India and Subcontinents Regional Conference

WRAP-UP REPORT

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What can you do by piggybacking on technology? Open 220 million bank accounts in less than two years across diverse geographies? Make micro payments without using a card? India has demonstrated the might of central infrastructure in assisting varied market participants to swiftly move ahead with financial inclusion.

The unique public infrastructure available in India in the form of AADHAR enabled e-KYC framework, e-signatures and digital locker along with the Unified Payment Interface enable high level of digitisation. Banks and new financial technology start-ups have been able to make deeper inroads into financial inclusion by leveraging on this architecture.

"For the last three years the agenda for financial inclusion was opening bank accounts. Now that 99% of households have a bank account due to the Pradhan Mantri Jan Dhan (PMJY) initiative, the challenge before the Indian Banking industry is to get the vast majority of them transact. The government has transferred subsidy benefits worth Rs 36,000 crore during the first year of operation, which would lead to growth in transactions initially via cash gradually moving to electronic payments," said A P Hota, Chief Executive Officer, National Payments Corporation of India at the SWIFT India and Sub-continents Regional Conference 2016.

Emergence of new systems

New systems and infrastructure creation is constantly being explored either by regulators themselves, large market participants or global players. Eddie Haddad, Managing Director, Asia Pacific, SWIFT and President SWIFT India Domestic Service Pvt Ltd. recalled how SWIFT went live with RTGS and bank to bank messages with 15 customers in India, which included partner banks, non-partner banks in March 2016. SWIFT India is a joint venture created by SWIFT SCRL (Society for Worldwide Interbank Financial Telecommunication), the global banking cooperative, and nine partner banks to address domestic market needs of the Indian financial services industry.

"The platform is not just for payments, but it can handle any kind of messages be it financial, cash management, funds distribution etc. This month we would be conducting pilots on new message types across the platform," Haddad explained during his address.

India has been offering IMPS where money transfer can happen 24x7 and is now exploring how to take it to the next level through Unified Payments Interface (UPI). The mobile financial service platform of UPI would enable micro payment to go digital. For instance, payment for a bus ticket has traditionally been a cash payment and with UPI that can happen digitally at the speed of cash. A National Payment Mobility card is being mulled to make road toll payments digital.

"Under UPI a person is given an email address like identity and he/she can transact at the tap of a button where he is led through a two-factor authentication, with the experience of a 1-factor authentication," says A P Hota, Chief Executive Officer, National Payments Corporation of India about the UPI model, which has been praised by RBI Governor Raghuram Rajan calling it the best public payment infrastructure in the world.

He says the India Inc. is eagerly awaiting the launch of UPI later in June 2016 as they would be able to connect with each and every bank, they would see better dispute management and automation of tremendous manual activity.

Payment Banks

Another set of new entrants in the financial space are the Payments Banks, for which the regulator has recently doled out 11 licenses. Talking about the role of these new payment facilitators, H Srikrishnan, Chief Executive Officer, Proposed Reliance Payment Bank, said that payment banks would be ensuring that one doesn't have to go to ATMs, face no queues for tickets and there is no need to pick up the phone and order food. "If you forget your wallet at home and aren't carrying any debit or credit card you can still travel from Mumbai to Navi Mumbai and back if you just have your smart phone with you," Srikrishnan explained in his Keynote address.

Such payment banks would also reduce the cash in circulation, thereby reducing enormous costs involved in manufacturing, storing and handling cash apart from the threat of counterfeits and the resulting economic losses.

Ease of digital payments would also inculcate savings culture and help individuals earn on money that usually lies idle in their hands out of the banking system.

"Typically a person uses an ATM about 7-10 times in a month. As a result, Rs 70,000 to Rs 1 lakh worth of funds move out of the banking system and into the hands of people you deal with daily. This amount has the potential to earn – not much – but at least an amount equivalent to your bank account for millions of recipients," said Srikrishnan, who says they would use predictive spend analysis to help its users save for a goal.

As a result of several fintech startups entering the market, banks have been ramping up innovation and ease of access, keeping a close watch on costs. "With the emergence of fintech start-ups, we are feeling threatened and are constantly looking for ways to do more. We provide the trust of a bank, but think and work like a fintech," says Mrutyunjay Mahapatra, Managing Director and Chief Information Officer, State Bank of India.

