Innovative personal finance products

Brief

- Identify innovative personal finance products in various countries
- Personal finance products such as loans, credit cards etc. customized and productized in ways to appeal to local markets

Approach

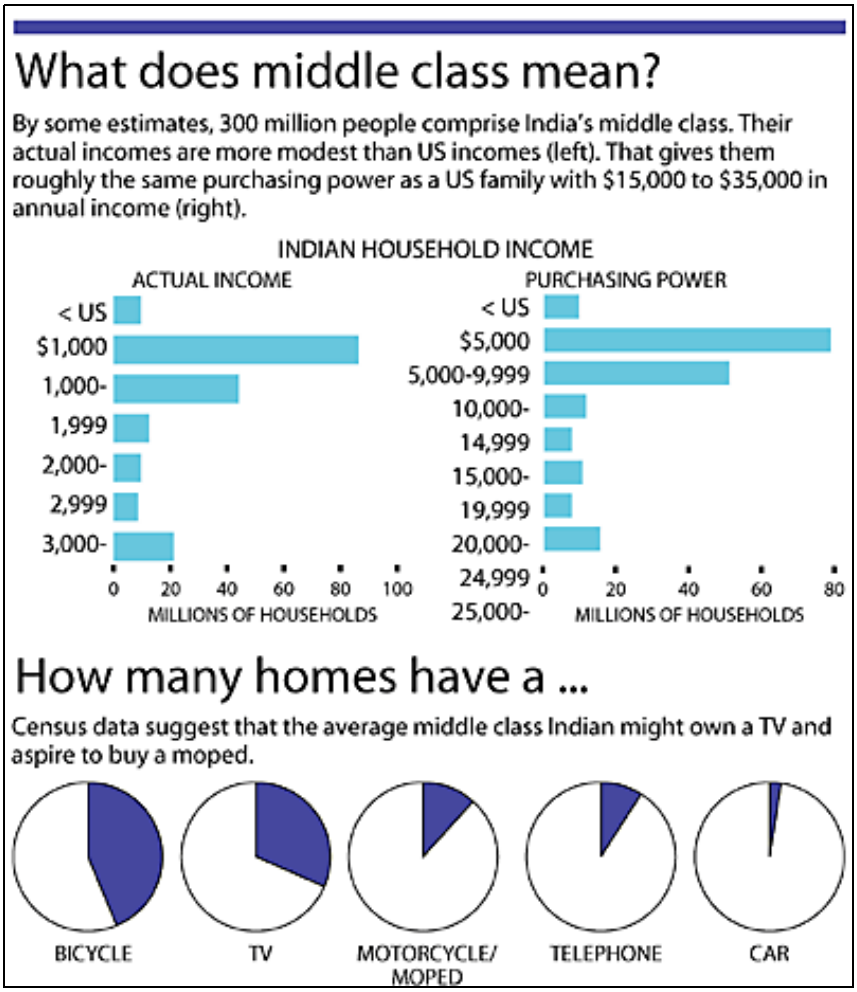
1. Trend analysis
    - ♦ Demographic trends
    - ♦ Market trends
    - ♦ Technology trends
    - ♦ Regional trends
    - ♦ Sociocultural trends
    - ♦ Internet and communication trends
2. Market analysis
    - ♦ Quantifying above trends
    - ♦ Estimating size of markets
3. Identify needs based on trends
4. Survey of existing products
    - ♦ Analyze strengths, weaknesses of existing products
    - ♦ Identify new products
5. New product ideas
    - ♦ Invent new products based on trends
6. Qualify new product ideas
    - ♦ Quantify market size for new ideas
    - ♦ Identify implementation strategies for new ideas

India: Demographic trends

- Asia is exploding with money
- China, India etc. have a voracious appetite for credit
- People there are very worried about weddings, especially daughters' weddings can be extremely expensive

300 million strong middle class

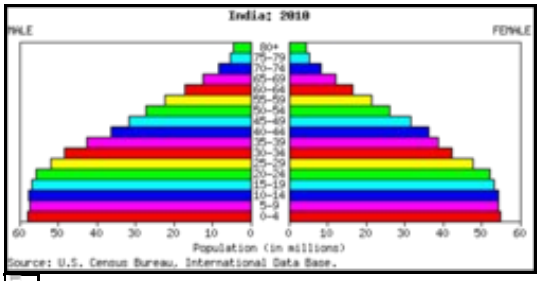
- The Indian middle class is 300 million people with a purchasing power of US families with $15,000-$35,000 in annual income
- Huge appetite for two-wheelers, telephones and cars



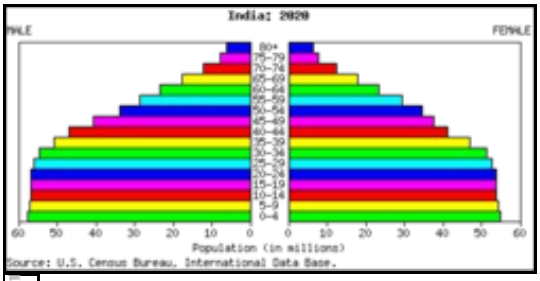
300 million strong middle class

Demographic dividend

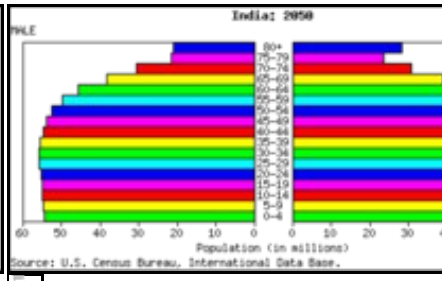
- With one of the youngest populations in the world, India is ready to reap the demographic dividend of a large, young workforce over the next several decades.



