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The CFO Program

CFO Perspectives

India | CFO Newsletter | January 2017

CFO Speaks

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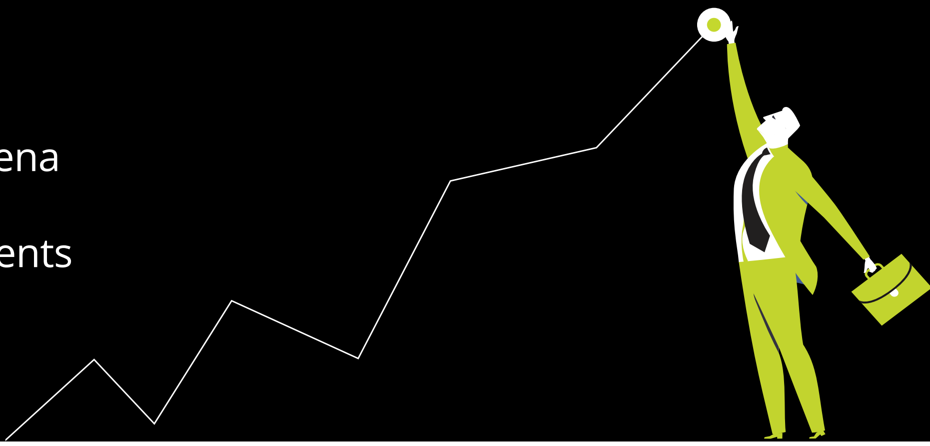

1. In your view, what would be the impact of demonetization on the Indian economy which is largely cash driven? What could be the long-term effect on the industry?

Considering the fact that India is one of the largest democracies in the world and no other country has been able do this at such a large scale; we feel demonetization is one of the phenomenal decision taken by the government to tackle black money, fake currency and social evil. With this government move, the social demographics will change with changes in the behavioral pattern of the people. At the same time, patience of the people is also being tested as more than 50 percent of the population is on the threshold of poverty line.

The major industry impact would be seen around the large informal sectors in India. The significant proportion of population is engaged with these businesses and will see huge disruption in their business models.

On a sectoral basis, the commodities and agricultural sector, including the market for consumer durables and non-durables; is expected to feel the heat. The FMCG sector can see short-term negative impact on sales and is expected to get adjusted over the period of time. However, the real estate would witness price reduction on resale properties. At the same time we may expect a huge procedural relief for SMEs, especially with regard to registration of business and opening of current account in the banks. The stringent guidelines may be relaxed for SMEs for furtherance of digital usage in their business model.

Banking, cyber security, data analytics, fraud risk management, credit agencies etc., are the line of business which will get more importance. The data generated in India will be huge and multi-faceted. The telecom sector will play a pivotal role going ahead, not only in upgrading services but also as a player in payment space. We may also see a complete overhaul in the banking structure with all dimensions of banking, i.e. deposits, lending and payments undergoing a huge change in product offerings.

In coming times, the rationalization of tax structure and government revenues from taxation are also expected to go up. Demonetization will also be a big boost to GST implementation, as majority of informal sector will now tend to be accountable to a greater extent.

2. In recent times, we all have seen a radical change and digital payments have surged. As a CFO, what are opportunities you foresee for your organization?

The Indian economy is moving towards mass financial inclusion. Earlier the cashless transactions were high value, high cost and low volume; whereas now it has moved towards low value, low cost and high volume. The cheque has an average ticket size of Rs. 75,000 whereas the mobile wallet usage and mobile recharge has the average ticket size of Rs. 400 and Rs. 30 respectively. In coming days, large number of people will start using the channel of low value cash less transactions. The structure of product offerings will undergo a drastic change.