India numbers

No doubt then that India and the Indian Subcontinent leads the pack with 14% plus growth in financial traffic in payments, securities, treasury and trade messages when compared with Europe, Middle East and Africa as well as the Americas as per the India Traffic Insights number referring to year to date April 2016. In a year the region sends 138 thousand messages a day on the SWIFT network, translating to more than 32 million over a year.
A sporadic growth in these numbers is expected as the country goes all guns blazing with the goal of financial inclusion.

"We have done a lot on access to banking through financial inclusion initiatives, but not brought them into mainstream. Rural India is not accessing their accounts and hence only about 10-15% of citizens are able to utilise the innovation in banking. The challenge is to enable the balance of the population to utilise the benefits," as per Mohan Tanksale, Chief Executive, Indian Banks Association.

A panel on Evolving Dynamics in The Indian Subcontinent Payments Markets discussed the parameters that would determine the success of digital payments in India and the Sub Continent.

Ashutosh Kumar, Managing Director, Transaction Banking Regional Head, South Asia, Standard Chartered Bank, enumerated, "The success of e-payments would be how readily it is acceptable as currency. UPI would bring better acceptability. To reduce cash in the system, the digital payment should be one touch, easy and cost effective. We can see how costs play a role in the acceptance of an ATM card vs credit card. If the costs are high, the channel would fail."

H Srikrishnan, Chief Executive Officer, Proposed Reliance Payment Bank

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India at the cusp of payments revolution (continued)

Alain Raes, Chief Executive, Asia Pacific & EMEA SWIFT

“Whilst we are all embracing Digital Transformation, here in India, financial institutions are sometimes challenged in their own ways because Start-ups are nimble whereas we, Financial Institutions, already have a fixed cost base, therefore there’s a lot of pressure.

Security

While innovation is essential for financial inclusion and to drive electronic payments, innovation shouldn’t be at the cost of compliance, discussed participants from across the SAARC region. Security breach could lead to remorse and loss of trust among users.

A possibility of lower security standards for small payment enabling e-wallets, which are easy to use but a little less secure than a bank account too was touched upon.
Though the regulators are open to new structures, the focus remains on secure transactions. A case in point is central bank RBI’s stance on peer-to-peer lending, where the bank hasn’t allowed lending if security features and KYC is compromised.

Another SAARC member country has taken a strong stance of allowing only banks to offer innovative products owing to security concerns.

“Even though Bhutan is comparatively less populated, it is only the banking industry which is allowed to introduce products. Any financial technology initiatives by non-banks aren’t currently permitted in the country because the non-banks are not regulated and there could be problems on the security front,” divulged Kesang Jigme, Oversight Officer, Payment and Settlement Systems Department, Royal Monetary Authority of Bhutan (RMA).

Even though there are smaller regions and smaller banks within those regions none are shielded from the prying eyes of fraudsters. This is evident from the experience of Nepal. “We were of the view that big banks in big countries are prone to cybercrime attacks. But we were mistaken when we saw the account details of customers from a couple of banks in Nepal were divulged online. Since then a security audit is mandatory for all banks, two-factor authentication is compulsory,” said Ashoke SJB Rana, Chief Executive Officer, Himalayan Bank.

But security at the dispense of ease of use would put off users rather than attract them to the channel. “There is a thin line between security and ease of transaction. If we create too many firewalls and too many layers then the costs shoot up and the customer value is subdued. Tools for preventing security and enhancing customer experience haven’t kept pace. At SBI we have 40 security tools. SWIFT could step in to offer innovation on security at the same time improving customer experience,” says Mrutyunjay Mahapatra.

Keeping Costs Low

Offering high-notch security and ease of use would all be futile if the entry and transaction costs are too high. Financial intermediaries would have to keep costs under check at all junctures.

“Whilst we are all embracing Digital Transformation, here in India, financial institutions are sometimes challenged in their own ways because Start-ups are nimble whereas we, Financial Institutions, already have a fixed cost base, therefore there’s a lot of pressure,” Alain Raes, Chief Executive, Asia Pacific & EMEA SWIFT rightly pointed in his Welcome Address.

