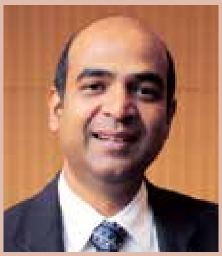
## Consolidation in

# The Financial Services Industry



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The RBI has taken many steps in the last few years to increase competition in the Indian financial services space. Its main purpose has been to force the industry to offer innovative new products and technologies, and to bring financial inclusion to rural areas. However, this has also resulted in increasing consolidation in the industry, as well as a growing overlap of products being offered by various players.

In 2014, the RBI invited applications for universal banks, and consequently, two new banks came into existence – IDFC Bank and Bandhan Bank. A year later, it permitted Small Finance Banks, but of the 72 entities that applied, only 10 were given the go-ahead. Payment-bank applications were also opened up 2015. 11 players were shortlisted, and a few of these have already launched operations. On aggregate, then, 23 new banking licenses – including in-principle licenses – have been issued in the last few years.

### New banking technologies: showing the way

The RBI has achieved its objective of inducting fresh blood into the banking industry, with many of the new banks introducing cutting-edge technologies. Bank accounts can now be opened via e-KYC using only an Aadhar number and fingerprint or iris authentication. Kotak Bank was recently reborn as a 'digital bank' that will look to compete with payment banks, capturing a whole new set of customers from the bottom of the pyramid, as well as among the youth who are just entering the world of banking. Seeing the writing on the wall, Kotak Bank took what can only be described as a revolutionary move.

Payment banks will greatly ease the payments process, and Aadhar-enabled transactions will be a big step forward. By linking one's bank account to an Aadhar card, one can now purchase groceries and other everyday items on the spot simply by sharing one's unique ID number and performing a fingerprint or iris verification. Mobile wallets have also gained popularity, but may soon end up losing their niche spot as banks start to offer facilities like quick funds transfer without the need to store money in a wallet, or the ability to make payments directly from an existing bank account. UPI systems such as Bhim are also making fund transfers easier. For its part, the RBI has aggressively increased the limits on non-cash fund options. It recently raise the limits on e-Wallets to Rs 100,000 while retaining the cap on domestic cash transfers at Rs 10,000. Today, transferring funds from one e-Wallet to another is

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not permitted, but once it is, it could bolster the popularity of digital fund transfers.

### What about loan products?

On the flip side, it is hard to identify any truly path-breaking changes in the loan products space. Rising competition has only created a bigger product overlap between banks, small finance banks, and NBFCs. Many private sector banks are expanding aggressively in areas such as commercial vehicle or SME finance, which were earlier considered to be solely the domain of NBFCs. As a result, there has been a drop in interest rates – meeting the RBI's objective of having happier end-customers.

The central bank's move to promote digital banking, and to encourage non-cash loan disbursements and repayments, has reduced one of the key attractions of NBFCs, and may end up blurring the line dividing banks from NBFCs. Faster and better customer service will become the key differentiators now.

A fair number of M&A transactions have taken place in the past year. Several banks have acquired microfinance (MFI) NBFCs – as have some of the larger NBFCs and Housing Finance Companies (HFCs). Smaller MFIs are the 'victims' of this consolidation wave, which is likely to result in a deepening penetration of credit to rural and semi-urban areas. To gain from the economies of scale, SBI is also merging all its subsidiaries into one large entity.

Within this melee, gold loans remain a niche area – mainly because

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of the operationally-intensive nature of the business, which is dependent on physical proximity to the customer. Larger players have not had much success in the gold-loan business, and many banks and NBFCs who entered this space have gradually exited. However, there is technological innovation here as well: Online Gold Loans, for instance, have grown rapidly.

### A new wave of entrepreneurs

The growing digitalisation of the economy has given rise to many new 'fintech' entrepreneurs – many of whom focus on sourcing loans for SMEs. What they offer, among other things, is better and faster ways of filtering customer applications – such as by automating the scanning of tax returns, bank statements, credit bureau records, utility bill payments, and so on. They can now also access a more complete profile of an individual's spending habits, other borrowings, and any prior defaults. This data can be used to generate an indicative 'score' for prospective borrowers, which banks and NBFCs can use not to reduce their default risk, but also to bring down costs and improve turnaround time.

Plainly, the RBI has unleashed change in the Indian financial services space at a scorching pace, and has thrown the field open to a host of new players. Its bold steps have enabled cheaper loans for borrowers, easier fund transfers for the entire population, and have helped India make rapid headway towards universal financial inclusion. ■