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NEW-AGE DIGITAL BANKERS



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AN ECLECTIC MIX OF PLAYERS IS LOOKING TO GIVE TRADITIONAL BANKS A RUN FOR THEIR MONEY AS PAYMENT BANKING COMES OF AGE

Kripa Mahalingam

Vijay Singh is an immigrant worker from Bihar who came to Mumbai three years ago and currently works at a construction site. His family, consisting of his wife and two children, still lives back home with his parents. Initially, Singh would send money through someone who was travelling to his village from Mumbai or via money orders from the local post office. While sending cash, there was always the risk of it getting lost and given his long working hours, getting to the post office in time was not always possible. Needless to say, there used to be several delays in the cash reaching his family and Singh would have to pay 5% as commission charges on top of everything else. But then he noticed his friend Mohan using his mobile to transfer money instantly to his family back home through

Vodafone's mobile wallet service m-pesa. Thanks to Mohan's guidance, Singh paid an initial deposit of ₹100 (of which ₹75 went towards activation) and was able to use the service to send money to his father's account. Now, he regularly heads to the neighbourhood Vodafone recharge outlet and tells the

storeowner the amount that needs to be deposited in his father's account, even topping up his wife's mobile in the process as well.

m-Pesa was launched by Vodafone and ICICI Bank in February 2014 and has now spread across 85,000 outlets in India, with close to 2.5 million customers. Using an

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“Opening of bank accounts is not enough by itself. The access points need to be closer to the customers

—PRAMOD SAXENA
CMD, Oxigen Services

32 m-pesa account, customers can deposit and withdraw cash from designated outlets, transfer money to any mobile phone in India, remit money to any bank account in India, recharge mobile phones and DTH subscription and clear utility bills. India has about 100 million migrants spread across the country, for whom remittance is a primary financial service requirement, close to 60% of them remit money back home. Only around 60% of the country's 1.2 billion people are covered by banks. Even as the prime minister's Jan Dhan Yojana successfully hit its target of opening 115 million bank accounts to improve financial inclusion, data released by the ministry indicates that only about 28% of the accounts are active, with about ₹9,000 crore deposited. “Opening of bank accounts is not enough by itself. The access points need to be closer to the customers,” says Pramod Saxena, managing director, Oxigen Services. His company,

which provides payment and remittance services through digital wallets, has tied up with banks such as SBI, ICICI and RBL for banking services. With 50 million transactions a month and 130,000 outlets, it has one of the largest retail networks in the country. The company handles transactions worth ₹1,000 crore every month.

So, when RBI issued guidelines for licensing of payment banks in November 2014, companies like Oxigen and Vodafone m-pesa, along with 39 other applicants, readily threw in their hats in the ring. “Telecom companies are best placed to leverage the opportunity in payment banking, given our strong distribution network and large client base,” says Suresh Sethi, MD, Vodafone m-pesa India. A large chunk of the population still has no access to financial services, with around 41% of Indian households being un-banked and approximately 67% of all retail transactions still being conducted in cash. With over 900 million mobile connections, mobile subscribers significantly outstrip the number of bank account holders in the country at the moment. Both telecom and retail companies not

only hope to leverage their current customer base and infrastructure, but also hope to improve customer stickiness through their payment bank offerings.

DIALLING GROWTH

The idea behind payment banks is to provide small saving accounts, payment and services to migrant workforces, low-income households, small businesses and the unorganised sector. RBI wants to replicate the success that m-pesa has seen in Kenya in the past. m-pesa was launched in 2007 by Safaricom, Kenya's largest mobile operator, which allowed consumers to transfer money through their mobile phones. According to a Crisil Report, m-pesa's payments formed about 30% of Kenya's GDP in 2014. “In Kenya, the adoption was faster as other options were limited — banking penetration was low and carrying cash was not

“Telecom companies can leverage the opportunity, given our distribution network and client base

—SURESH SETHI
Business head, m-Pesa Vodafone India



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seen as a safe option," says Vodafone's Sethi.

Nevertheless, the potential to reach un-banked and under-banked audiences through payment banks is immense. "Payments bank will play a crucial role in converting cash transactions into digital ones," says Vellayan Subbiah, managing director, Cholamandalam Investment and Finance Company, one of the applicants for the payments bank license. Part of the Murugappa group, the company hopes to leverage its network of customers, farmers and dealers across group companies EID Parry, Tube Investments and Coromandel and its own customer base — all of which adds up to 4 million — for a head start into the payment banking space. Other applicants include heavyweights such as Reliance, which is entering the fray with SBI; Airtel Money, which has joined hands with Kotak Mahindra; Kishore Biyani; Dilip Shanghvi; Venugopal Dhoot and payment service providers such as Oxigen,

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ItzCash, FINO Tech and One97 (which owns Paytm).

"The payments bank is a natural extension of the business we are in. We have a deep presence across the country and our stores see a cumulative footfall of over 320 million. Customers are always in a transaction mode at our stores and for many, walking into a store is a lot less intimidating than walking into a large bank," says Kishore Biyani, CEO, Future Group. If granted a licence, Future Group's new entity, which will be called NuFuture Payments Bank, will leverage its retail network — including Big Bazaar, KB's, Nilgiris and Big Bazaar Direct — and its rural distribution. "Videocon has a significant chunk of its business coming from rural India. This cuts across consumer durables, telecom, retail and DTH. It is because of this that we saw an opportunity in payment banking," says Venu-

"Payments bank will play a crucial role in converting cash transactions into digital ones"

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MD, Cholamandalam Investment

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CEO, Future Group

gopal Dhoot, chairman, Videocon Group. Videocon DTH has a subscriber base of 11.8 million and has over 7.45 million subscribers in its telecom business.

