

New breed of mobile digital banks emerging in India

By Narendra Kaushik in New Delhi

● Digital banking is set to take a huge leap in India with half a dozen cellular operators, technology companies and payment service providers planning to introduce mobile banks in the new fiscal year that began on April 1.

The Reserve Bank of India (RBI) awarded approval in principle last August to 11 companies in all to start payment banks. They will be allowed to accept deposits up to 100,000 rupees (53,000 baht) from an individual customer, offer internet banking, money transfer and payment facilities. As well, they can sell insurance, pension and mutual funds. They will not be able to invest depositors' money in anything except government securities.

The payment bank licences are aimed at cutting down cash transactions, taking banking to the unbanked millions in the country and improving efficiency in the sector.

The approved entities have 18 months to launch their businesses, which are expected to benefit from low customer acquisition costs, while allowing customers to deposit and transact online and earn interest on their deposits.

According to a report by PricewaterhouseCoopers India last October, 233 million of India's 1.3 billion people are still unbanked. Nearly two-thirds of India's US\$1.4-trillion GDP is a cash economy. Many residents of some 600,000 villages and semi-urban areas still receive their salaries in cash and prefer to pay for goods and services that way.

Paytm, India's largest mobile commerce platform with 150,000 merchants on board, aims to have one of the first movers in the field by September.

"The idea is to be one of the initial payment banks and have 500 million customers (including those who have accounts in conventional banks) on board," said Narendra Yadav, Paytm's project manager for the payment bank.

"The regulatory environment is very positive. This is the best time and the best place to be in India to do business."

Paytm has hired a host of people including Shinjini Kumar, a former RBI official, as CEO of its payment bank to design an easy-to-use and do-it-yourself system for its customers.

The bank would target people from all areas of society including the unbanked but the focus would be on treating small deposits at par with large deposits. Mr Yadav said Paytm would make a huge investment in technology to keep transaction costs at 60% less than those at conventional banks.

He said his company's focus would be on providing a great experience to its customers, adding that the online trend was already clear, with the likes of barbers and taxi drivers all over India accepting payments through Paytm.

Payment banks are expected to break even in 3-5 years but Paytm expects to be earning profits much sooner than that, he said. "Revenue streams are going to be different from scheduled banks. Cost drivers will have to be different. We are going to

earn money. We had this answer even when we applied for the licence."

Other approved contenders ready to offer digital wallets this year include the Norwegian telecom operator Telenor, in partnership with Dilip Sanghvi of Sun Pharmaceuticals and IDFC; Aditya Birla Nuvo, a division of Aditya Birla group; and Tech Mahindra, a multinational telecommunications IT provider.

"With the ambition of bringing financial services to the unbanked, our payment bank will offer services within the prescribed guidelines, such as remittances and bill payments," Telenor Group spokesman Marcus Adaktusson told *Asia Focus* in an email interview.

Telenor India, he said, had enrolled nearly 22 million customers for free life insurance, as it believes in offering more than just connectivity. It already offers mobile banking and other services in Bangladesh, Pakistan and Thailand, and sees great opportunity in India where digital money is only 5% of the market.

"The experience in our business units gives us a good understanding of the services and processes that work for the mass market," he said, pointing to free insurance as an example.

"By keeping it simple and easy to use, we believe our customers will benefit from payment bank services on their mobile phones. ... We are confident of making this a success."

India Posts, the government-operated postal system, also hopes to enter the field by March next year, Communications and IT Minister Ravishankar Prasad said, adding that international consortiums were eager to partner with it to sell third-party products such as insurance. The India Post bank is also expected to provide direct benefit transfers (DBT) of social security payments from various ministries to its customers.

Aditya Birla, meanwhile, has joined with Idea Cellular, which around 180 million mobile customers.

Others that have won RBI approval are Bharti Airtel and Vodafone, India's top mobile providers; the telecom and retail group Reliance Industries Limited; FINO Paytech, a business and banking technology platform; and National Securities Depository Limited (NSDL).

Reliance is partnering with State Bank of India, the country's largest public-sector bank, and Airtel will join with Kotak Mahindra, a private-sector bank.



The ubiquitous mobile phone will become even more useful to millions of Indians as mobile payment gathers momentum.

PHOTO: REUTERS

Naresh Makhijani, partner and head of financial services at KPMG India, says mobile banking will help the government convert the cash economy into a digital economy and promote digital inclusiveness.

He hopes the payment banks will cover the micro market and serve people who have no access to conventional bricks-and-mortar banks. "They will deliver banking at the least cost. Like Uber (the ride-hailing application), they will be part of a lean and mean structure," he told *Asia Focus*. He believes digital banking can thrive by focusing on the education and transport sectors and will have access to funding sources.

However, Ashvin Parekh, managing partner of a Mumbai financial advisory firm, believes that only those with strong backing in terms of telecom bandwidth and technology will survive. He predicts only five payment banks will remain in five years.

The RBI says payment banks must have minimum capital of 1 billion rupees (\$15.03 million), and must focus on providing small savings accounts and payment and remittance services.

The RBI rules do not allow payment banks to cater to non-resident Indians, many of them wealthy, or issue credit cards. However, they can issue ATM and debit cards.

Mr Makhijani is confident that digital banking will be a good fit in India. "Of course, it suits the Indian economy," he said, adding that the time-saving and convenience of mobile applications was a big selling point.