank a reputation loss. ***How would Bank of Baroda revive Bob World? Or were they lost in the digitalisation maze?***

V. Questions to Consider

It is imperative that the bank facing regulatory action thinks through and decides its digitalisation strategy. The following questions should be considered:

1. What went wrong with Bank of Baroda's digitalisation strategy?
2. What went wrong with its customer acquisition strategy for digital products?
3. What should be the way ahead for Bank of Baroda?
4. What steps can be taken to ensure systems and processes are in place to prevent misuse by unscrupulous employees?

¹⁰ Harvard Law School Forum on Corporate Governance, 'The Wells Fargo Cross-Selling Scandal', see more at <https://corpgov.law.harvard.edu/2019/02/06/the-wells-fargo-cross-selling-scandal-2/>.

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