All applicants have submitted a business plan detailing how they will achieve the objectives of payments banking. RBI has indicated that the first lot of licenses will be given out by the end of August, and while most applicants may eventually get them, the first lot are likely to be those that have a widespread network of access points, particularly in the remote areas of the country, either through their network or banking correspondents (BCs) or through networks provided by others. Crisil Research pegs the domestic remittance market at ₹800 billion-900 billion and expects it to grow at an average of 11-13% over the next couple of years. Apart from domestic remittances, payment

banks can also accept international remittances. According to World Bank reports, India enjoys the largest amount of international remittances in the world, with over \$70 billion flowing into the country last year. And with RBI guidelines allowing payments banks to service IR transactions, many see this as an area of huge opportunity. "About 30-40% of the \$70-billion international remittances are withdrawn as cash and that is a potential segment we can go after," says Naveen Surya, MD, Itzcash. The company, which began in 2006, has more than 88 million prepaid accounts through prepaid cards, mobile wallets and e-wallets, serving over 29 million customers, with payment volumes expected to cross ₹8,000 crore in 2014-15.

MULTIPLE BENEFITS

Payment banks can also play a crucial role in implementing

"We have significant business in rural India, where we saw opportunities in payment banking"

—VENUGOPAL DHOOT
Chairman, Videocon Group



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the government's direct benefit transfer scheme, where subsidies on healthcare, education and gas are paid directly to beneficiaries. Among other things, Mumbai-based FINO PayTech acts as a business correspondent for banks and financial institutions, with 32,000 agents servicing around 28 million active customers. Payments for MGNREGA, old-age pension and other government welfare benefits worth ₹5,000 crore have been made through FINO's network. Apart from this, around 5 million-6 million transactions worth ₹2,400 crore take place annually through FINO's network of 250 Money Marts in urban areas and over 10,000 merchant points and franchisee outlets across 14 states in the country.

According to the draft guidelines, while the payment banks can accept demand deposits subject to a cap of ₹100,000 per customer, they cannot lend to their customers. They can offer payment and remittance services through the internet, mobile and outlets and can be business correspondents of other banks. They will have to invest at least 75% of the deposits collected in government



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"About 40% of the international remittances are withdrawn as cash and it is a segment we can chase"

—NAVEEN SURYA
MD, Itzcash

securities and a maximum 25% as deposits in other commercial banks. They will primarily depend on remittances and payments for their revenues and on the commission they get by selling third-party products. The banks can also act as business correspondents for scheduled commercial banks and offer loans and credit cards. "Since they cannot give loans and make money on the interest spread on deposits and lending, they have to come up with an innovative model to keep their costs low," says AP Hota, MD, National Payments Corporation of India.

Rajeev Ahuja, head, strategy and financial inclusion at RBL Bank, believes that payment banks must start by figuring out what customers want and come up with services and offerings accordingly rather than chase revenues. "Payment banks will not work if they function with the same DNA as conven-

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“Payments banks must start from the other spectrum and build products to suit customer needs

—RAJEEV AHUJA
Head, strategy, RBL

36 tional banks. The service architecture and the delivery model have to be very different. You need to build a platform that can handle millions of transactions,” he says. RBL has joined hands with Oxigen Services for its payments banking foray. Similarly, Kotak Mahindra Bank will pick up a 20% stake in Airtel Money, subject to the latter getting the payment bank licence from RBI. “Payment banks give us an opportunity to service a large section of the population that we were not in a position to service earlier,” says Dipak Gupta, joint managing director, Kotak Mahindra Bank. “The partnership with Airtel Money will give us the much-needed reach and distribution. It didn’t make sense to create the reach afresh.” Airtel Money was the first mobile-based prepaid payment instrument service in the country. Bharti Airtel currently has a subscriber base of 229 million through a distribution

network of over 1.4 million retail points in India.

Scheduled banks can hold up to 30% equity in a payments bank. While for banks like RBL and Kotak, it opens up an avenue to service a large new set of audience, for payment services providers, having a bank sign on as their partner gives them the much-needed stamp of credibility with

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consumers who are looking to sign on. “People already using mobile wallets want to earn interest, have access to ATMs and have the same confidence of a bank,” says Bipin Preet Singh, CEO, Mobikwik. The company, which has 17 million users, has tied up with over 50,000 businesses across e-commerce, cab services and food chains to offer digital wallets and enable customers to pay directly while shopping online. It has also tied with up Big Bazaar and Café Coffee day to enable their customers to pay for their purchases offline as well.

Consumers have been getting used to mobile transfers ever since m-wallets were launched in 2011.

According to a Crisil Research report, the value of transactions through m-wallets, which have tripled over the past two years, was estimated at ₹2,750 crore, though the value per transaction remains small at ₹200-400. Expected to touch more than 100 million next year, mobile or electronic wallets have already outstripped the number of credit cards in the country, currently pegged to be around 20 million. Currently in a semi-closed wallet, no cash-out is allowed,