

PAYMENTS BANKS COULD BE UNBANKED INDIA'S BANKING SOLUTION

HOW PAYMENTS BANKS ARE HELPING RURAL INDIA EMBRACE DIGITAL TRANSACTIONS

- In India, just 63% of adults have access to the formal financial system. Financial inclusion in rural India, which houses 70% of the country's population, is even less.
- Rural India's need for financial inclusion is urgent, as rural people who migrate to larger cities often need to be able to remit money back to their families. Also, rural India is not well catered to by traditional banks, because of their distance and non-viability.
- In the aftermath of demonetisation, remittances by migrant workers can be difficult, as India's economy is largely dependent on cash.
- Payments banks, which offer electronic remittances, financial advisory, online banking and more, offer immediate value to unbanked consumers.

A large chunk of India's population lies on the outskirts of the formal economy. Living in far-flung corners of the country, illiteracy and a lack of connectivity are common reasons why consumers in these areas remain unbanked. Moreover, banks in rural areas are few and far in-between, making it difficult for many people to reach them during working hours. The government, however, is making efforts to broaden financial inclusion and has recently introduced several programmes to address these obstacles, including *Jan Dhan Yojana* and Smart Cities.





IMPETUS PROVIDED BY DEMONETISATION

In November 2016, the government announced the demonetisation of high-value currency in India, leading to prolonged cash shortages and disruption in the economy.

While there were several objectives behind the demonetisation, increased digitisation and the integration of the formal and informal economies were among those that began to take shape. The shortage of hard cash for daily purchases led to the quick adoption of e-payment portals, e-wallets and digital transactions. Additionally, the cash volatility encouraged people to warm up to the concept of payments banks.

This adoption of digital transactions, however, was primarily taking place in the urban areas, largely because companies enabling digital transactions, like e-wallets, e-portals etc. hadn't covered rural areas till then. As a result, consumers in the hinterland felt the effects of demonetisation more severely. In fact, as much as 38% of the rural population didn't even have bank accounts.

WHILE THERE WERE SEVERAL OBJECTIVES BEHIND THE DEMONETISATION, INCREASED DIGITISATION AND THE INTEGRATION OF THE FORMAL AND INFORMAL ECONOMIES WERE AMONG THOSE THAT BEGAN TO TAKE SHAPE. THE SHORTAGE OF HARD CASH FOR DAILY PURCHASES LED TO THE QUICK ADOPTION OF E-PAYMENT PORTALS, E-WALLETS AND DIGITAL TRANSACTIONS.

PAYMENTS BANKS FACILITATED THE MOVE TO A FORMAL ECONOMY

Rural India houses 70% of the country's population, and financial inclusion in these parts is far lower than it is in urban areas. Rural India's economy is largely dependent on cash, and remittances from migrant workers to their families back in the villages became very difficult in the aftermath of demonetisation. But with the introduction of payments banks¹, rural consumers were able to properly join the formal economy and access electronic remittances. Neighbourhood retailer-based daily transactions, remittances with negligible fees, and interest on deposited money, benefitted rural areas immensely.

THE DOMESTIC REMITTANCE OPPORTUNITY FOR THE RURAL ECONOMY

Remittance, or the transfer of money between two people (rather than a payment for goods or services), is a basic financial activity for many rural Indians; it's also a key untapped business opportunity for players looking to facilitate the abundance of money transfers. Payments banks can provide a ready solution to the current domestic remittance scenario.

There are 120 million migrant workers in India, and more than 80% live in the inadequately connected rural areas. Additionally, migrants who hail from villages but work in towns and cities make 80% of the country's domestic remittances.

According to the National Remote Payments Survey by National Council of Applied Economic Research, and additional insights using Nielsen's forecasting technique, domestic remittance in India is valued at more than INR 900 billion per year, including non-traditional² modes of transfer. Rural India's contribution is over INR 700 billion per year.

¹A payments bank is like any other bank, but operating on a smaller scale without involving any credit risk. It can carry out most banking operations but can't advance loans or issue credit cards. It can accept demand deposits (up to Rs 1 lakh), offer remittance services, mobile payments/transfers/purchases and other banking services like ATM/debit cards, net banking and third party fund transfers.

²Traditional transfer refers to institutionalised modes like banks, non-banking financial institutions, wallets, online modes, cheques, money transfer, licensed remittance players, etc. Non-traditional modes include friends/ families, unregistered agents, unknown people from same/ nearby villages etc.

Of the INR 700 billion worth of domestic remittances that happen in rural India, traditional channels comprise a mere 40%, or INR 300 billion. The rest of the remittance happens via non-traditional remittance modes. Given the high risk of non-traditional remittance modes, there is a huge scope to expand traditional remittance avenues like payments banks.

GEOGRAPHICAL SPREAD OF DOMESTIC REMITTANCE

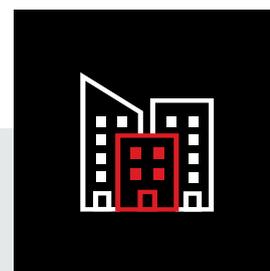


86% of remittance households based out of rural areas.



RECEIVER REGIONS:

Bihar and UP account for **60%** of receivers. AP, Chattisgarh, Odisha and Jharkhand are other key receiver regions.



