

# Innovative personal finance products demo prep

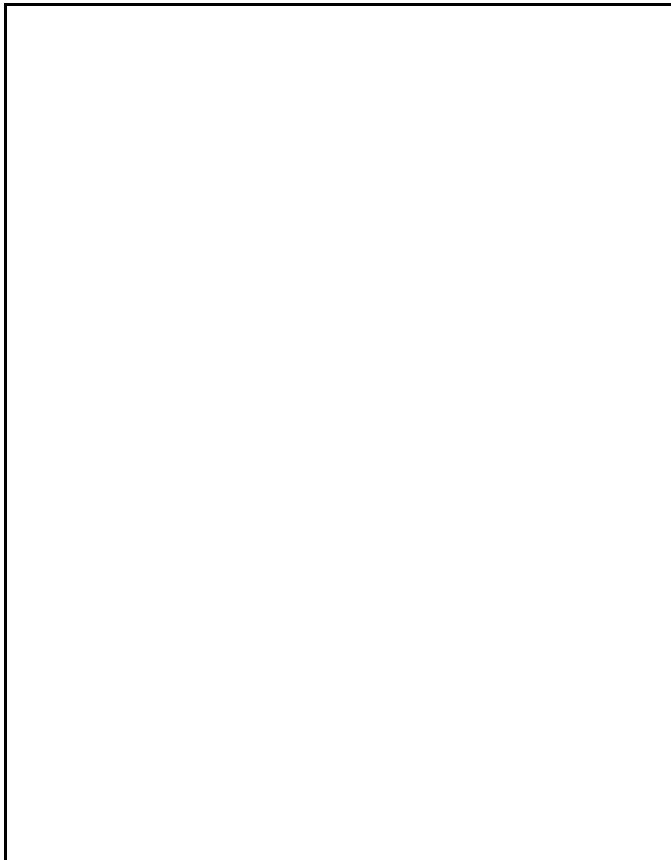
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## India: Overview

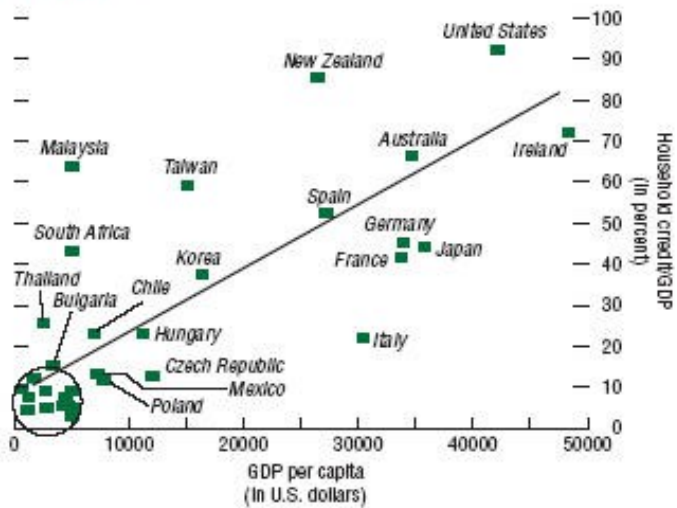
### Overall economy

### Household credit



Household credit

**Figure 2.3. Household Credit/GDP and GDP per Capita, End-2005**



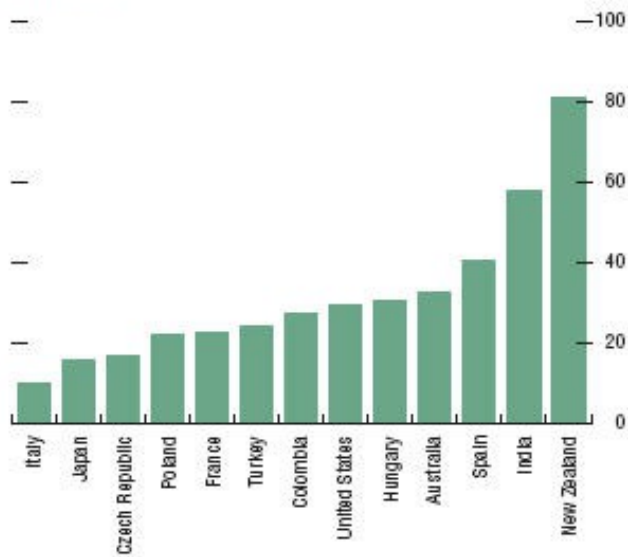
Sources: IMF, *World Economic Outlook*; CEIC; and IMF staff calculations based on data from country authorities.