India Population Pyramid - 2010



India Population Pyramid - 2020



India Population Pyramid - 2050

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Education

- 50% of India's population is below the age of 25 and 2/3rd of the population is below the age of 35

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Low levels of literacy



Children in immaculate school uniforms leaving the most basic housing. Buying these uniforms must put immense strain on the family finances, but education is highly valued. The population is growing faster than schools can be built to accommodate them, so the schools work on a shift system.

Employment

- In some areas of knowledge services, salaries in India are coming close to American salaries in Purchase-Power Parity (PPP) terms

Personal income trends

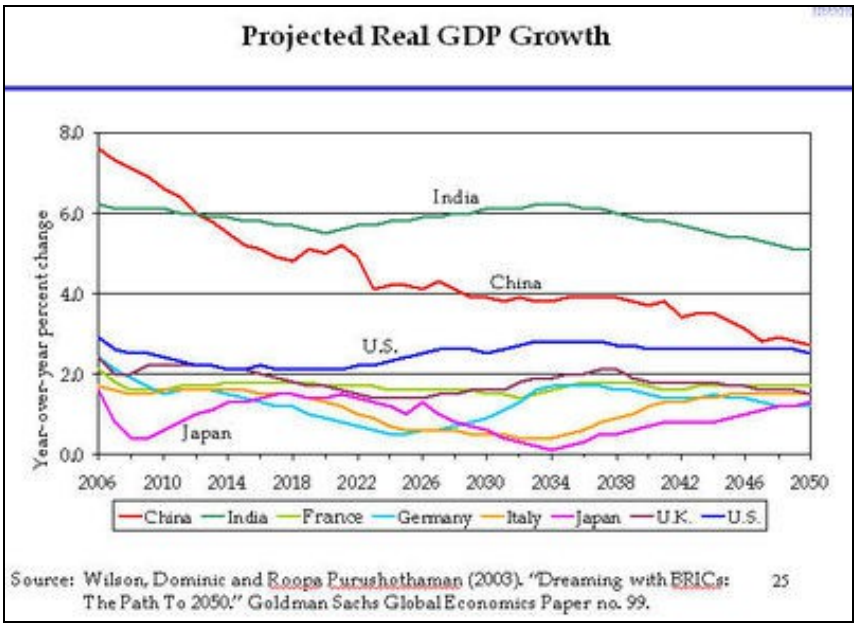
- The top end of over 700,000 people out of India's population of over one billion is estimated to have individual liquid wealth of about $1,00,000 (Rs 44,13,000) which is likely to go up to $1.1 million by 2009. This represents a cumulative liquid wealth of $203 billion, estimated to go up to $322 billion by 2009. These are the findings of a recent study done by market research firm Synovate.

India: Financial trends

Overall economy

GDP growth in FY 2005-06	**8.1%**
GDP growth predicted for FY 2006-07	**7.5%**
Savings as percentage of GDP	**29.1%** in FY 2004 and **25.9%** in FY 2005
Net income of Sensex 30 companies	**36.4%** in FY 2005-06

- GDP growth is projected at 6% and higher for the coming decades, making India the fastest-growing large economy in the world



GDP growth in India

Foreign Direct Investments

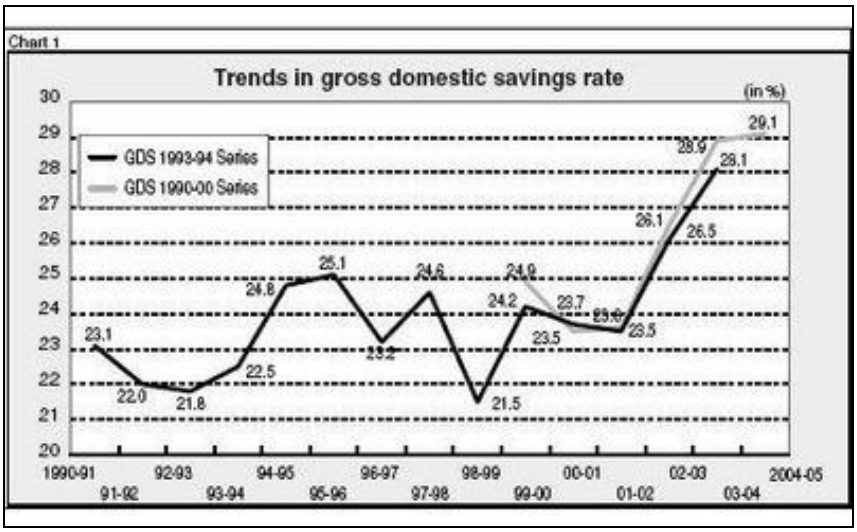
- Foreign Direct Investment inflows are rapidly growing in India and have reportedly reached an all-time high of $7 billion last year, doubling from just 6 years ago



