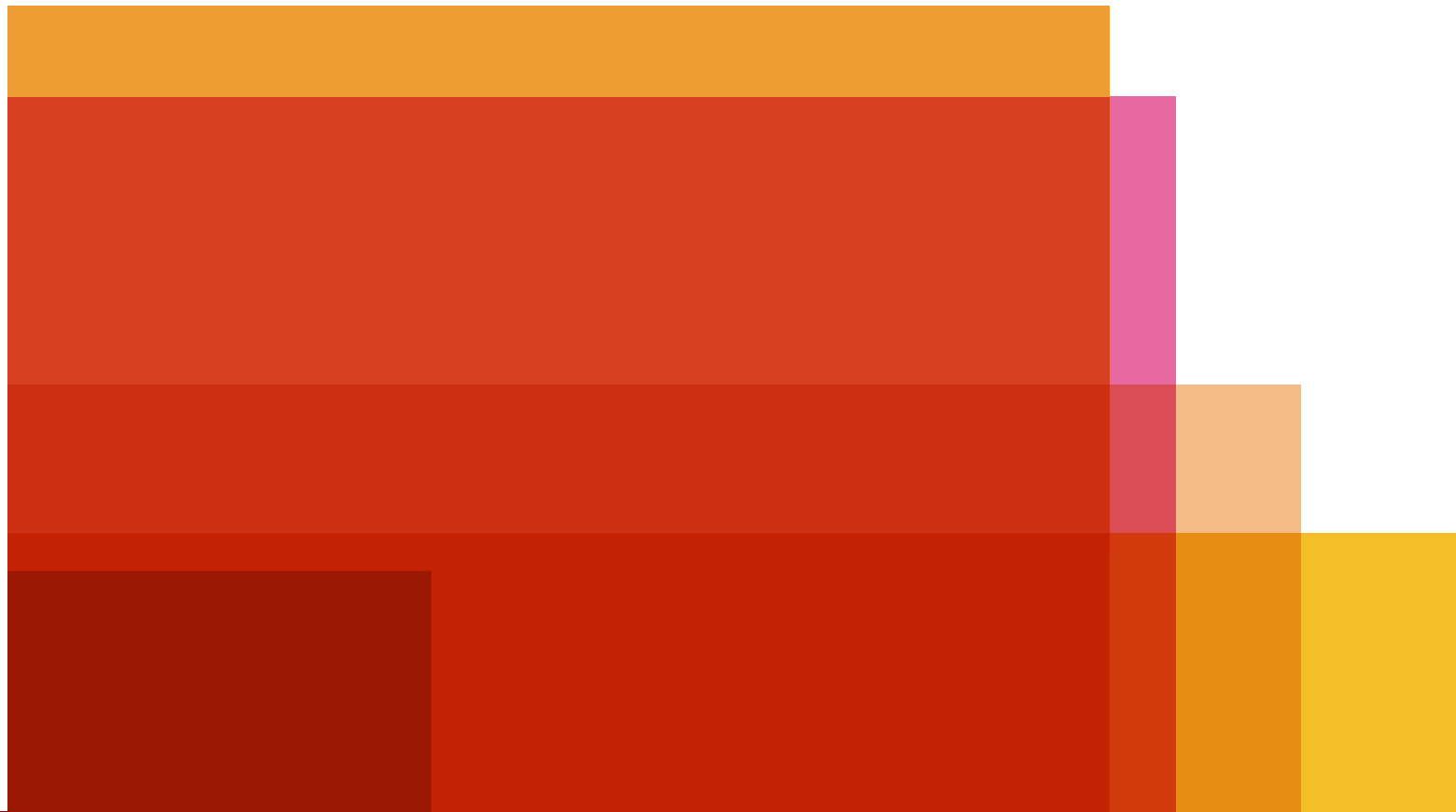


Payments Banks

A concept to drive financial inclusion

September 2014



A hundred small steps, 2008

The Committee proposes a **paradigm shift in the way we see inclusion**. Instead of seeing the issue as primarily expanding credit, which puts the cart before the horse, we urge a refocus to seeing it as expanding access to financial services such as payment services, savings products, insurance products and inflation protected pensions

Rangarajan Committee Report on Financial Inclusion, 2008

Financial inclusion may be defined as the **process of ensuring access to financial services**, and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost

Mor Committee Report, 2014

PPI players have enabled significant expansion of low value payments services among individuals who hitherto have never used banking services...any financial inclusion strategy would not be credible if it did not envisage a clear role for independent non-bank participation in the provision of payment and deposit services

Jan Dhan Yojana, 2014

The Pradhan Mantri Jan Dhan Yojana lies at the core of our development philosophy of Sab Ka Sath Sab Ka Vikas. As we move rapidly forward in this knowledge era with modern banking and financial systems, it is untenable that a large majority of our population is deprived of basic banking facilities...

