



(From left) Janalakshmi Financial Services MD and CEO V.S. Radhakrishnan; Mudra Bank CEO Jiji Mammen; Centrum Group executive chairman Jaspal Bindra; IDFC Bank founder, MD and CEO Rajiv Lall; Mint consulting editor Tama! Bandyopadhyay; former deputy governor of the Reserve Bank of India K.C. Chakrabarty; Ujivan Financial Services MD and CEO Samit Ghosh; and Bandhan Bank MD and CEO Chandra Shekhar Ghosh at the 10th Mint Annual Banking Conclave in Mumbai. ANURUDDHA CHOWDHURY/MINT

THE IMPACT OF GOING CASHLESS ON FINANCIAL INCLUSION

BY GOPIKA GOPAKUMAR
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MUMBAI

The government's move to purge 86% of the total currency in circulation through the demonetization exercise may not have yielded any conclusive result in its war against black money but it has pushed millions into digital economy supported by the financial sector.

At a panel discussion at the 10th Mint Annual Banking Conclave held in Mumbai on 23 January, bankers came together to discuss the impact of going cashless on financial inclusion. "Cashless transactions and financial inclusion are contradictory. If you are talking of cashless transactions, it will lead to financial exclusion, not lead

to financial inclusion. You cannot have cashless financial transactions anywhere in the world and if it happens poor will suffer. Even in developed markets, the poor do financial transactions through cash," said K.C. Chakrabarty, a former deputy governor of the Reserve Bank of India.

Chakrabarty, who had steered the financial inclusion drive at the central bank, says cash is the only payment mode that ensures 100% penetration at low cost. Rajiv Lall, founder, managing director (MD) and chief executive officer (CEO) of IDFC Bank, however, believes that a technology-enabled payments service could be the answer to mass banking. Citing the example of Paytm, Lall said that payments are becoming an important service and the first point of contact with the customer in order to build a banking relationship. However, he was quick to add that cash still remains the most convenient

way of doing transactions.

Jiji Mammen, CEO of Mudra Bank, also concurred that cashless economy is the need of the hour. "The segment which is at the bottom of the pyramid only deals in cash. Because of that we don't have transactional history of the person. Banks find it difficult to provide loan to persons at the bottom of the pyramid because there is no data available about them. If you go into digital mode, of course it will take time, over a period of time everyone will come on board," he said.

But Chandra Shekhar Ghosh, MD and CEO of Bandhan Bank, is of the view that the shift to digital will not happen overnight. "When I started 16 years ago, microcredit to offer loan, that time also it was not readily accepted and I was questioned why the loan is given in a simple way, bank is not giving in a simple way, what is your intention. Now when we are

going with new things, they are also asking a lot of questions on that. Down the line, they will understand and this money will be safe in bank accounts. The maximum number of MPI (micro-finance) customers are women but their children are open to digital transactions," said Ghosh.

At a time when most banks are testing different technologies independently or with the help of fintech companies to lure customers, mobile banking by way of smartphones is emerging as the most preferred mode of transaction. According to Samit Ghosh, MD and CEO of Ujivan Financial Services Ltd, smartphones are the ultimate end of the cashless journey. For the time being Ghosh says he believes that the presence of bricks-and-mortar branches helps to build the trust among people. "We had done a research with our segment of customers, trust is very important in banking. To see a bricks and mortar,

even if they don't come there or even if they transact in handheld devices, is very important. Till a certain stage to build that trust, you have to have bricks and mortar," he added.

But majority of bankers agree that the proportion of cash will come down in the system, albeit gradually. "I expect 30-40% reduction in cash and the cash-to-GDP to fall from 10% to 6-7% by 2020," said V.S. Radhakrishnan, MD and CEO of Janalakshmi Financial Services Pvt. Ltd. Having said that, Radhakrishnan says he believes that smartphone banking is not going to pick up as long as digital costs remain high. It's not digital transactions alone that will drive financial inclusion. According to Jaspal Bindra, executive chairman of Centrum Group, banks still consider financial inclusion as an obligation and not as an objective and there needs to be a change in mindset.

Demonetization exercise has pushed millions into a digital economy supported by the financial sector

Is the banking system overlooking key challenges in its rush to go digital?

BY VISHWANATH NAIR
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MUMBAI

The Indian banking system is quickly going digital, but in the rush to adopt technology and usher in a cashless society, is the system overlooking key opportunities and challenges? This was topic of discussion at the 10th Mint Annual Banking Conclave, which was held in Mumbai on 23 January.

The panel discussing the issue included V. Vaichyanathan, founder and executive chairman, Capital First Ltd; Anup Purohit, chief information officer, Yes Bank Ltd; Naresh Makhijani, partner and head-financial services, KPMG; Vijay Mukhi, cybersecurity expert, and Venkatesh Hariharan, director (fintech), ISPIRT.

According to Vaichyanathan, the Indian banking system is currently going through one of its toughest changes. "With the current change coming in, a number of existing players could find themselves flat-footed and a number of new players such as payments banks, mobile wallet companies could be coming in. To innovate, this one is going to be a more difficult climb," he said.

Purohit, the only banker on the panel, claimed Yes Bank had managed to improve digital payment options for its customers by taking the whole payments infrastructure outside the bank's internal systems.

"We focused on API (application programming interface) banking where we said that our customers will not use Yes Bank systems. Our customers will directly use it on their own systems as we have implemented our API on their corporate ERP (enterprise resource planning)," Purohit said.



(From left) ISPIRT director (fintech) Venkatesh Hariharan, Capital First Group founder and executive chairman V. Vaichyanathan, Mint technology editor Leslie D'Monte, Yes Bank chief information officer Anup Purohit, KPMG India partner and head (financial services) Naresh Makhijani and cybersecurity expert Vijay Mukhi at the 10th Mint Annual Banking Conclave. ANURUDDHA CHOWDHURY/MINT

Hariharan—whose ISPIRT, a think tank that also produces digital solutions for the Indian banking sector, to target customers with an annual income of Rs2-5 lakh—said that a few large public sector banks

have already started implementing digital solutions to adapt to newer technologies and are trying to open up a large base of customers. He pointed out that working with banks had not been an easy ride.

The problem, he said, was that the banks were unwilling to employ something new quickly and integrate it into their processes.

"For example, we have been talking

about e-KYC (electronic know-your-customer) for years. The thing is that if you take paper-based KYC, the cost of acquiring customer is about Rs1,000, but with e-KYC this cost is at about Rs60, which

can further be brought down to Rs5," Hariharan said.

The best way to move forward with digitization would be to embrace cryptocurrencies and blockchain technology, said Mukhi.

According to Mukhi, this would easily weed out any security concerns at banks and ensure that hackers do not get access to people's money.

"We will solve our cybersecurity problem if we use cryptocurrencies in our banking systems," Mukhi said.

Going ahead, banks would be looking at alliances with specialists to take digitization forward, predicted Makhijani of KPMG.

"It is difficult for a bank CIO to take a decision since there are so many types of technology available. It would largely depend on vagaries of their businesses and they may not want to do everything alone," Makhijani said.

A challenge that the banking system faced was that with so many developments happening in the financial technology space, many of the innovations might be getting bypassed, said Vaichyanathan. Focusing on certain things such as scanning of multiple documents through fiber optic technology might not even be necessary, since most application and complaint processes had now been automated.

Vaichyanathan also urged bankers to make more efforts to popularise the unified payments interface (UPI).

The panel also discussed the banking sector's handling of demonetization, where large queues were seen outside branches for many days.

According to the panelists, while banks handled the situation well, issues were also caused due to the minds of the average customer who doesn't fully trust digital payment options.