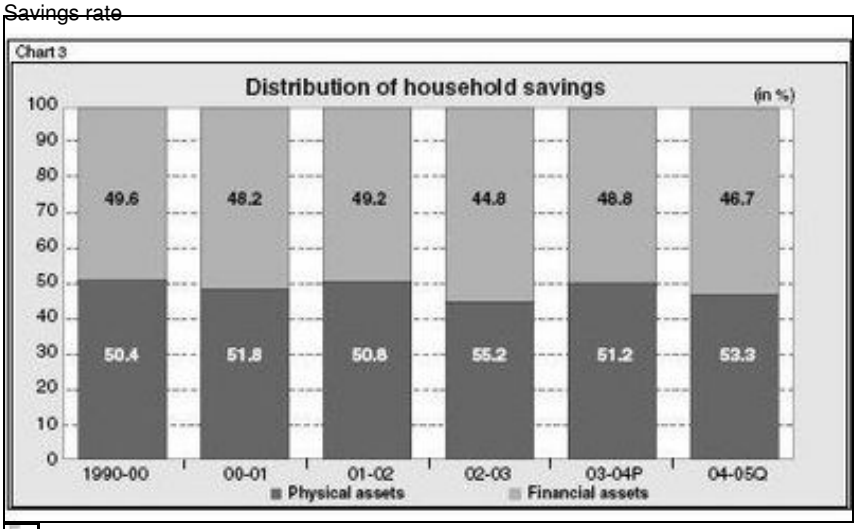
Foreign Direct Investments in India

India's high savings rate

- Savings rate are rising.
- With a strong GDP growth, rising salaries, and low social security, savings rate are likely to rise even further.



Savings rate



India saves high in physical assets

Credit



Spot finance



0% credit

- Booming economy with a growing middle class
- Access to credit is relatively new

"There is a great investment opportunity opening up in India. We term this investment area as the 'lifestyle segment.'" - Nilesh Shah, President, Kotak Mahindra Asset Management Co. Ltd.

- Demand for consumer goods is growing rapidly

Rural credit

- Lack of access to savings mechanisms and credit is one of the biggest challenges for villagers in India.
- According to a World Bank study, in Andhra Pradesh, 59% of rural households lack access to deposit accounts and 79% don?t have borrowing facility from the organised financial sector. Bankers too complain that though the rural potential is huge, they don?t have enough knowledge about the rural customer.
- Innovative concepts, such as a mobile ATM machine are being tried out at the moment.





State Bank of India/Microsoft experiment for rural ATM was tested with 20,000 villagers in 5 villages

India - A consumption boom is taking place

- According to study by Bank of Baroda, India is riding a CAGR growth in excess of 35% for the last 5 years in 'retail loans' category
- Despite this, the penetration of credit products as a % of GDP is still very low
- Reasons could be (a) credit aversion (b) no distinction between good and bad paymasters (c) propensity to save is high due to insecure healthcare and social security concerns.

Indian Banks are on a high growth track...

1. Overall banking sector is growing by – 18%
2. Retail Sector (CAGR – 5 years)
   - Housing Loan : 50.%
   - Consumer Durables : 16%
   - Credit Card : 45%
   - Two Wheeler Loan : 31%
   - Car Loans : 26%
   - Other Personal Loans : 38%

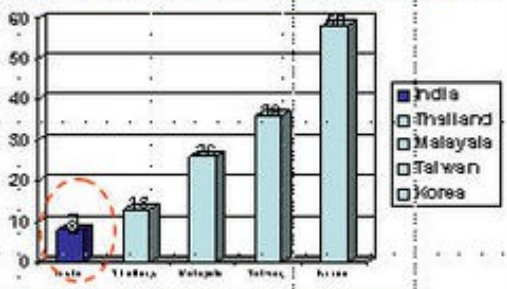
More than 25% of the Bank Loan Assets are in Retail sector ensuring high returns - likely to cross Rs. 5700 bn by 2010

Consumption boom

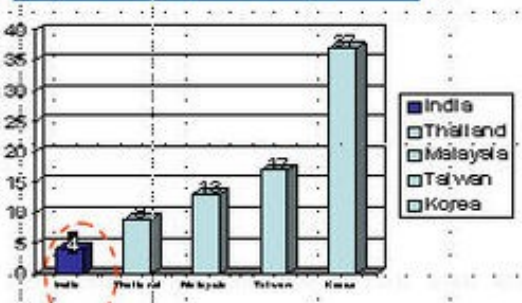
The Big Picture...