Universal banks – Trustworthy and experienced, but unable to cater to low value, high volume customers

What have they got right?



Total value of deposits held in Indian banks today = INR 76,000 billion

01
Deposits



Total no. of previously unbanked villages that now have a banking presence = 74,398

02
Expand reach



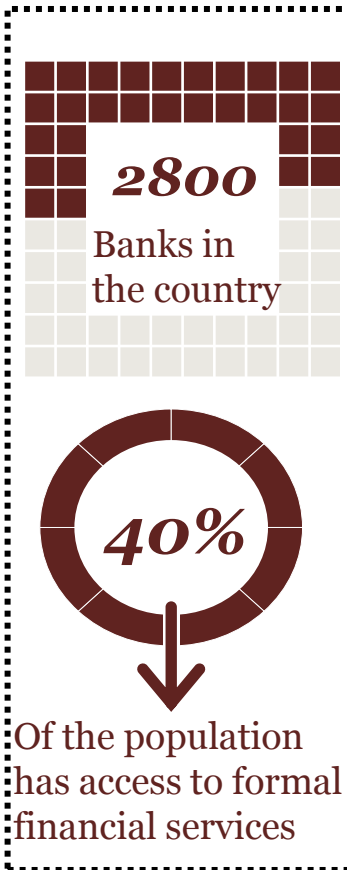
Banks have been able to gradually increase credit provided; current domestic credit provided by banking sector = 75%

03
Extending credit



Banks have been able to establish public trust and are often seen as 'safe' institutions

04
Trust



Where do they lag?

01 Lack of flexibility to accept low value deposits from customers

Leverage technology to provide easy and convenient payment channels

02

03 Service small businesses and the unorganised sector

Deploy innovative solutions to set up a low cost distribution network

04

Sources: RBI, Mor Committee Report

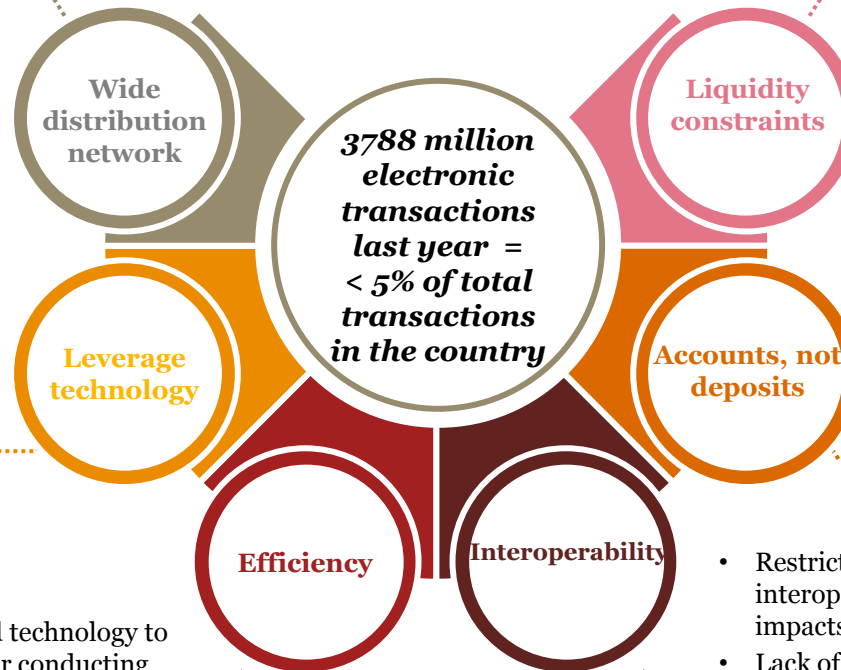
PPIs – Nimble and innovative, but limited in their impact on account of various constraints

Key success factors

- 5 million + agents across various parts of the country
- Significant rural presence
- Experience acting as BCs for banks