We as a company built payment infrastructure for public benefit and see this as an opportunity to be part of the undergoing social reform. We would continue contributing through affordable new products and seamless services. We will also strive for enabling mass scale adoption of mobile based digital payments and within the regulations may try for full interoperability between bank and non-bank PSPs (payment service provider). Mapping of Aadhaar card and mobile phones of the customers for all payment mechanism will be a key to its success, and going forward Aadhaar will be the key KYC document.

Post digitization, consumers may tend to tilt towards cashless options. The consumers will have to be educated for using POS (point of sale), card based and other digital products. We see this as a big opportunity and will have to play major role in this regard.

3. Penetration of United Payments Interface (UPI) still seems to be low; what do you think are the challenges associated with it?

Penetration of UPI has been low due to many reasons; given our country's demography, large population base, literacy rate, digital infrastructure and connectivity; however some of the key challenges in UPI's penetration have been the following:

i. Limited number of smartphone users, since the application can only be used by the smartphone holders.

ii. Stiff competition from the mobile wallet companies.

iii. Low penetration and unclear understanding of the products by the consumers.

iv. Inclusion of wallet payment option by most of the banks.

However, the scenario is likely to change after recent launch of BHIM (Bharat Interface for Money) app by our Hon'ble Prime Minister. The app is a step towards collaborating all efforts of digital payments and bringing all banks under the one umbrella. It will also support Aadhaar based payments, where transactions will be possible with just a fingerprint impression in the coming times.

4. As a CFO, how do you address the challenges of bringing investment and operating under tight budget, vis-à-vis competition from the other payment banks?

Payment banks and wallet companies can leverage on our infrastructure and get the benefits of network we have with 600 banks and low operating cost model. The value for money we provide would give necessary impetus for surge in payment industry. We always thrive for innovative product and services, adopting open source and look for cost optimization. In fact, the year 2016 has been marked as the year of optimization for us. As a CFO, I do not feel a competition is there from the wallet companies, as they are still a semi or closed ended products. Customers have to park their money in these wallets for making a transaction, whereas the BHIM app now launched by the government will not have this criteria and payments will be done through UPI. Thus, in coming time this would change the trend on usage of payment wallets.

5. While customers look for quick payment solutions online, at the same time the payment gateway needs to have stringent security measures. How well is the industry prepared to balance between the customer convenience and the security measures, to curtail e-frauds?

For promoting digital payments, robust security is of utmost importance. There are measures like, 2FA (two-factor authentication) for digital transactions, chip based EMV (Europay, Master Card and Visa) cards to address skimming, robust fraud monitoring system with predictive modelling, monitoring of security logs on real time basis together with strong security governance and process to be adopted by banks, payments agencies and payment gateways. Recent UPI feature of one click two factor authentication provides balance between the customer convenience and the security required. Further, robust fraud risk management tool with predictive analysis provides online scoring on the purpose of alert and monitoring of frauds.

In addition, basic security awareness is created for customers and infrastructure/ security readiness is there to address new and upcoming technological challenges. We do risk assessment at each and every layer of deliverable to minimize the risk.

6. What are your 3 major challenges as a CFO in the current scenario, wherein the thrust is on moving towards a cashless economy?

i. Investment of funds into right technology would be the biggest challenge in coming times. With dynamic and disrupted market and ever changing technology, it would be a task to handle the technology and cost optimization hand-in-hand.

ii. Overall macro development of the economy with regards to sectors like internet and telecom, smartphones, banking, technology and data analytics, will have to be reviewed. For us, it is important to design and align the products as per the market requirement, competition, customer satisfaction and cost efficiency.
The CFO should be able to comprehend ever changing business models. Not recognizing change will impact the business drastically, the examples can be sighted of PSU's; viz. (A). Telecom PSU has lost 70 percent market share in 12 years on account of not keeping pace with introduction of new technologies, especially in mobile phones, (B). National airlines lost 25 percent market share in 4 years, on account of inefficiencies and innovative competition from low fare airlines; and (C). PSU banks are already

losing share in market capitalization wherein top 4 private bank have the Rs. 700 thousand crores market capitalization as compared to Rs. 350 thousand crores capitalization of public sector banks, out of which SBI's Market cap is of 170 thousand crores.

iii. The regulatory changes that may undergo, will have its own challenges to comply with. The GST implementation will be one of the most important and challenging compliance for the industry once it is introduced.