Consumption boom in India

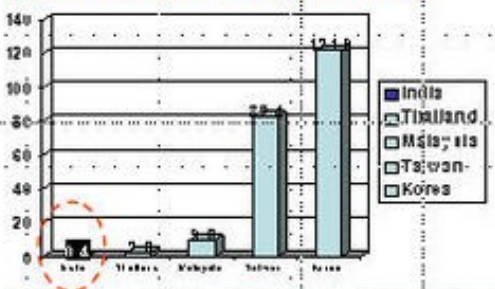
Consumer Loans / GDP(%)



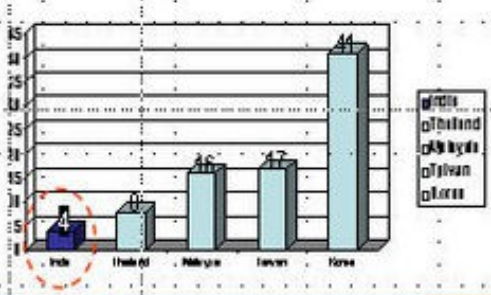
Mortgages / GDP(%)



Credit Cards / GDP (%)



Other Retail Loans / GDP (%)



In each of the area, huge untapped potential left

Consumption boom

Microfinance



Microfinance is a major trend in India

- 1.4 million microfinance groups in India
- Over 20 million members for microfinance groups
- According to one estimate, 30 million non-agricultural enterprises and 50 million landless households in India collectively need approximately $30 billion credit annually
- Microfinance is growing in South India, which contrasts with the stagnation in Eastern, Central and North Eastern India
- Downside: Microfinance involves very high transaction costs given the small amounts of money involved for each loan, which necessitates high transaction costs

Remittances



Reimbursements to India are growing

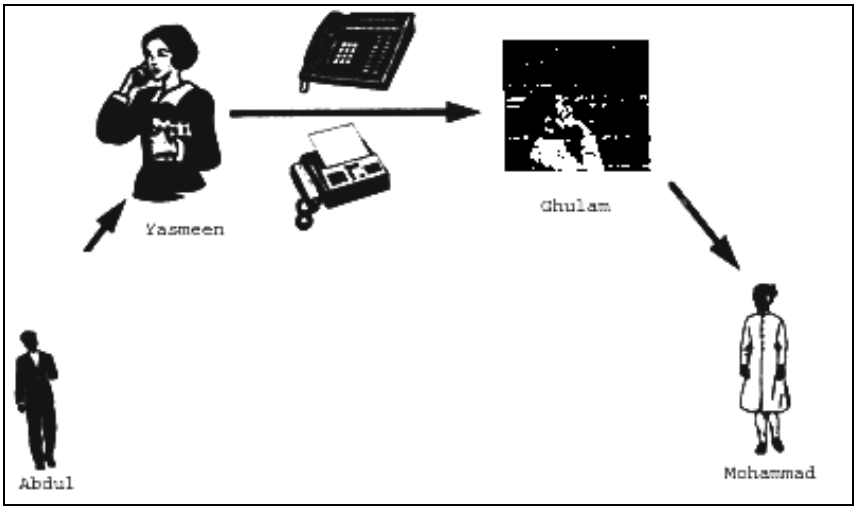


India receives $23 billion a year in foreign remittances

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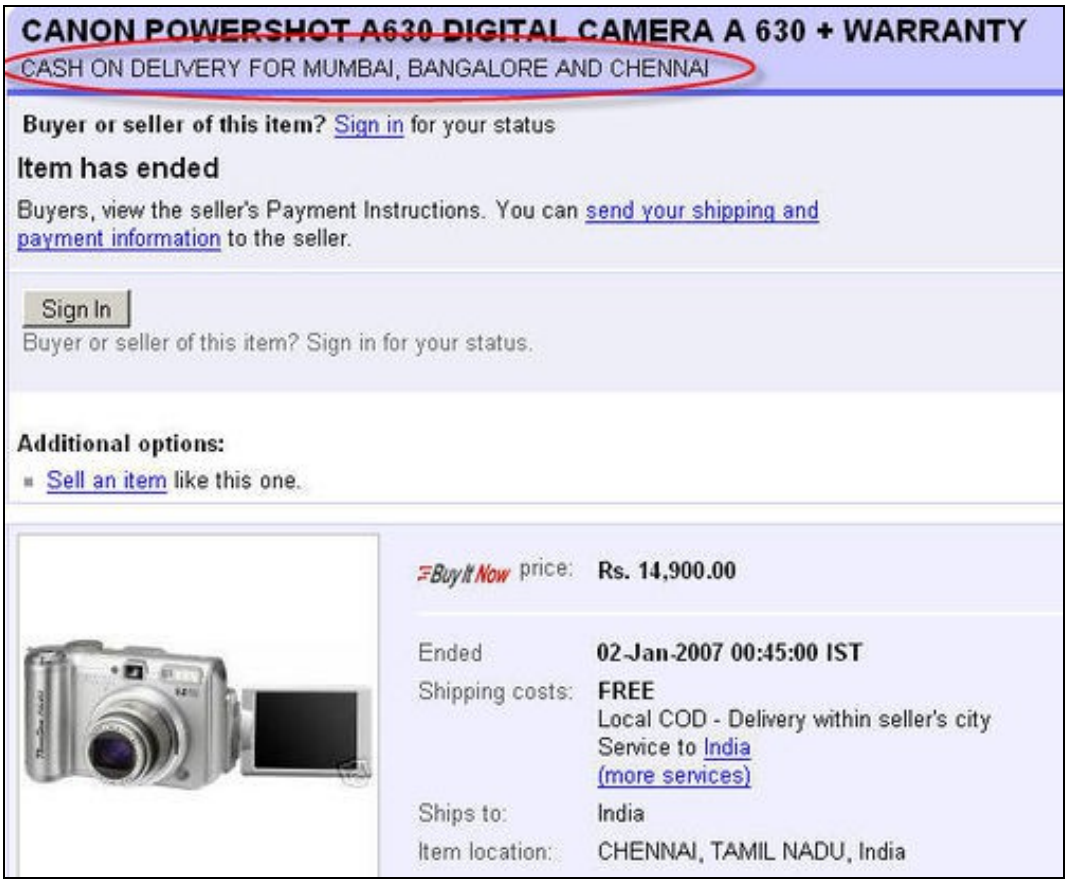
Hawala