The benchmark for digital payment costs should be at least lower than the cost of printing and circulating currency presently. Apart from the costs involved in printing currency notes, there are other ancillary and hidden costs involved such as handling all the cash, insurance, reprinting and security feature additions, which should be considered. As per the numbers shared by RBI more than Rs 4,000 crore are spent annually in printing and distributing notes and coins. From a short-term perspective in financial inclusivity, low usage costs could drive volumes, which would help build a market. A case in point is the SMS vs the messaging apps.

Adoption to new technology would be efficient if the bottom of the pyramid is targeted, suggested regional players. “With cash we need to target the low value transactions. In Sri Lanka we observed that 80% of payments are low value dealing with less than Rs 10,000. Even if we are able to extract 10% out of this, we would be able to bring 10 billion Sri Lankan rupees worth of cash back into the bank,” said Channa de Silva, General Manager and Chief Executive Officer, LankaClear (Pvt) Limited about the Sri Lanka experience.

Future of payments

Asked how the payments landscape will change over the next 10 years, the panelists gave a peek into what the future of technology holds through an example of how a grocery store transaction would look like. While most expect it to be a tap and go experience, Ashutosh Kumar of Standard Chartered Bank said, “As soon as I get off the car, a grocery trolley would know what I want, I would just have to punch a biometric to verify, pay and walk out of the store.”

Channa de Silva went a step ahead and elucidated, “The phone would know where I am, so it would indicate the merchant I should go to, I pick up the items and I get a message that the purchase transaction has been done. Thus the burden of adoption and offering best payments option would be on the merchant. They would be forced to adopt smarter and convenient payment options for better access to consumers.”

The entire conference was visually elucidated by an artist in an easy to apprehend way, while participants took a leaf out of the engaging discussions to improve regional connectivity through harmonisation and use of global communication standards tagging along on common infrastructure instead of rebuilding the bridge everytime a new entity crosses the same path. •

A P Hota, Chief Executive Officer, National Payments Corporation of India

“Under UPI a person is given an email address like identity and he/she can transact at the tap of a button where he is led through a two-factor authentication, with the experience of a 1-factor authentication.

Co-opetition and not competition would drive the way

With the regulators opening their arms and digitisation giving way to electronic financial transactions, several financial technology start-ups (Fintechs) have sprung up in the SAARC region. A significant concern discussed at the SWIFT India and Sub-Continents Regional Conference 2016 was whether these Fintechs would snatch away the bread and butter of banks.

"You need to have a huge appetite to eat a banker's lunch. We have a sufficiently large pie for all. There is no threat to banks," remarked Mohan Tanksale, Chief Executive, Indian Banks Association during the panel discussion on The Rising Importance of Digital Technology within SAARC.

Experts pointed out that in India there are 5 lakh villages that have a population of less than 2000, which need to be brought to mainstream. "If fintechs decide to venture into areas where banks are using banking correspondents then there is tremendous potential for collaboration. Banking industry is fully aware and prepared of the onset of fintechs. The motive is not to protect their customers but to retain them," Tanksale reiterated.

But competition always improves the market and drives innovation and the banking and financial services industry is no different. "Though fintechs are going to take away a pie, but they are going to expand the market. The market is exploding in remote locations with high unbanked population. May be they don't want the full-fledged service of banks, but just want payments," said Rohan Muttiah, Chief Operating Officer, National Development Bank in Sri Lanka.

However, the fintechs cannot take away much from banks as there is a trust factor which comes with banks, which cannot be denied the panel deliberated. As Mrutyunjay Mahapatra, Managing Director and Chief Information Officer, State Bank of India, expounded, "Survival and growth co-exist. However, when we talk about blending in various offerings and creating a package, no one can do it as a bank can. At SBI anyone accessing the SBI online account is offered a spend analyser, which is a black box that contains all the details across banking, online trading, etc. In one single screen you can see your entire financial portfolio."

Fintechs have a lean structure and do not have the legacy technological infrastructure to handle, which leads them to start performing immediately if need be. But the larger banks and intermediaries face a problem of adapting to technological innovations while keeping costs under check.

"Financial institutions cannot get rid of their existing infrastructure. There is still a base of existing customers to serve, which means there are lots of pressure to look for every way to reduce costs. What will financial institutions do in terms of that infrastructure? Will they renew, build around it?" asked Alain Raes.
The finance industry needs to take cognizance of the fact that with the presence of fintechs the landscape would be driven by co-opetition and not competition.