- 933 million telecom subscriptions currently active in the country
- Rapid growth in internet usage - 243 million internet users in the country

- Ability to leverage reach and technology to provide low cost channels for conducting low value, high volume transactions



Key constraints

- Lack of cash out facilities impacts usefulness and deters customer adoption
- Bank partnership for cash-out creates operational issues
- As non-bank players, PPI issuers offer customers accounts, and not deposit facilities
- Inability to offer interest on customer funds stored translates into lost opportunity for PPI companies
- Restricted from connecting to third party interoperable payment networks which impacts acceptance
- Lack of inter-wallet interoperability

Sources: RBI, Ministry of Finance

Financial inclusion and e-payments – Moving from cash dominant to less cash society

There is growing recognition of enabling widespread usage of electronic payments and extending financial inclusion as two sides of the same coin. However, to promote meaningful financial inclusion, e-payments would need to be as easy, if not easier to use than cash

1

Easy customer onboarding

- Focus on easy KYC and robust AML processes to bring more people into the formal financial services net
- Leverage pre-existing KYC information across the financial & telecom sectors

2

Enable liquidity for specific segments

- While the ultimate goal is to move to a cash-less society, in the medium term, the market is likely to see customers still needing to cash out for maximising the utility of PPIs.
- Domestic remittances via PPIs would need to facilitate cash out to provide optimal value to customers

3

Concluding transactions to be as easy as cash

- Cash does not require multiple security hops; e-payments to facilitate similar ease of concluding transactions while promoting trust and safety

4

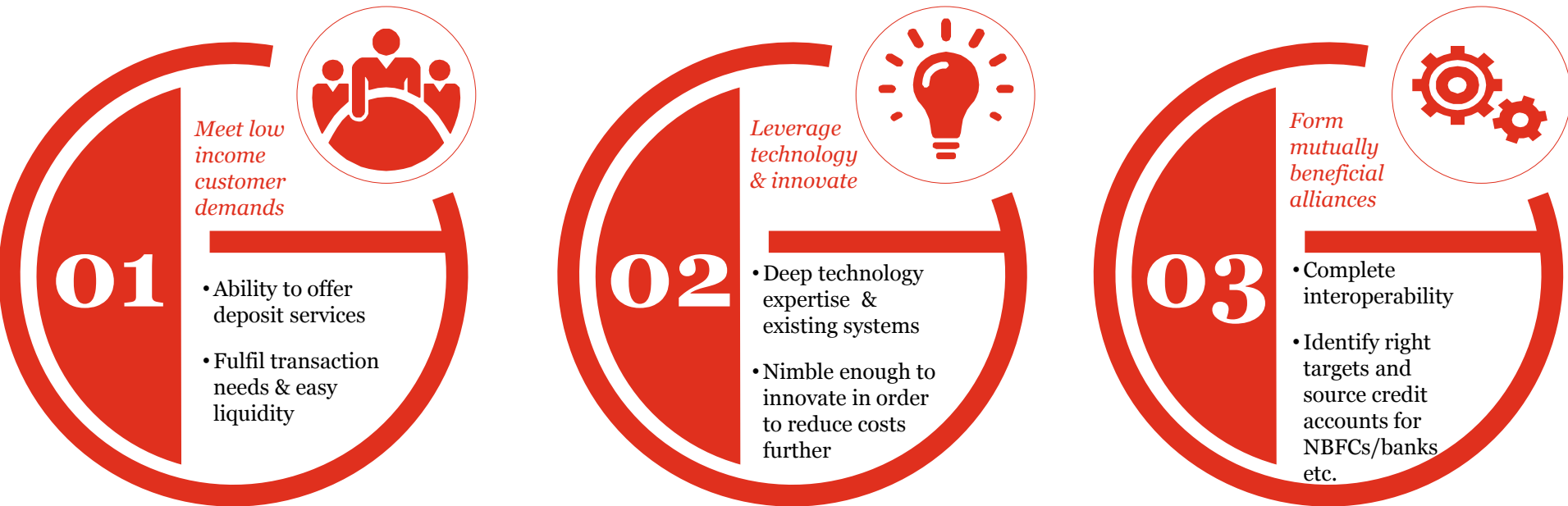
Incentivise usage and acceptance

- Tax incentives to create a fostering environment for acceptance of e-payments by various merchants and small businesses
- Wider acceptance will promote greater usage