- An illegal system of payment, hawala remains popular as a way of remitting money



Payments

- Cash-on-delivery (COD) remains one of the preferred methods of payment



Cash-on-delivery is a preferred mode of payment

- Fraud is a major problem, e.g. loans on homes are based on higher valuations by the appraiser
- There is no credit rating system and the judicial system does not allow companies to easily recover their money from the borrowers
- A high amount of undisclosed income
- Hawala
- Cash-on-delivery (COD)
- Airlines, railways and others are now selling tickets online and it is cheaper than buying through an agent or from the airline. You need a credit card to buy these online.
- Pension funds are still big in India. Not clear if India will go the US route of defined contribution plan (as opposed to defined benefit plan)

India: Customer service

- If you want to open an account of if you want a loan, someone comes to your house from the bank to get the papers to you
- If you want to exchange currency, someone comes to your house for that too

India: Sociocultural trends

- Movies get financing from the underworld and other unsavory sources

Dowry

- The custom of dowry is well-entrenched in Indian society and puts extreme financial pressure on brides and their families
- An average of one dowry death is reported every 77 minutes according to the National Crime Record Bureau

India: Technology trends

- Internet access levels in India having gone up 132 per cent between 1997 and 2005
- Laptop ownership in India is at 10%
- Desktop ownership has increased 36% in India

Anecdotes

- There was this article about citibank or someone hiring goons to get an executive woman to pay her credit card bill. She defaulted because she was travelling. She created a big stinker.
- A grocery store in India figured out that its cost of capital was much higher than what their customers were earning in a savings account. They came up with a scheme whereby consumers could give them a deposit and they would give them coupons to shop in their store. The effective interest rate that the consumer was getting was higher than what a bank offered them, however the interest rate was however lower than the cost of capital for the grocery store and they got loyal customers.

Needs

1. Non-traditional ways of evaluating credit worthiness
2. How to give credit to developing markets using different approaches than developed markets
3. Short-term loans
    - ♦ High transaction fees but low interest

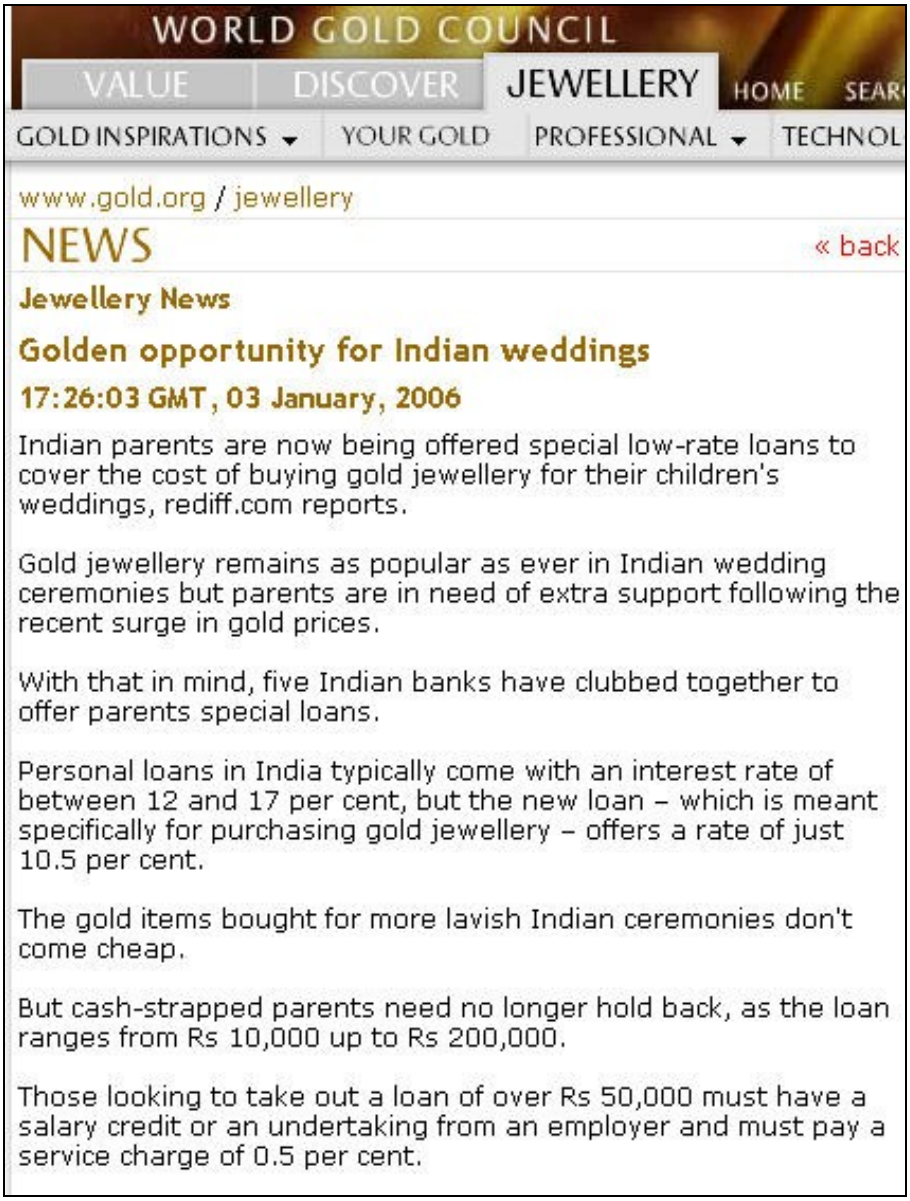
    - Non-revolving credit card
    - Need money to buy groceries this week, pay back next week or end of month (Payday loan?)
4. Programs to help fund big events such as daughter's weddings
5. Financial advisory services to high net worth individuals
6. Financing for movies
7. Simplified COD
8. Escrow services
9. Loans for individuals with lower credit scores (people who don't appear very credit worthy on paper)
10. A clearing house that could collect cash from people's houses or stores for airline/railways transactions - that would be convenient for people without credit cards