Note: The circled cluster of countries includes Argentina, Brazil, China, Colombia, India, Indonesia, Peru, Philippines, Romania, Russia, Turkey, and Venezuela.



Household credit  
Household leverage

**Figure 2.10. Household Financial Leverage in Selected Countries, 2005<sup>1</sup>**  
(In percent)



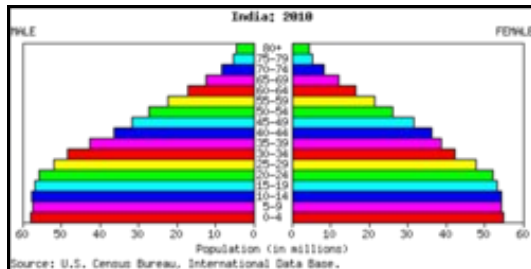
Sources: CEIC; and IMF staff calculations based on data from central banks.  
Note: Data for Colombia, India, and Japan are as of end-2004.  
<sup>1</sup>Household leverage is defined as the ratio of household liabilities to household assets.

## Household financial leverage

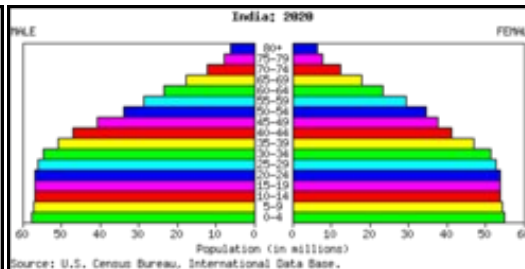
- This indicates a bias towards assets based leverage than leverage on incomes in India.
- Rising incomes in India thus indicates towards tremendous opportunities for loans based on 'income potential' on either side (a) asset creation side and (b) Liability creation side. Also, fuelling of (a) will in parallel give rise to (b).

## Demographic dividend

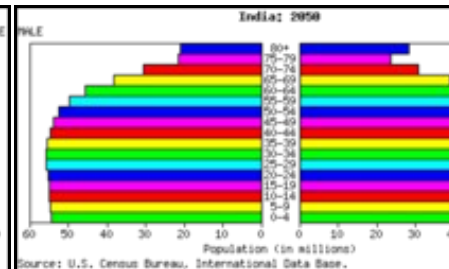
- India's population is extremely young
- 50% of the population is under the age of 25, while 2/3rd is under the age of 35
- Over the next several decades, India's young population will strengthen the workforce



India Population Pyramid - 2010



India Population Pyramid - 2020



India Population Pyramid - 2050

## Education

- Literacy levels are extremely low in India
- Education is in high demand
- Public education system is broken and private education is extremely expensive

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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.

## Personal income

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

### 7 lakh Indians have \$100,000 of wealth

January 03, 2007 03:31 IST

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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.

A Pan Asia Pacific Cross Media study by Synovate across 11 countries in the region highlights the



700,000 Indians have \$100,000 annual income

## Ideas

## Loans

## Trends

### A consumption boom

- 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  
Expensive weddings



• **By Anupreeta Das** | Contributor to *The Christian Science Monitor*

**NEW DELHI** – At a wedding held in a five-star New Delhi hotel last winter, the groom stepped out of a two-door BMW sports car, specially flown in from Europe for the occasion. Spanish flamenco dancers, fresh orchids from Thailand, ice sculptures, even second-tier Bollywood stars paid to mingle - all are just some of the flourishes seen at recent Indian weddings. Forget being down-to-earth. The latest fad is to stage the whole shebang on pontoons, putting family and friends on a veritable flotilla of flaunted wealth.

"We receive such 'unusual' requests all the time," says Meher Sarid, a wedding planner in New Delhi. "It's not unusual anymore."

