Hindu Business Line
UPI combined with credit cards, a big opportunity
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BANKABLE. **With the linkage of** UPI and credit cards, HDFC Bank's Parag Rao sees a big opportunity in this segment **p4**

'UPI combined with credit cards, a big opportunity'

BULLISH OUTLOOK. Will continue to be a dominant player in the cards space, says HDFC Bank's Parag Rao

bl. interview

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Parag Rao, Group Head – Payments, Consumer Finance, and Digital Banking, HDFC Bank, shares with *businessline* the scene at the bank post the embargo on credit cards, how UPI can add a big layer of opportunities for the lender, and why credit cards being an aspirational product is good. Edited excerpts:

What are the few things that the embargo on credit cards business helped you understand?
We were leaders in terms of share and growth and we still are. The embargo helped us take a pause and look back where we were. We re-looked at our strategies. We more than doubled our focus on existing carded customers and deepened our engagements because issuing is important since we need the flow of customers, credit cards is an annuity business. Profitability, growth, and health of the portfolio happen when customers repeat purchases.

This is also why while we may be only a couple of percentage points higher than the rest in terms of volume share, our value share has always been 9-10 per cent higher than others. By that I also mean going back to users even in the micro segment, widening the scope of spends, upgrades and limit enhancements, including credit.

Second, we also looked what could happen over the next 3-5 years, and how we could review our products.

What were the aspects that needed fine-tuning?
We relaunched and refurbished some of our existing cards. We came up with a partnership strategy and co-branded cards alliances.

When the embargo was lifted, we came out hitting the ground because we were ready with our strategy. We will continue to be the dominant player in the card space, focussing on partnerships that are relevant and mutually beneficial.

Given your ticket size and recent partnerships, you're being seen increasingly as cards for the elite...
Not quite. Paytm and Swiggy (partnerships) contribute significantly to the cards and are mass market cards. Premium card portfolio would not be more than 5 per cent of the total contribution. In any portfolio, premium products give you the brand image, but don't contribute much in numbers.

But they are the brand leaders. The business and volume come from the brands that are not advertises. It's true in consumer products and in banking. But I'm happy if you say that we are looked at as premium [product]. As long as credit card remains an aspirational value, people will want to keep upgrading, and will thereby have credit discipline.

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>
> **PARAG RAO**
> Group Head – Payments, Consumer Finance, and Digital Banking, HDFC Bank

Is that also why petrol pumps, theatres, malls or even airports are not much of your catchment area?
New cards acquisition is about 1-2 per cent of the story; 98 per cent is what you do after the guy becomes your customer. Within new cards there are two important things — one the acquisition strategy, that is, where and from whom you source. Second, we are selling an engagement product, which requires a strong narrative and a good understanding of the features.

I'm not sure you can get that across in the 2-3 minutes spent at a petrol pump or at the airport with a customer. Our focus is on people with good credit history and discipline.

Low-spend cards is a segment where stress is seeming to build up. How do you see it?
If you have five card issuers chasing the same customer at a petrol pump, you will get this.

Credit cards is the oldest and sustainable form of BNPL. Would you agree?
There's nothing wrong with BNPL as a segment. It took off because of the convenience and imploded not just in India, but abroad also.

But it was dominated by players whose job was not to do prudent lending. It was creating bubbles, which is why when the RBI clamped down. Its thrust was on transparency.

Therefore, credit card is the best product, because it's a structured financial instrument and issued by regulated entities. On the same back end (of BNPL), you can come up with variants of credit cards, which address the need for small-ticket lending. This is a large opportunity over the next 5-10 years. We're seeing new opportunity in this segment, such as linkage of credit through UPI and a second step to that is UPI on credit [cards].

But credit on UPI is perceived as counterproductive for cards...
It doesn't matter. Having regulated entities like banks issuing structured credit card products on structured rail like UPI, which has a lot of the checks and balances, is the best way to maturely build up the small lending ecosystem.

Why are we seeing so much of regulatory tightening in the card space recently?
The growth in the card space in the last 3-4 years versus 5-6 years prior to that has been significant. Second, now with the with the linkage of this UPI and credit cards, it's inevitable that cards as a percentage of the total spend economy will grow.

Given that its unsecured lending, a lot of dependence on the maturity and capability and good underwriting on the customer to maintain zero bubbles in the space is important. In the last 3-4 years, we saw many fintechs getting in.

While their intent may be good, secured practices take time to build. It's a cost. In the hurry to show a top line, it's easy to short cut these measures.