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# Product innovation key for payment banks' success: EY report

By PT1 | Updated: Jul 04, 2016, 09:40 PM IST

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MUMBAI: Low-value investment and goal-based savings products can inculcate a savings habit, which in turn, will prove beneficial for payment banks as well as overall financial system, says a report.

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While savings is core to banking, very few banks have taken an approach towards encouraging [micro-savings](#) or making acceptable savings amounts to near zero, said the report by professional business consulting firm [EY](#) here today.

Apart from micro-savings, the report has highlighted five probable models as alternate revenue streams for payments banks, creating large-scale access to credit, merchant acceptance, marketplace for financial services, data and payments as a platform.

"Innovation in product and service delivery needs to be the key differentiator for payments banks. These players should incorporate deep insights into the evolving needs of their target customer segments to offer relevant products on a very large scale with low transaction costs," [Fali Hodiwalla](#), partner-advisory, financial services, EY, said.

"Key stakeholders within the payments ecosystem the regulators, the government and banks need to collaborate effectively to create an integrated system conducive for the sustained growth of payments banks," he added.

On creating large-scale access to credit, the report says although payments banks are not allowed to lend, they can act as a platform for an alternate mode of credit assessment.

The payments banks could analyse and profile customers on the basis of stability of transactions and outflows to arrive at an assessment of risk, it said.

An ubiquitous merchant acceptance infrastructure, as per the report, is essential for achieving the long-term objective of a cashless society.

Therefore, a merchant-acceptance model, that incentivises customers and merchants to accept [cashless payments](#) and enables payments banks to increase bank balances, would be an effective achievement strategy.

Payments banks could, with minimal effort, cross-sell financial services to their existing user base through their business correspondent network and digital channels to generate additional revenue streams, it said.

Coming on data, the report said upon reaching critical scale, payments banks will generate huge volumes of transaction which could be monetised to build an alternate revenue stream.

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