SENDER REGIONS:

Mumbai, Delhi and Kolkata are cities with most migrants. Gujarat, Maharashtra & Punjab are states with most migrants. Kerala and TN are new migrant destinations due to higher wages.

ONLINE DOMESTIC REMITTANCE FOR RURAL INDIA

Currently, the penetration of mobile phones in SEC D and SEC E in India is a meagre 18%. So, only a fraction of remitters use online modes of money transfer as of now, thereby presenting a big opportunity for online remittance players. Payments banks are again in a prime position to enable this transition to digital modes of transfer along with the Bharat Interface for Money (BHIM) app and other apps that facilitate remittance. They're designed to help rural users conduct cashless transactions and convenient remittances. Digital Wallet companies and banks providing credit and debit cards can also facilitate online transactions, but their adoption and growth in rural India is still low in terms of absolute figures.

PAYMENTS BANKS ARE POISED TO ENABLE RURAL FINANCIAL INCLUSION

	PAYMENTS BANK			REMITTANCE APPS/COMPANIES	BHIM APP
	TELECOM AND WALLETS	POST OFFICE	FINO		
BANK BACKED (NEFT/RTGS/UPI USED)					
PROMOTIONS BACKED BY GOVT./ GOVT. ENTITY					
STRONG CHANNEL PRESENCE/EXTENT OF PHYSICAL PRESENCE					NA
WORKS ON FEATURE PHONE					
CAN BE USED WITHOUT PERSONAL MOBILE INTERNET					
REMITTANCE BASED STRATEGIC INITIATIVES					
ADDITIONAL SERVICES (SHOPPING/PAYMENTS/CASH BACK)				LIMITED	

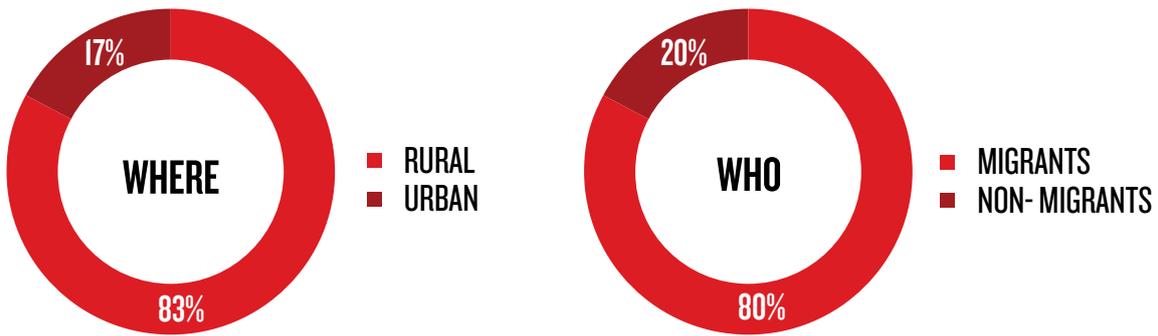
Source: Nielsen

UNDERSTANDING THE AUDIENCE

Typically, family members of households involved in remittances are less educated, with approximately 70% of their chief wage earners being illiterate or educated only up to the primary level. Another characteristic of these households is that one or more of the younger family members typically migrate from rural areas to urban labour markets, industries and farms in search of better work prospects, thereby becoming a part of the 120 million migrant labourer work force.

Low on both awareness and access, ~ 50% of such families transfer money through risky non-traditional channels like friends, family, unknown persons and agents. The risks involve high chances of thefts, cheating and significantly higher transaction rates.

PROFILE OF THE DOMESTIC REMITTANCE CUSTOMER



Source: National remote payments survey, March, 2014.

THE WAY FORWARD

Beyond remittances and transactions, payments banks can add considerable value to unbanked consumers and facilitate financial inclusion.

Specifically, payments banks:

- Can make deposits and withdrawals more accessible at neighbourhood retailers, post offices and payments bank branches. Even in situations where there are no physical access points, consumers can use mobile phones for basic transactions and remittances.
- Allow consumers to make cashless digital transaction at outlets, reducing cash burden and chances of theft.
- Facilitate multiple accounts (i.e., savings or current accounts). Payments banks also provide interest on accounts maintained, unlike mobile wallets.
- Online banking and basic financial advisory.

Alongside these benefits, however, there are some drawbacks as well.



**BOTH PARTIES INVOLVED IN PAYMENTS BANKS
TRANSACTIONS NEED MOBILE PHONES AND PAYMENTS
BANK ACCOUNTS.**



**PAYMENTS BANK TRANSACTION VOLUMES ARE LOW,
WHICH MEANS MORE AVENUES OF SPENDING NEED TO
BE CREATED. AN INCREASED VOLUME OF TRANSACTIONS
WILL GIVE PEOPLE A REASON TO STAY CONNECTED.**

The big opportunity for the future is for payment banks as well as manufacturers in general, to keep pace with the inevitable growth in digital adoption and tailor marketing efforts to the newly included sections of society.

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ABOUT NIELSEN

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The background of the entire image is a vibrant red color with a series of horizontal, wavy lines that create a sense of depth and movement, resembling a topographical map or a series of ripples in water.

nielsen

THE SCIENCE BEHIND WHAT'S NEXT™