Indian weddings have always been grand and festive affairs, as reflected in films like *Monsoon Wedding* and *Bride and Prejudice*. But India's burgeoning middle class - now 300 million strong - are turning weddings into showcases of their growing disposable incomes and newfound appetites for the goodies of the global marketplace.

The largesse has spawned an \$11 billion wedding industry, growing at 25 percent annually and beginning to rival the US industry valued at \$50 billion. Top global luxury brands and local entrepreneurs are learning that the way into the pocketbooks of India's new consumers is through their nuptials.

"Weddings have become the single most visible expression of a person's social standing and wealth, an expression that is both acceptable and expected," says image consultant Dilip Cherian, who heads Perfect Relations, a leading Indian PR firm.

The minimum budget for a wedding ceremony is \$34,000, say wedding planners, while the upper-middle and rich classes are known to spend upward of \$2 million. (The average American wedding costs \$26,327.) This doesn't include cash and valuables given as part of a dowry.



**BIG DAY:** A groom is trailed by relatives in Bangalore, India.

GAUTAM SINGH/AP

### Reporters on the Job

The Monitor gives the story [behind the story](#).



Wedding expenses

SMS

Wedding planners say that the smallest metropolitan middle class wedding in India these days, costs upward of Rs 5 lakhs. With the stakes being so high, wouldn't you want to cover any risk of loss?

That's what Gauri Shah, a 29-year-old BPO executive who is getting married next month, has decided to do. She is taking a wedding insurance to cover all emergencies. "My family will be spending close to Rs 6 lakhs on my wedding. That is a huge expense. My wedding planner recommended that I take a wedding insurance cover to hedge myself against any unfortunate incident. I think it's a great idea," she says.

Every year, lakhs of people spend a fortune at their wedding. Insurance companies have come up with innovative products to get a piece of this pie.

Bajaj Allianz's Wedding Insurance for instance covers against delays, accidents, food poisoning, burglary etc. Bajaj Allianz officials told Moneycontrol that they don't market the policy aggressively, as many customers are superstitious. But for those who like to play safe, the policy is available through wedding planners, banquet halls or through the company branches directly.

Wedding Insurance

### Gold lifestyle

- Jewellers in India give loose 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.

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Jewellery News

Golden opportunity for Indian weddings

17:26:03 GMT, 03 January, 2006

Indian parents are now being offered special low-rate loans to cover the cost of buying gold jewellery for their children's weddings, rediff.com reports.

Gold jewellery remains as popular as ever in Indian wedding ceremonies but parents are in need of extra support following the recent surge in gold prices.

With that in mind, five Indian banks have clubbed together to offer parents special loans.

Personal loans in India typically come with an interest rate of between 12 and 17 per cent, but the new loan – which is meant specifically for purchasing gold jewellery – offers a rate of just 10.5 per cent.

The gold items bought for more lavish Indian ceremonies don't come cheap.

But cash-strapped parents need no longer hold back, as the loan ranges from Rs 10,000 up to Rs 200,000.

Those looking to take out a loan of over Rs 50,000 must have a salary credit or an undertaking from an employer and must pay a service charge of 0.5 per cent.



Cheaper loans for jewellery  
**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



## Peer-to-peer banking

- 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 top](#)

### 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  
Kitty parties

- 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



Kitty for consumption

# Parsoli Corporation Ltd.

**Parsoli**

## Parsoli-IBF Equity (PIE) Index

ex

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.

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](http://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.

