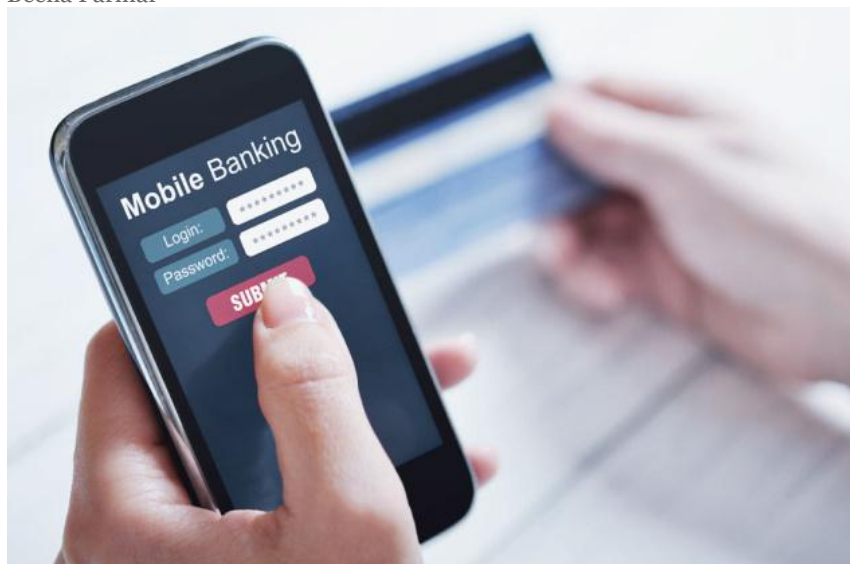


Mobile tech to drive payments bank model

Beena Parmar



Low cost of operations, business volumes and product innovation will also be key to success

Mumbai, October 28:

The ability to ride on technology, product innovation, low cost of operations and generating business volumes will be key to the sustainability of the upcoming payments banks, which will seek to serve the underserved in rural, semi-urban and urban areas.

Of the 11 entities that received in-principle RBI approval to start payments banks, five are telecom companies (or telecom joint ventures/tie-ups), one a mobile wallet company, one an IT company, one the Indian postal department, one a non-banking finance company (NBFC), and the remaining two have good delivery channels.

“The success of payments banks will depend on low-cost technology and high volume of transactions so that charges are reasonable and yet, profits are made. Unfortunately, the small-transactions ecosystem continues to be cash-dominated,” said Shinjini Kumar, Leader, Banking and Capital Markets at consultancy firm PricewaterhouseCoopers (PwC) India.

She added that most of the licencees are business houses, “So my primary view is that because the payments business will get commoditised soon, it will not be a very high-revenue or high-margin business. So, the value that people want to derive will come from what that business is. At the same time, the overall utility of the economy will be interlinked.”

Initially, they would build more value than the P&L given that the new banks will look at changing the consumer behaviour and the scale, a private banker said.

Successful models

The payments bank model could be viable if technology is used to bring down costs. In different geographies across the world, there are examples of the model being a success — for instance, in Kenya and the Philippines.

Kumar said that given that the ticket size is low in this business model, mainstream commercial banks aren’t usually interested in such activities, which puts payments banks in an advantageous position. In addition, it is argued that savings customers aren’t as sensitive to the interest earned as to the conveniences offered, such as the location of the branch, the cap on transactions and minimum balance.

Experts say this is an area in which payments banks can use technology to reduce costs, while offering various facilities to customers.

Many believe payments banks could be potential disruptors since it’s evident now that technology — mobile technology in particular — can be a game changer, especially since an increasingly large chunk of customers is going to be below 30 years of age.

According to a media report, between Airtel, Vodafone and Idea — all having bagged payments bank licence nod — have 580 million potential customers already.

Also, with no legacy issues, the new players can be more nimble. For instance, they introduced mobile wallets before most conventional banks did — Paytm, which is one of the payment bank licencees, claims to have 100 million users on its mobile wallet already.

Cost of deposits

Concerns may arise over the lack of fixed-deposit products, which could lead to asset-liability woes, as the entire deposit could be withdrawn whenever demanded by the customer.

“Another challenge is the cost of deposits. They will need to pay higher interest to attract deposits and yet, offer almost all-time liquidity for carrying out transactions. While this will not lead to ALM (asset-liability management) issues because of liquid investments on the asset side, lack of fixed deposits will lead to limited product choice for consumers,” PwC’s Kumar said.

ICRA estimates that in the long run, payments banks’ interest spreads are not expected to be more than 3-4 per cent. Payments banks’ ability to serve customers through a low operating cost structure (through the business-correspondent (BCs)-centric model and through use of technology) and to build adequate infrastructure (number of BCs as well as technology to provide convenient and safe transactions) would be a key to achieving profitability. This apart, payments banks’ ability to grow their balance sheet in a significant way would have a critical bearing on their profitability levels.

Payments banks are expected to increase the usage of banking accounts by reaching out to the transactors/depositors. Therefore, their ability to keep transaction costs extremely low and attract adequate deposit balances would be critical for their sustainability. ICRA added that the profitability of payments banks would be highly sensitive to the short-term interest rate as they would need to deploy minimum 75 per cent of the deposits in Government Securities/Treasury Bills of up to one year and the balance maximum 25 per cent in time/fixed deposits with other scheduled commercial banks.

Payments banks are also allowed to become a BC of another bank as well as undertake distribution of non-risk sharing simple financial products, such as mutual fund units and insurance products. These activities could support the earnings profile of payments banks. Further, with digital banking on the top of the government’s agenda, digital banking customers could increase to 300 million with payments banks coming into play. According to a BCG report, about 50 per cent of digital banking customers are keen to try out the new payments banks when they are launched.

While payments banks are likely to complement full-service banks by increasing the number of transactions, they may end up competing with small banks, as there would be some depositor overlap between the two.

State Bank of India chief Arundhati Bhattacharya has expressed concern that if payments banks adopt poaching rates, then many of the commercial banks could lose a portion of their deposits which are relatively lower priced.

To wait and watch

Meanwhile, top private lenders ICICI Bank and HDFC Bank have chosen to keep a distance and watch how the ecosystem builds up. “We have tie-ups with two entities (Fino Paytech and Vodafone M-Pesa) that have bagged RBI’s approval to set up payments banks. We will watch the progress in both and will continue to move forward,” ICICI Bank CEO and Managing Director Chanda Kochhar said.

HDFC Bank’s Aditya Puri said he is already doing the work of a payments bank and hence no tie-up is required.

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