"Our charter is not to compete with banks. We aren't reinventing a new wheel, but we are just creating a few more wheels to help the wagon run faster and we want to ride on the infrastructure that has been built such as NPCI, SWIFT," said H Srikrishnan, Chief Executive Officer, Proposed Reliance Payment Bank. •

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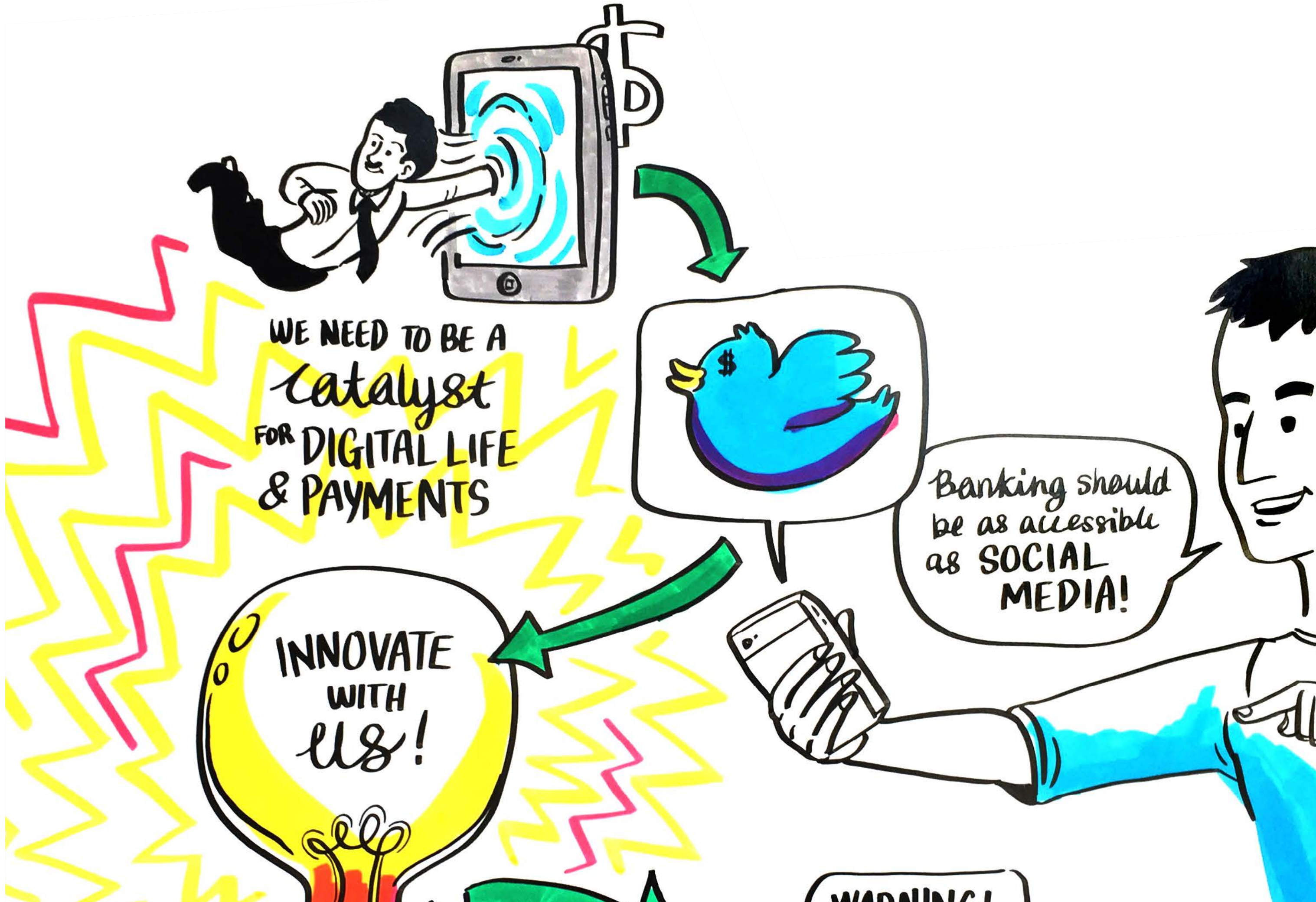

Indian corporate debt market seeks paperless solution

The Securities market reforms took place in India much after the western region counterparts. However, the region has evolved faster on the adoption track. The equities market in India has been following a T+2 settlement cycle for equities for 13 years now and has also initiated T+0 trade cycle for institutional investors.