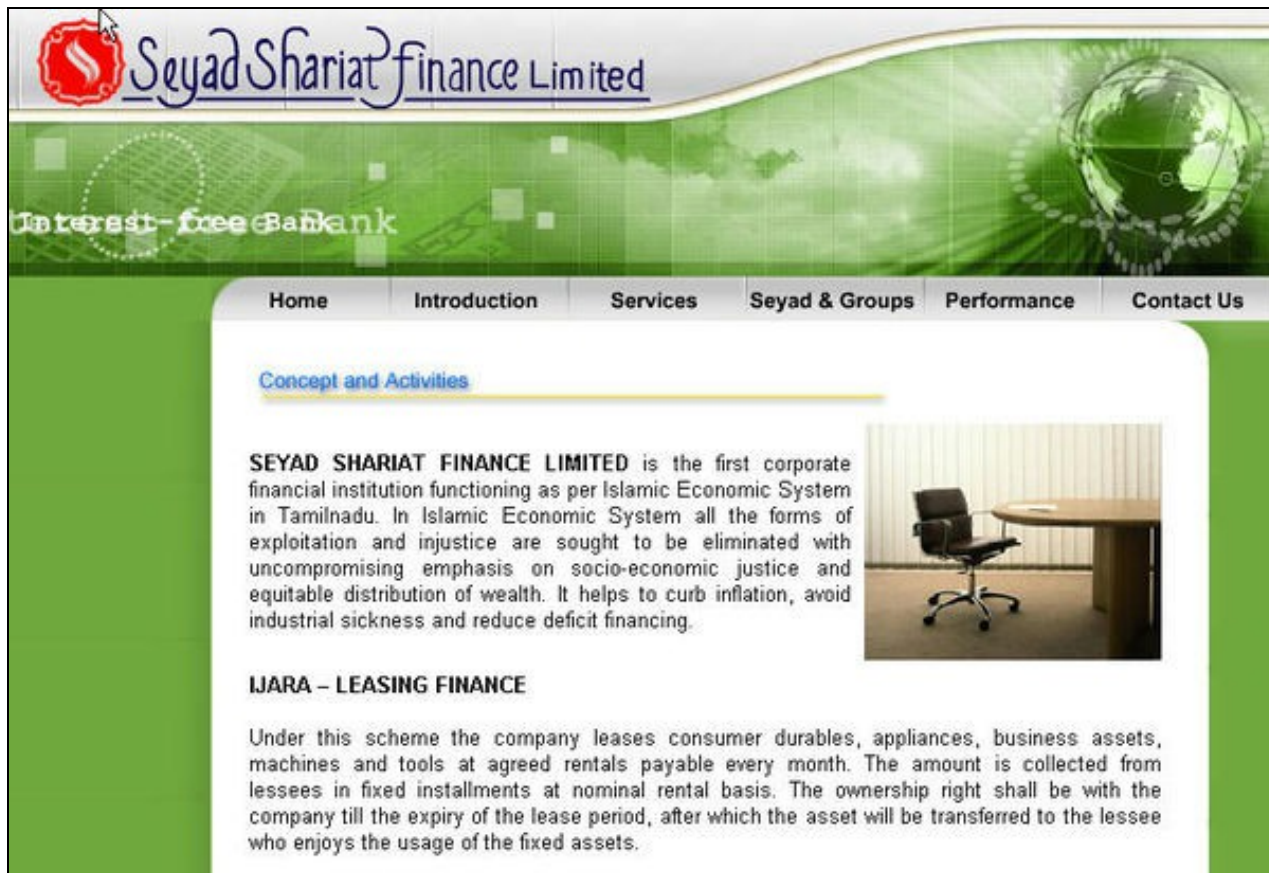
Parsoli  
Saudi

Parsoli  
U.K.



Shariat stocks index





Shariat finance  
**Ideas**

#### Microsavings instruments

- Tie up with telephone firms to create microsaving pre-paid cards
- In such cards, 10% of the amount paid will get credited to the payees account as a saving
- Compounding of such savings after several years can yield high returns

#### Education loans

- Provide loans for primary and high school education, besides college education



Loans for primary and high-school education  
**Wedding loans**

- Provide cheap loans by tying up with wedding organizers, caterers etc. The loans get cheaper due to bulk discounts on prices offered by them.