Links

1. India's demographic dividend
2. Microfinance in India
3. Hawala

Idea 1 - helping India's middle class create assets while enjoying lifestyle

- Jewellers in India give lose guarantees that upon return of the jewellery, value of the metal in jewellery adjusted for workmanship costs will be redeemed. This acts as a big incentive for people to invest in jewellery as principal amount is secure. However, there is no formal guarantee mechanism to ensure the contract.
- This can be an opportunity for banks to step in, whereupon the banks can underwrite the value of the jewellery and assure full value upon jewellery redemption. Banks can extend loans to people to buy jewellery, whereby interest is charged differently for the value of the metal (lower interest rate) and higher for the loan against workmanship.




Cheaper loans for jewellery

Idea 2

- Tailormade credit cards where a customer can choose from 3 preferred vendors, whose card he/she wishes to have.

Idea 3

- Sodexho like ration card passes delivered to corporates. Corporates in turn will pay the pass provider and in turn hand over such passes to their employees, who can only purchase ration with such passes.

Idea 4 - leverage indirect variables to determine creditworthiness

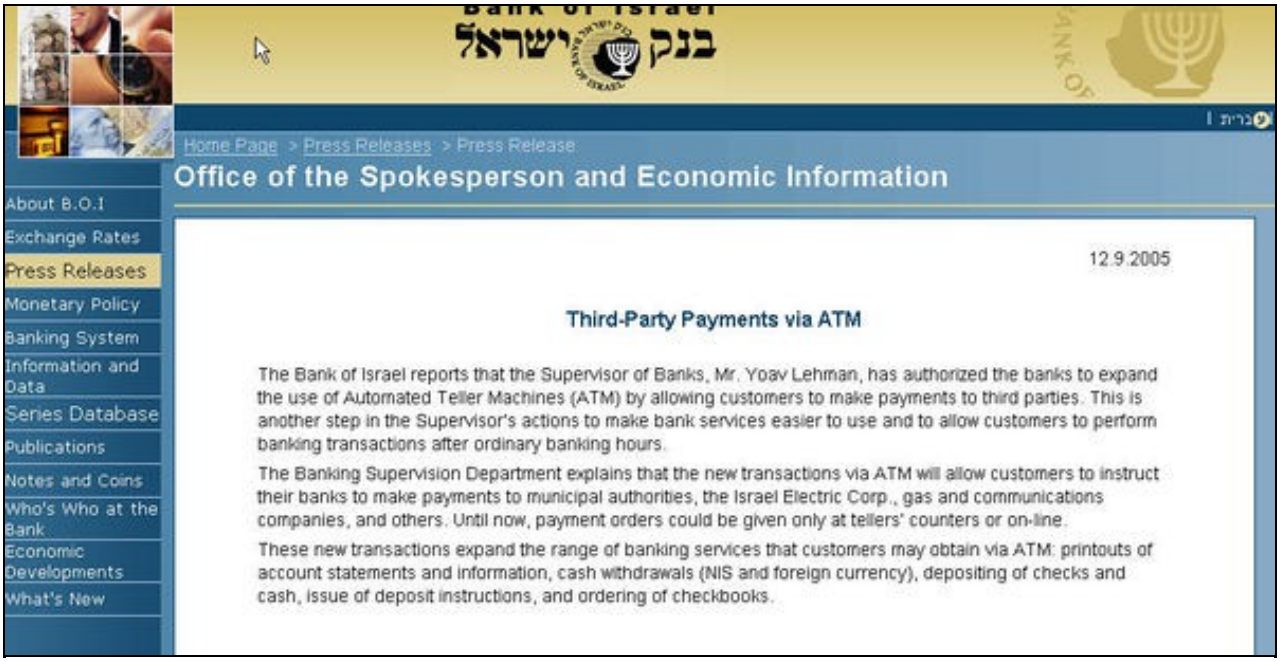
- India has a strong black economy
- Bank statements may not be the best indicators of a person's credit worthiness
- Indirect measures, like electricity consumption data or telephone bills data is a good indicator of a person's income

