

Banking & Financials Sector

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RBL Bank ahead of even key large banks on digital strategy

We recently met Mr. Sameer Singh Jaini, CEO of The Digital Fifth and Ex-CTO of DCB Bank to glean incremental insight into fintech and digital strategy and how these are expected to impact the BFSI sector going forward. We share our takeaways below.

Zero MDR rule does not apply to credit card businesses of banks

- Nil merchant discount rate (MDR) announced by the Finance Minister in the recent Budget speech is applicable only to debit card businesses of banks and not their credit card businesses.
- On being asked whether merchants would ask customers to pay using debit cards instead of credit cards going forward, the expert averred that, at the margin, this may happen to a limited extent but customers would largely hold sway in terms of what they would prefer to use.

The long-term potential loss of credit card fee income can be significant due to the advent of payment systems such as Google Pay

- Payment systems such as Google Pay, which are not banks, need a bank to sit at their back-end in order for the payment to be made.
- However, an entity such as Google Pay may have significant bargaining power when they sit across the negotiating table with banks and take a major share of the fee pool charged to the merchant.

Partnerships are key to win in the fintech war and, in this regard, RBL Bank seems to have done a good job

- For example, the key to win the POS battle is to tie up with POS machine providers as it is these providers that happen to be acquiring the merchants.
- RBL Bank has done a good job in terms of tying up with POS machine providers and this is the reason why they have been able to add a high quantum of POS machines.
- In general, in the view of our Expert, RBL Bank seems to be ahead of the game in terms of digital strategy, even compared with the large banks with the best digital strategy implementation.

That POS machine providers are an important part of the eco-system is reflected in the fact that they are able to take a major share of the overall fee income pie

- POS machine providers are able to take 40% plus of the fee income charged to merchants during debit card transactions.
- The issuer bank is able to charge ~40% while the remaining ~20% is shared between the payment gateway (Visa, Mastercard, etc) and the bank of the merchant.

Acquiring liability customers purely digitally is a valuable proposition from a cost savings perspective

- The cost of acquiring liability customers through traditional means runs into a few thousand rupees per customer.
- In comparison, the cost of acquiring a customer purely digitally, on a purely operational basis, excluding marketing cost, could be less than Rs 100.
- To that extent, the strategy of Kotak Mahindra Bank in acquiring savings account customers via their 811 offering could prove to be effective from a long-term perspective.

Fintech disruption of life insurance manufacturer revenue seems to be limited as of now

- While sourcing entities like Policybazaar have the potential for disruption but they would be similar to other sourcing channels in terms of charging commissions.
- So far, the structure of the life insurance industry does not seem like it would allow fintech players to become major players in the manufacturing of life insurance.

Yes Bank's UPI success has largely been on the back of partnerships

- Yes Bank has been able to achieve significant success when it comes to UPI transactions since it has stitched up partnerships with key players such as PhonePe, which, in turn, have pulled in merchants.
- It remains to be seen to what extent Yes Bank is able to monetize the customer data acquired via the UPI transactions. It would depend on how rich the data sets are. In the understanding of the expert, the bank balance of the customer is not allowed to be accessed.

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