However, the trades in the corporate debt market are handled using obsolete technology, with physical papers moving between the bank, corporates and investors, lamented participants at the session exploring the Securities and Market Infrastructure Landscape in India and Subcontinents.

"In the corporate debt market, trades are manual even though it has the shortest settlement cycle," noted Vikas Tandon, Director, Transaction Banking, Standard Chartered Bank.

Elaborating on the need for digitisation of corporate trades, Soumyajyoti Paul, Vice President Finance, Reliance Industries Ltd said, "Though high level of digitisation is practiced in treasury, trade is an area where we are stuck in practices of the 1990s era. Negotiable physical documents of value move between clients, banks and the corporate. Trade has numerous touch points."

Corporates and banks dealing with them unanimously agreed that trade is an area where SWIFT can help corporates ensure that there is no need to switch to different technology to meet the requirements of different entities.

SWIFT along with SEBI can replicate the equity market success in the corporate bond market. Expanding on the need for a digital infrastructure provider in the corporate debt arena, Samir Dhamankar, Director, Investor Services India, Global Securities Services, Deutsche Bank, said, "SWIFT messaging standards have a lot of scope in the G Sec market where there are a variety of participants and everyone has a different market."

The problems in dealing with tremendous paperwork involved between multiple participants for corporate trades spilled over to the next panel discussion on Trends in Corporate to Bank Relationships too. Here, Suresh Kumar, Treasury Manager, ITC Ltd, stated, "There are so many counter parties that we need to interact with. There are payment messages from individuals, some vendors, mutual fund investments that we deal with on a daily basis. Communicating with each of these partners is different. If all the communication is routed through SWIFT, wherein both us and maybe for instance the mutual fund house too used SWIFT then handling messages would be easier for us."

Apart from multiple local connections, several corporates deal with clients and vendors globally. As Ganesh Subramaniam, CIO, Amicorp Management Ltd, points out, "We operate in 32 countries and each country has a different standard, the spreads are thin. Under treasury consolidation, we are looking at a solution as each country has a different ERP system, different currency denominations. We want to see everything in a single screen."

Not just corporates, but even banks have been facing the problem of plenty when it comes to file formats and paper work involved in dealing with trades while catering to Indian corporates. "As a bank we have identified touch points with corporates and built solutions around it. Corporates as consumers have their own consumers and the technology used is host to host, the file formats are different. A paper has to go through the client to us and then back to the corporate again. SWIFT can make that process easier," explained Mohit Narula, India Implementation Head – Trade & Treasury Solutions, Citibank.

This standardisation could bring in a meteoric rise in communication and adoption of new standards the panel concluded. But Vikas Tandon of Standard Chartered Bank said that duplicating the equity market infrastructure would have its own challenges as seamless execution is missing in several areas. Inter linkages between broker and corporate and back to custodian are not available like in Singapore and Taiwan, he added.

A third party involved in the digital messaging system would also help corporates handle discrepancies. "In the traditional system, the paper was available as proof. In the digital system the register is missing. So, when the XML says we sent 100, while the counter parties log shows 1000 what do we do? Once SWIFT comes in we would have an independent third party who can help us find what happened," said Kumar of ITC.

Improving security through a global infrastructure provider enhances the value-proposition for bank clients. Security is high on the minds of both banks and corporates alike. "In the financial transactions space, everything is influenced by security and innovation. For a bank if they can provide value to the customer in a secure way, at a low cost and focus on innovation then the bank can become the leader. We are the first private bank to join the global payments innovation initiative of SWIFT and what we do with SWIFT would shape the value proposition," as per Sourabh Palit, Product Head – Corporate Digital Channels, ICICI Bank.

The region is likely to see more banks hitching onto GPII and improving the communication channels to enhance customer experience because when one bank integrates, the other banks too would need to change. With SWIFT, onboarding for banks would be easier. •

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Standardisation essential to keep costs under check

Although the SPC-SAARC Payment Council has been operational for 8 years now, ask any participant at the SWIFT India and Sub-Continents Regional Conference 2016 about what has been hampering the progress of the region and a unanimous answer you would hear would be lack of standardisation.