Idea 5 - Money transfer services for payments as low as 25USD

- India has a strong informal economy of workers, labourers etc.
- Such people belong to villages where population is as low as 5000
- Money transfer services for such people would be highly valuable
- Distribution network to such small villages is a challenge which can be overcome by tying up with FMCG majors like HLL that reach villages of 5000 population size

Idea 6 - Payment to 3rd party using ATM's

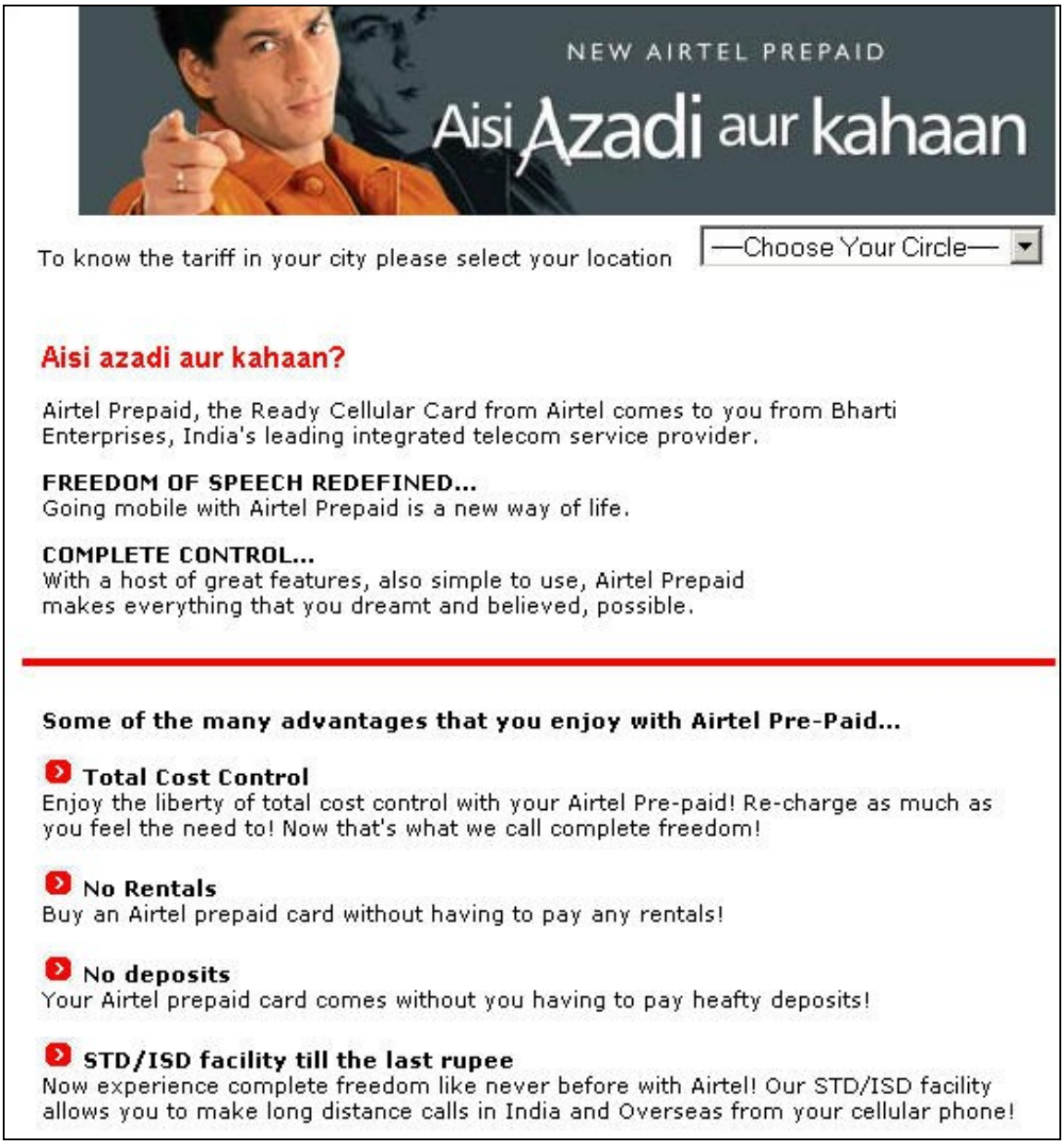
- ATM's can be used to pay to 3rd parties
- This will enhance the distribution network for P2P payments, bringing it to every nook and corner where there is an ATM



Bank of Israel

Idea 7 - Enable micropayments using the extensive mobile network

- Mobile network providers have a very wide payment collection system for their pre-paid and post-paid recharge cards. Such pre-paid cards are sold by vendors, who have a very wide reach.
- Mobile network providers can design a special payment card mechanishm, wherein each subscriber has a logical money account associated with their number. This money account can be updated as long as the mobile is connected to the network.
- This will enable a subscriber to pay the amount to a 3rd party via the pre-paid card vendor. The pre-paid card vendor in turn can credit the amount in the payment card of the 3rd party.