Lastly, I feel talent retention has been an overall challenge for us. Digital is a growing area wherein the talent is limited and one has to groom talent within the organization. We give a great exposure to our people in terms of learning and development, which is then utilized by other private players in the industry.

Expert Views

The future of risk: Ten trends
New game, new rules

The risk landscape is changing fast. Headlines bring new reminders that the future is on its way, and sometimes it feels like new risks and response strategies are around every corner. The outlines of new opportunities and new challenges for risk leaders—indeed, all organizational leaders—are already visible. So what should leaders prepare for? Deloitte report on "The future of risk: New game, new rules" profiles 10 trends that have the potential to significantly alter the risk landscape for companies around the world and change how they respond to and manage risk.

What we see is that risk's onset and consequences, and the entire nature of the risk discipline, are evolving. The good news is that the strategic conversation around risk is changing too. For leaders today, risk can be used as a tool to create value and achieve higher level of performance. It's no longer something to only fear, minimize, and avoid.

Explore the drivers, opportunities, threats, and real-world examples for each trend. And ask yourself: Will your organization be able to harness these trends to be even stronger and more resilient?

The 10 trends profiled in the report are:

1. **Augmenting human decision-making with cognitive technologies** –Advancements in cognitive technologies, artificial intelligence and data analytics are helping organizations use smart machines to detect, predict, manage and prevent risks.

2. **Leveraging pervasive controls –** The Internet of Things is equipped with a variety of sensors, communications and computing capabilities that serve as risk monitoring and enforcement points for everything from tracking product safety across a supply chain to preventing fraud via context-aware identity access capabilities.

3. **Informing risk insights with behavioural science** – As behavioural science in the workplace gains momentum, companies are harnessing risk insights derived from it to detect risky behaviour and cognitive biases while also strengthening protocols.

4. **Complementing prevention with vigilance and resilience** – Because some risk prevention methods can yield unwelcome side effects like slowing innovation, organizations are expanding their approaches to focus on vigilance (detecting patterns that may indicate or even predict risk events) and resilience (the capacity to rapidly contain and reduce the impact of risk events).

5. Looking more closely at the transfer of risk – The growth in mega-impact events like cyberattacks, political unrest and climate change – and their growing financial and reputational impacts – are driving companies to re-examine insurance and contracts as business hedges.

6. Innovating ahead of the current regulatory framework – Innovation often outpaces regulation – and in some instances drives the regulatory agenda. Some organizations are taking on high-risk innovations as a strategy — even when they fall outside the scope of existing regulations — and reaping rewards both on the business side and in helping their respective industry ecosystems to develop regulatory frameworks.

7. Turning risk into a performance enabler – As risks become more measurable and tangible, organizations will be better able to determine an accurate upside value for risk — and encourage a desired level of risk-taking behaviour in a bid to balance risks and rewards.

8. Collaborating on risk management in an increasingly networked economy – Sharing-based and crowd-driven initiatives are gaining more acceptance among stakeholders across industry ecosystems that include customers, employees, business partners, vendors, regulators, suppliers —and sometimes even competitors — leading to new collaborations in risk management.

9. Advancing disruption sensing and preparedness – Executives are employing real-time monitoring, scenario planning, stress testing, war-gaming and simulations to introduce more agility, adaptability and responsiveness into their organizations' strategic threat management efforts.

10. Combating reputational risks – Consumer activism and hyper-connected communications channels have put a magnifying glass on reputational risks, leading organizations to foster more risk-intelligent strategies and monitoring systems that can allow them to get ahead of crises.

Click here to download the complete report.

About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

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