#### Streamlining microfinance

#### Loans based on gold

- Already covered under trends

# Insurance

## Trends

### Aspirational society

- Picture: How many homes have a...
- Text:

### No medical coverage

- Picture:
- Text:

### Increasing savings rate

- Picture:
- Text:

## Ideas

### Insurance as a saving vehicle

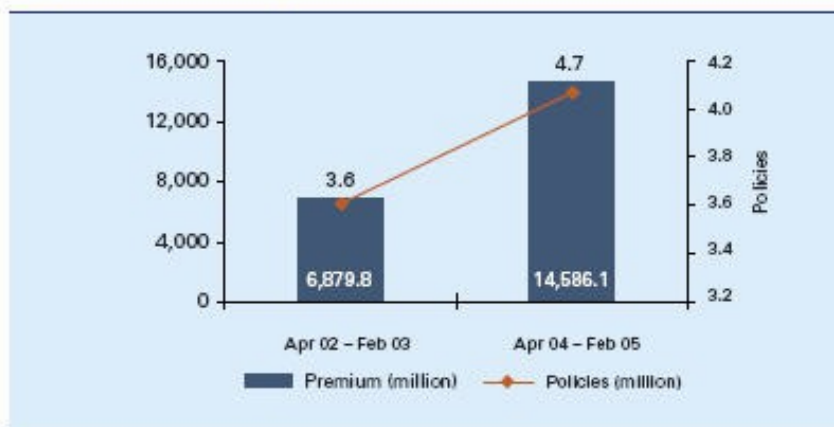
- Picture:
- Text:

### Rural Insurance - an opportunity or a risk?

A few insurers are also entering into tie-ups with large consumer goods marketing companies that have an established presence in rural regions. For example, insurers have tied up with Hindustan Lever, a local subsidiary of Unilever, which has set up a rural chain of stores run by women, called 'Shakti', to sell soaps and consumer products. Another example is the IT-based rural initiative of ITC Ltd., the largest maker of cigarettes in India, which has set up a series of 'e-choupals', or rural outfits that market farm products through web based applications. ICICI Prudential has tied up with the e-choupals to market its life insurance products to village households.

Due to the above and other initiatives, there is a rapid increase in insurance penetration levels in rural regions. Figure 3 contains an analysis of the number of policies issued by life insurance companies in the rural sector in the last three years, while Figure 4 shows the increase in the number of lives covered in the social sector over the same period.

**Figure 3: Life Insurance policies in rural sector**



Rural Insurance penetration is increasing

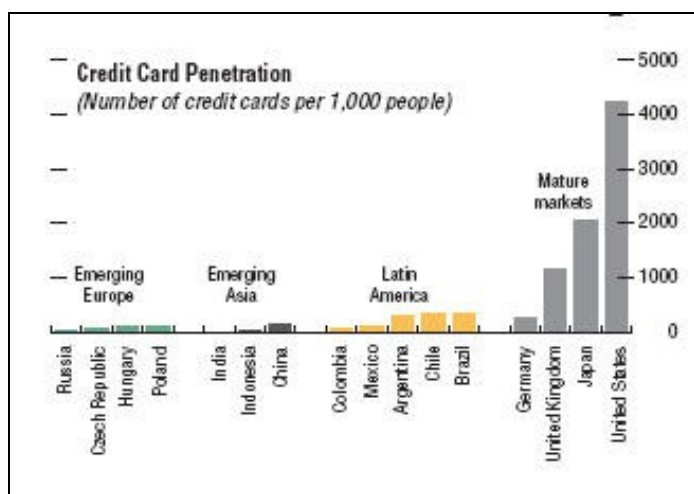
- Seasonal premium collection system in line with harvest season, with no lapse of policy in case of seasonal fluctuations (affecting crops) can be organized
- Distribution of agents can be ramped up by tying up with Fertilizer dealers, Tractor dealers etc.

