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SBI Card MD & CEO explains why UPI, BNPL are no threat to credit card biz

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SBI Card MD & CEO explains why UPI, BNPL are no threat to credit card biz

By Nikhil Agarwal, ETMarkets.com • Last Updated: Jun 07, 2022, 09:08 AM IST

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Synopsis
"Credit card is a derived demand product, and its growth is dependent on a combination of factors. Consumer spending on cards is a fair estimate of how consumption is changing in response to various external stimuli. In India, the credit card market is underpenetrated, and inflationary pressures may impact spending. More specifically, the impact could be seen at the category level, if any."

ET Markets Smart Talk

Rejecting the notion that the wide adoption of UPI as a preferred mode of payment and the increasing popularity of BNPL (buy now pay later) models by fintech startups are a threat to the credit card business, Rama Mohan Rao Amara, MD & CEO, SBI Card, says the sustainability of new payment models needs to be assessed and will only be known over a period of time. "While UPI has gained traction, it serves a different purpose. Similarly, BNPL is a model based on low ticket spends. It is targeted at a different segment comprising students, early jobbers, and homemakers, among others," he says in an interview with ETMarkets. Edited excerpts:

As consumption and travel improves, what kind of growth are you looking atin FY23? Any targets that you can share in terms of issuance of new cards?
In FY22, our cards in force have seen a growth of 16% YoY. In fact, in terms of new accounts growth, we have seen a growth of 33% during the last fiscal year. Despite the economic headwinds globally and domestically, consumer activity is improving with consumer confidence showing continued recovery, as per a recent RBI consumer confidence survey. Amidst this, our mid to long term strategy in card sourcing continues to be at similar issuance levels in open market and BANCA with some variance. Going ahead as well, we aim to focus on sustainable growth in both card volume and spends.

What do you think would be the impact of rate hikes in your business?
With an increase in the interest rate cycle, our interest cost will also increase gradually in line with the industry. However, over the years, our long-term borrowing mix has increased which will help in limiting the impact of higher interest rates. Further, the impact will be gradual due to interest rate reset only at the time of repricing. In case the impact is higher, the company will also evaluate passing on some of the hike on new EMI bookings, wherever possible, to offset the impact.

Do you see inflation restricting growth in the near term?
Credit card is a derived demand product, and its growth is dependent on a combination of factors. Consumer spending on cards is a fair estimate of how consumption is changing in response to various external stimuli. In India, the credit card market is underpenetrated, and inflationary pressures may

impact spending. More specifically, the impact could be seen at the category level, if any. For instance, in FMCG goods, in certain demographic strata, it is seen that consumers opt for smaller packages to control overspends. In case of fuel, ticket size remains constant while the number of transactions increases.

Consumer spending on credit cards has been fairly robust. It is important to note that even in the past few quarters during COVID period, spending has seen a steady increase. At SBI Card, spends grew at 11% YoY in Q4 FY21 and in Q4 FY22 they grew by a significant 51% YoY. This growth came even when some key traditional categories, especially travel, entertainment and dining were impacted substantially. So, while we continue to monitor the environment, we remain optimistic about future spending growth as we see categories like travel and entertainment coming back.

How much business do you generate from co-branded cards? Is that going to be a key growth driver in the next few quarters?
Our co-brand cards portfolio contributes a significant share in our business. In fact, SBI Card is one of the largest co-brand credit card issuers in the country. We have partnerships with several major players in various segments like travel, fuel, fashion, healthcare and mobility among others. Our many cobrand cards such as IRCTC SBI Card, BPCL SBI Card, Tata Platinum Card, Club Vistara SBI Card etc. have gained good traction among consumers. Going forward as well, we will continue to explore similar synergies to create unique offerings for our customers.

How much of a threat do you perceive from the popularity of UPI and BNPL kind of products to the card business? What steps are you taking to address the challenges posed by these BNPL-focussed startups?
India has a very vibrant and fast evolving payments landscape despite cash still being widely used. This has led to the emergence of many new payment formats. As India gradually moves towards a digital economy, there is space for different forms of digital payments to co-exist with each performing its role in driving this transition and benefiting consumers. So, while UPI has gained traction, it serves a different purpose. Similarly, BNPL is a model based on low ticket spends. It is targeted at a different segment comprising students, early jobbers, and homemakers, among others.

Credit cards continue to be an important payment format in the country, both online and offline. In April 2022, the outstanding credit cards had grown to over 75 million, registering a growth of about 20.7% YoY. Despite this robust growth, credit card penetration in the country is still low when we compare globally. Therefore, potential for growth is immense in this segment. Moreover, over the past few years, we have seen many new payment models emerging, their sustainability still needs to be assessed and will only be known over a period of time.

Can you share some insights on how consumer spending has changed in India after Covid? Are credit card EMIs getting popular despite the higher cost?
One of the most prominent impacts has been the acceleration in digital payments. As per RBI data, in April 2022, e-commerce spends stood at about Rs 65,652 crores, with a share of around 60% in overall credit card spends during the month. At SBI Card, we have observed a similar trend. For instance, online spends contributed over 54% share to our retail spends in FY22 and are growing steadily. Another key trend has been the emergence of many new spend categories during these past two years. These include categories like health & fitness, rental, utilities, education etc. When we talk about EMIs, it is important to note that the nature of EMIs vary depending on the categories and offers. Overall, we have seen a healthy increase in EMI conversions both at point of sale (Merchant EMI) and post-sale (Flexipay). In fact, these contribute to 10% of overall spends. As a result, share of contribution from EMIs in our receivables mix is seeing a steady increase. It was 29% in Q4 FY21 and rose to 34% in Q4 FY22.