Airtel India

Idea 8 - Emplowering C2C commerce using a finance intermediary like PaisaPay

- Paisa pay from ebay has empowered C2C payments
- A similar concept can be used for C2C cash payments.
- Here, a customer can pay cash to a approved vendor who is associated with a mobile telephone network. This vendor, in turn, for a fee, can credit the payment account of the 3rd party. The 3rd party, can then collect cash from the telephone company or ask the telephone company to credit his/her bank account.

How does PaisaPay Work?

- Buyers pay eBay using credit card or online bank transfer
- The seller's Paisapay account is credited with the payment once the bank confirms the transaction
- The buyer and seller see a confirmation of payment in their My eBay
- eBay consolidates all confirmed PaisaPay transactions and sends a cheque / demand draft to the seller on a regular basis.



^ back to to

PaisaPay: The Fast, Easy & Secure way to Pay

Fast & Easy

Pay instantly using your credit card or make an online bank transfer to receive your eBay purchases faster, thus eliminating the hassle and delays related with other payment options like cheques, demand drafts, etc.

Private, Safe, & Secure

- PaisaPay offers you the highest standards of security currently available on the Web so as to ensure that your online payment experience is private, safe, and secure. All purchases made through PaisaPay are covered under eBay's Purchase Protection Program upto Rs.50,000/-
- Your Credit Card information is safe as it is protected using 128-bit VeriSign encryption, the highest safety standard.
- All the banks supported by eBay for online payment transfers also offer VeriSign certified, secure Net-banking environment.
- Payments made using PaisaPay are covered under eBay's Standard Purchase Protection Program.
- To add to the above, credit card purchases are generally protected by the respective card company. Learn more.

Ebay India

Idea 9 - Shariat Compliant products

Parsoli Corporation Ltd.

Parsoli

Parsoli Saudi

Parsoli U.K.

Parsoli-IBF Equity (PIE) Index

Parsoli has in collaboration with IBF-Net compiled India's first and only Islamic Equity Index known as Parsoli IBF-Net Equity (PIE) index comprising of 40 extra liquid (A Group) stocks of shari'ah compliant companies registered with NSE & BSE. All the companies in the index are subjected through a screening process to determine the value for Shari'a compatibility.

ex

Our index uses Standard& Poor methodology for compilation of the Index of using market values as weights. The PIE index is monitored continuously to see if the stocks inside confirm to Shari'ah, failing which they are removed from the Index and new liquid stocks of companies confirming to Shari'ah are added. The index allows Islamic investors to get a ready list of Shari'ah compliant Indian companies through www.stockmultiplier.com and trade online as well from the portal. Moreover the PIE Index also allows to compare performance of the Shari'ah compliant stocks with other Indices like S&P, CNX, Nifty & BSE sensex. It also allows future Islamic funds which are going to be based in India to benchmark the performance of their funds against the PIE index.



Shariat stocks index



Shariat finance

Idea 10 - Kitty

- Kitties are being organized as chit funds
- People pay EMI's of small amounts, in a group, and then wait for purchase of a consumer product when their chance comes

chandigarh: it may not be a way of saving necessarily, since the money put in every month is spent in one shot when the number is pulled out, still a kitty is more or less seen as a saving instrument. "just rs 200 a month doesn't pinch you and when your kitty comes out you have lump sum cash which is tough to save otherwise," says reena singh*, a distributor of avon and a member of a kitty which allows members to put in money every month and then buy avon products for the total amount when their chance comes. not totally in the line with the usual kitties, which are more or less social events, kitties being run by women who are distributors of direct selling/multi-level marketing companies such as tupperware, oriflame, avon, amway etc prefer to maintain the business-like ambience. "it isn't meant to be a social do, we just meet at the host's house, give our money and the person whose kitty comes out can buy stuff worth the total amount from the host," says ankita chopra, a tupperware distributor who has her money placed in three simultaneous kitties. throwing light on the phenomena she continues, "people in this city wouldn't mind buying a ritu's off the shelf but when it comes to purchasing this stuff they'd rather shell out just rs 200 in a month; this way it doesn't pinch them, they say". incidentally one doesn't have to be a distributor to join in and neither does one have to attend; you can just send in your money each month. there are jewellery kitties as well. kanwal basur runs one such, and is into silver and gold jewellery. she has kundans, many kinds of strings and even small diamond earring and pendant sets which people can choose from. however, harinder keith doesn't feel it works too well for skin care and cosmetic products. "i'm an aviance consultant and since these products last for many months you don't need to keep repurchasing. moreover, skin regimes change according to the season so why buy stuff and then get stuck with it," she feels.

Kitty for consumption

- Cooperative banks
- Kitty

- Small loans pooled together on the Internet
- Islamic Banking
- Regional differences
- Jewelry on loan
- Self-employed people getting credit card and loans

Presentation

- Innovative personal finance products demo prep

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