Key 'customer asks' to enable easy e-payments

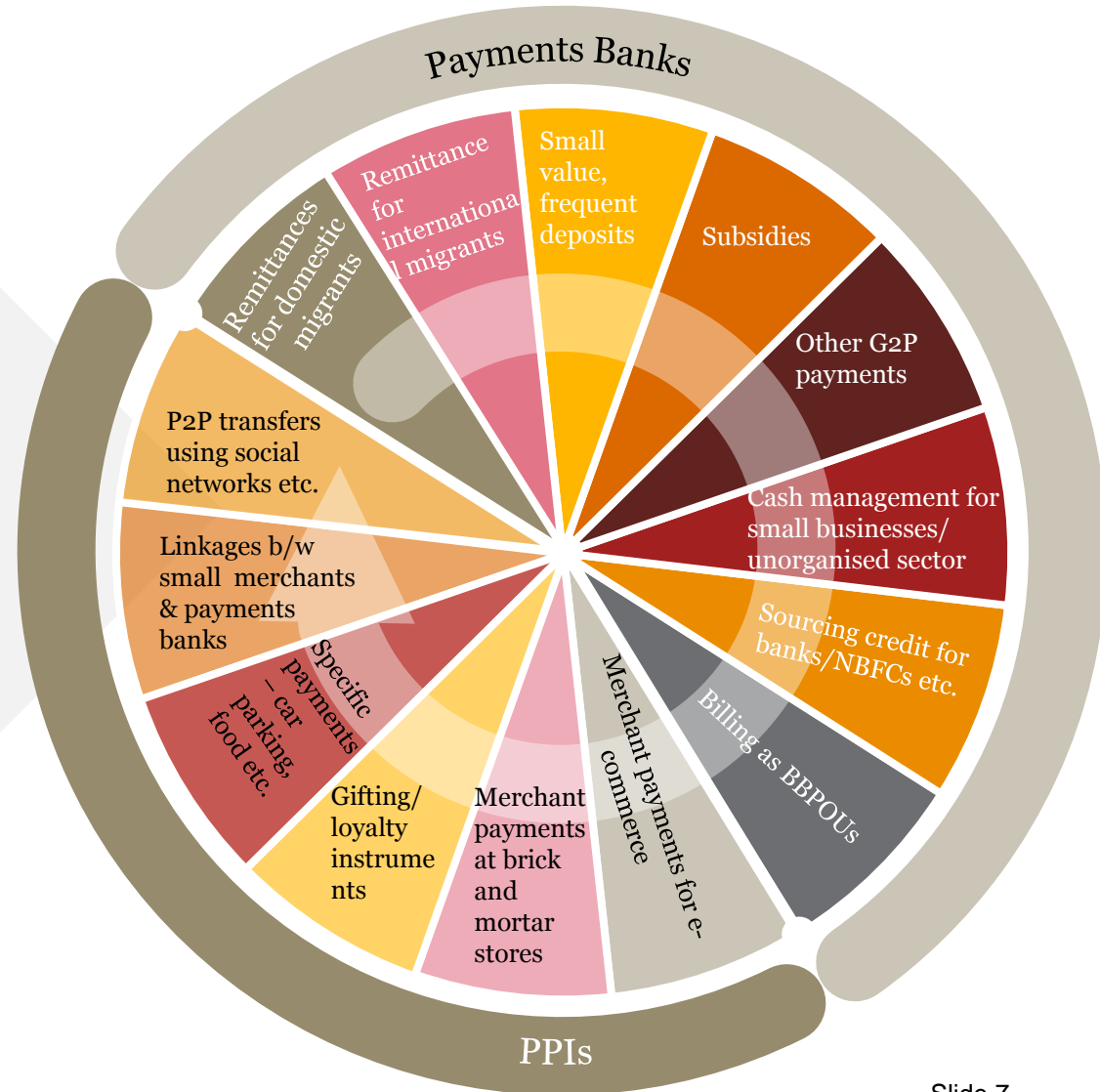
Mor Committee Report and differentiated licensing – creating a win - win situation through competition and collaboration

The Mor Committee Report presented a solution that combined advantages of banks and PPIs – Payments Banks can build public trust, offer interest on deposits, enable cash out while deploying innovative technological solutions and catering to the underbanked and unbanked sections of the population