Harmonisation is what will help in quicker adoption of technology and new process anywhere in the world. Success of any payment services is impacted due to lack of standardisation and systems keep running in silos thereby making integration difficult to achieve.

Standard procedures, common file formats, shared infrastructure would shift the focus of financial intermediaries from reinventing the wheel to other essential tasks and improving efficiency.

An emerging solution from the discussion on The Rising Importance of Digital Technology within SAARC was to have a handful of initial entities who invest in the fixed cost infrastructure and then the other allied systems should tag onto it.

This would help in reducing the cost of transactions to the end user. Ashutosh Kumar, Managing Director, Transaction Banking Regional Head, South Asia, Standard Chartered Bank, said, "To make a product cost-effective harmonisation is quintessential. Cross-border payments in the region too would fillip with harmonisation, which would lead to lower costs and improved usability of channels."

Adopting global standards

Adoptions of globally acclaimed and widely used formats would enable faster adoption. Regulatory intervention and innovative public infrastructure would act as a catalyst to standardisation. India has taken a step forward in this direction. "RBI has instructed that by 2016-17 we must all move toward ISO 20022 for funds messages. UPI has standardised a lot of things. But globally mobile payments have not reached a level of maturity for standardisation," A P Hota, Chief Executive Officer, National Payments Corporation of India.

But accepting ISO 20022 wasn't a solution for a regional player - Nepal. They addressed the issue with a unique proposition. "In designing technology for messaging, ISO 20022 format is widely accepted, but when it comes to localised payment system and integrated core banking, ISO 20022 would be difficult," revealed Neelesh Man Singh Pradhan, Chief Executive Officer, Nepal Clearing House Limited.

As a result the country allowed banks the freedom to choose between MT or MX or ISO 20022. "The banks' components are centrally hosted, which lowers the cost of operations for banks. Later the APIs can be integrated. It is just the front end that needs to be integrated. But international RTGS follows ISO 20022 format and hence for interbank payment system if they follow the global standard then it would be a stepping stone to wider adoptability of ISO 20022," Pradhan added.

Legacy structures

Though global standard can be adopted where new structures are being created, the inter linkages of new systems with old structures is often a sore point for technology officers to deal with.

Mrutyunjay Mahapatra, Managing Director and Chief Information Officer, State Bank of India, pointed out, "India has progressed a lot on the technology front. But the challenge is changing the legacy process. One can't just throw out an old system and move over to a new system. Large organisations like SBI today have 10 competing systems operating in 10 different work areas."

Existing turf holders have their own proprietary technology which has to give way to open face, which involves re-designing, re-architecture. Small stake holders will resist change in technology as they would be of a view that bigger companies are taking them for a ride.

The panel concluded that in terms of design partners like SWIFT should ideally device plug and play model instead of throwing away old architecture.

SWIFT provides messaging services to domestic market infrastructures, banks and corporates, enabling the financial community to exchange automated, standardised financial information securely and reliably, thereby reducing costs and risks, improving compliance and services to its customers.

Cross-border payments

Collaboration is what has helped India and Bhutan enable electronic cross-border transactions and even enable card acceptance in the region, says Kesang Jigme, Oversight Officer, Payment and Settlement Systems Department, Royal Monetary Authority of Bhutan (RMA). "In 2007 we moved from clearing cash register to electronic cash market transactions. We have integrated with RBI for NEFT payments across the border. The sporadic India-Bhutan tourism growth is leading to growing card acceptance, wherein cards issued in India are accepted in Bhutan. All banks in Bhutan are connected and we are able to offer cashless transactions, which have grown from 90,000 to 3 lakh," Jigme enumerated.

However, neighbouring country of Nepal raised concerns over lack of collaborative efforts on a cross-border electronic payment channel to facilitate remittances from expatriates in India. Ashoke SJB Rana, Chief Executive Officer, Himalayan Bank, lamented, "We have a lot of cross border transactions with Bhutan. With India, though we have rupee acceptance remittance is an issue. There are about 5 million Nepalese in India, who aren't able to transact through legal channel. The Central Bank is considering a digital payment platform to ease remittance." Whether driven by regulators or member nations, harmonisation is the way forward for the SAARC nations. •

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