## Credit

### Trends

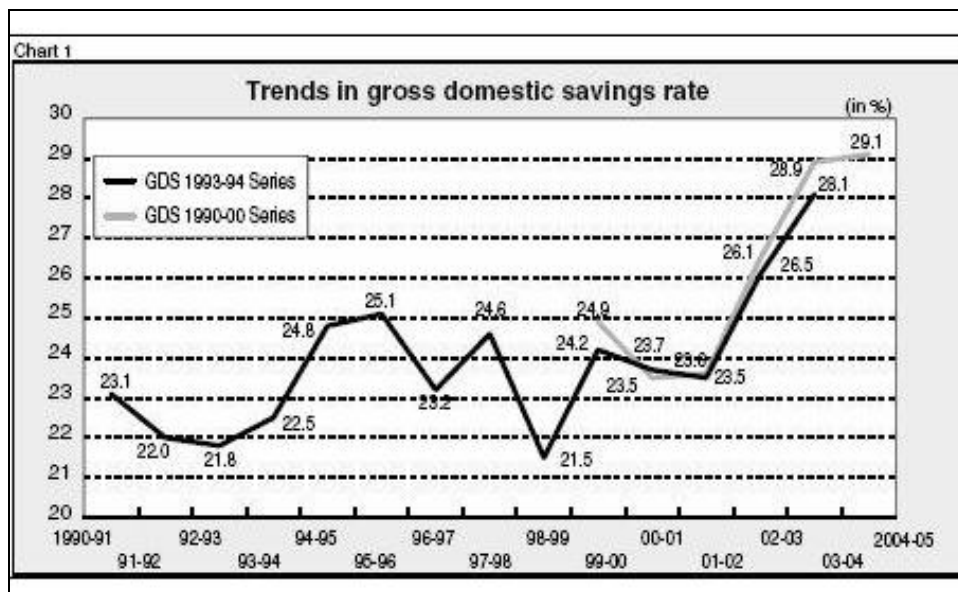
#### Credit card penetration





### Credit card penetration Increasing savings rate

- Savings as percentage of GDP was 29.1% in FY 2004 and 25.9% in FY 2005
- With a strong GDP growth, rising salaries, and low social security, savings rate are likely to rise even further



### Savings rate Increasing purchasing power

#### Rural demand for 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.



Rural India needs \$30 billion in credit  
**Remittances**



Reimbursements to India are growing

**Western Union Money Transfer provides reliable, convenient, and fast service to India.**

- There are over 12,000 Agent locations in India and over 245,000 Agent locations worldwide.
- A free home delivery option is available.
- Money is available within minutes (subject to the Agent's hours of operation).
- Agents are authorized by the Reserve Bank of India.



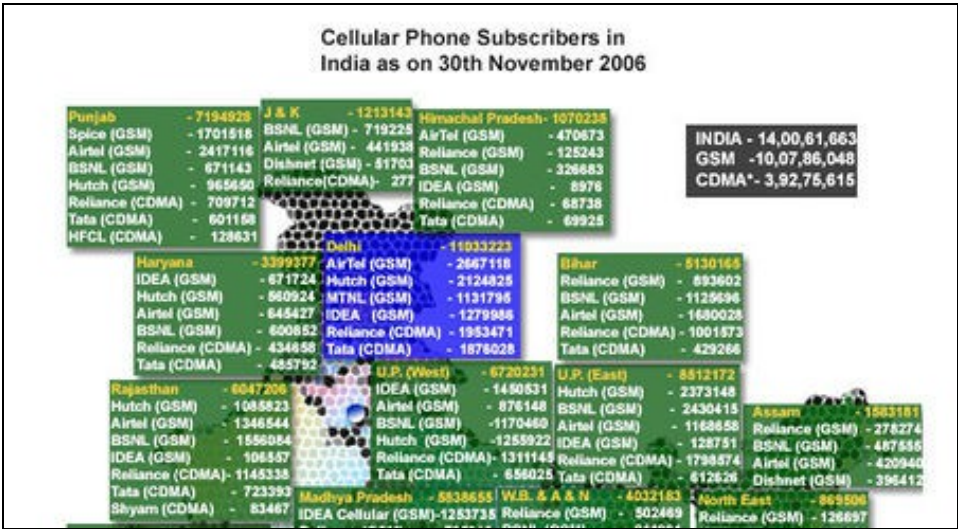
India receives \$23 billion a year in foreign remittances