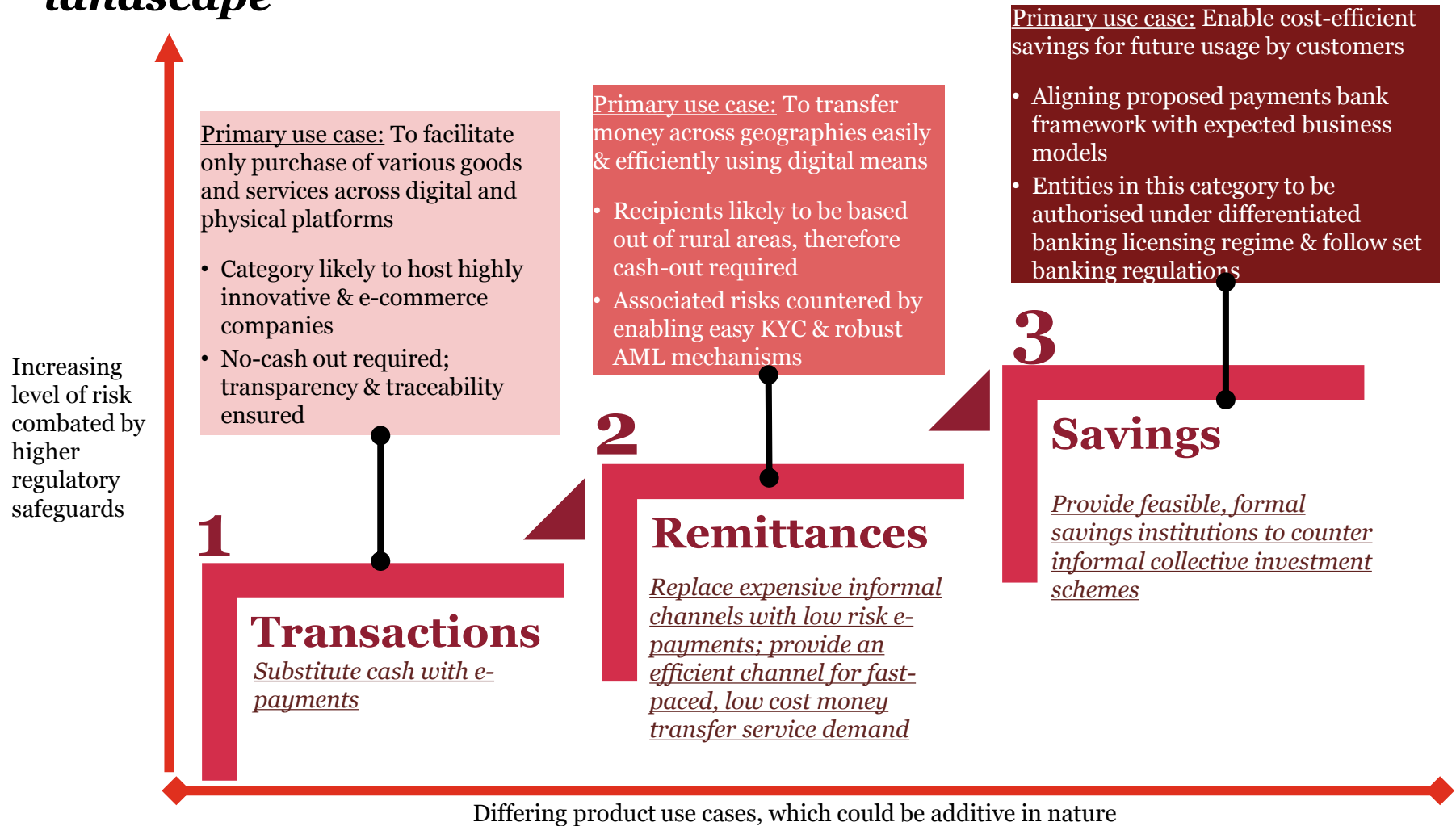


Customer needs & addressable product segments

While Payments Banks are expected to cater to underbanked and unbanked sections of the population, smaller PPI companies and start-ups will focus on improving ease of transactions, and innovate rapidly to cater to the growing service economy. In the long run, the payments industry is likely to move towards a convergence between larger and more stable Payments Banks, and smaller, specific PPI companies.



Competition and collaboration – Evolving payments landscape



Thank you!

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