- India receives \$23 billion a year in foreign remittances

**COD (???)**

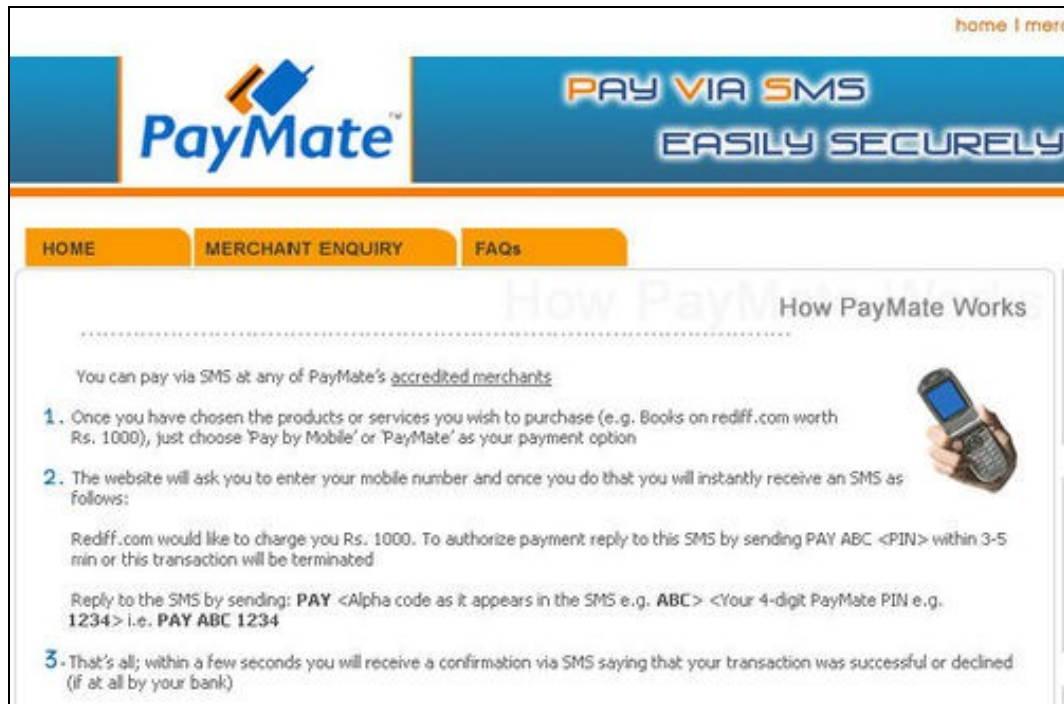
**Mobile phones**

- Mobile phone usage is exploding in India with subscriber numbers growing by several percentage points *each month*



140 million cell phone users in India

## Payments through SMS



The screenshot shows the PayMate website interface. At the top, there's a blue header with the PayMate logo on the left and the text 'PAY VIA SMS EASILY SECURELY' on the right. Below the header, there are three orange navigation buttons: 'HOME', 'MERCHANT ENQUIRY', and 'FAQs'. The main content area is titled 'How PayMate Works' and contains a list of steps for using the service. A small image of a mobile phone is shown on the right side of the text.

home | merc

**PayMate**

**PAY VIA SMS**  
**EASILY SECURELY**

HOME MERCHANT ENQUIRY FAQs

### How PayMate Works

You can pay via SMS at any of PayMate's accredited merchants

1. Once you have chosen the products or services you wish to purchase (e.g. Books on rediff.com worth Rs. 1000), just choose 'Pay by Mobile' or 'PayMate' as your payment option
2. The website will ask you to enter your mobile number and once you do that you will instantly receive an SMS as follows:  
  
Rediff.com would like to charge you Rs. 1000. To authorize payment reply to this SMS by sending PAY ABC <PIN> within 3-5 min or this transaction will be terminated  
  
Reply to the SMS by sending: **PAY** <Alpha code as it appears in the SMS e.g. ABC> <Your 4-digit PayMate PIN e.g. 1234> i.e. **PAY ABC 1234**
3. That's all; within a few seconds you will receive a confirmation via SMS saying that your transaction was successful or declined (if at all by your bank)



Payments made through SMS - Paymate

## Ideas

### Mobile ATM

- 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

### Credit cards linked to US accounts

- Credit cards for family members in India linked to credit rating of Non-Resident Indian family member (in the US or elsewhere)



Credit cards in India based on international family member's credit rating  
**COD for online shopping (???)**

•  
**Retail store cards**

•  
**Mobile phone credit cards**

- Sony's **Felica** system combines mobile phones with credit card style payment capabilities
- With 140 million cell phones, but less than half as many credit cards, cell phones offer a great possibility for improving credit-card penetration in India



Mobile phone used as credit card