

Payment Banks – An Innovative Initiative by RBI

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Abstract: *The advent of nationalization of the banking sector coupled with the globalization effect has changed the dynamics of banking in India. Over the past decade the Indian economy has undergone rapid technological and innovational transformations which led to the birth of payment banks (proposed by the RBI committee on 'Comprehensive financial services for small businesses and low income households' spearheaded by Nachiket Mor during 2014).*

Adoption of payment banks has resulted in greater financial penetration among Indian demographics in the form of increased awareness among customers and their retention, reduced burden of commercial banks and increased the digitization of banking transactions thus; reducing operational expenditure and maximizing the profitability of banks.

Keywords: *Payment banks, factors, RBI, preferences, types.*

Objectives

1. To study the emergence of Payment banks.
2. To analyse the extent of preference towards various Payment banks.
3. To study the factors affecting the preference.

I. Introduction

The Indian financial sector has traversed through many strenuous pathways; Pre-independence era, the nationalization phase and the post reform period. After 1991, eventually, greater emphasis was laid on customer satisfaction by channelizing banking transactions through net and mobile banking.

The inception of virtual banking opened a gateway to users, as they could utilize services such as electronic payments, fund transfers, daily account statements, use of plastic money or payment cards etc. These were less time consuming, ensured greater security and could provide instant fund transfers.

Despite the advancement in digitalizing banks, the rural population remained unaware due to unregulated regional rural banks as well as the rural branches of commercial banks. In order to counter this problem and to strengthen the enhancement of financial inclusion and financial literacy; the committee on comprehensive financial services for small businesses and low income households recommended the establishment of payment banks on **17 July 2014**. The **RBI** on 19 August 2015 gave 'in-principle' licenses to eleven entities to set up payment banks.

Since 8 November 2016; when the government of India scrapped the high currency notes, the number of bank accounts opened as part of the Jan Dhan Yojana has witnessed a manifold increase. The existence of payment banks will supplement the functioning of these new accounts.

The major focus of payment banks on the critical chunk of small deposit holders and low income labour class through mediators such as supply market chains, Pre-Paid payment instrument (PPI) issuers, business correspondents and other non-banking institutes gives an impetus for the existing banking system to remodel itself into an innovative and competitive market.

II. Literature Review

Vyas, Gaur & Singh (2016), discussed the evolution of payment banks. The study evaluates the scope of payment banks in fulfilling the objectives of financial inclusion. They also compare the Indian scenario with the success of M-Pesa in Kenya.

Krishnakumar (2015) analysed the existing business operations of payment banks and proposed a theoretical model as an improvement over the existing model. They argue that the current telecom boom along

with innovation in technology can assist in reform the banking sector and provide impetus for the cause of financial inclusion.

Similarly, Winn (2015) outlined the mobile payment mechanisms in Kenya, Brazil and India.

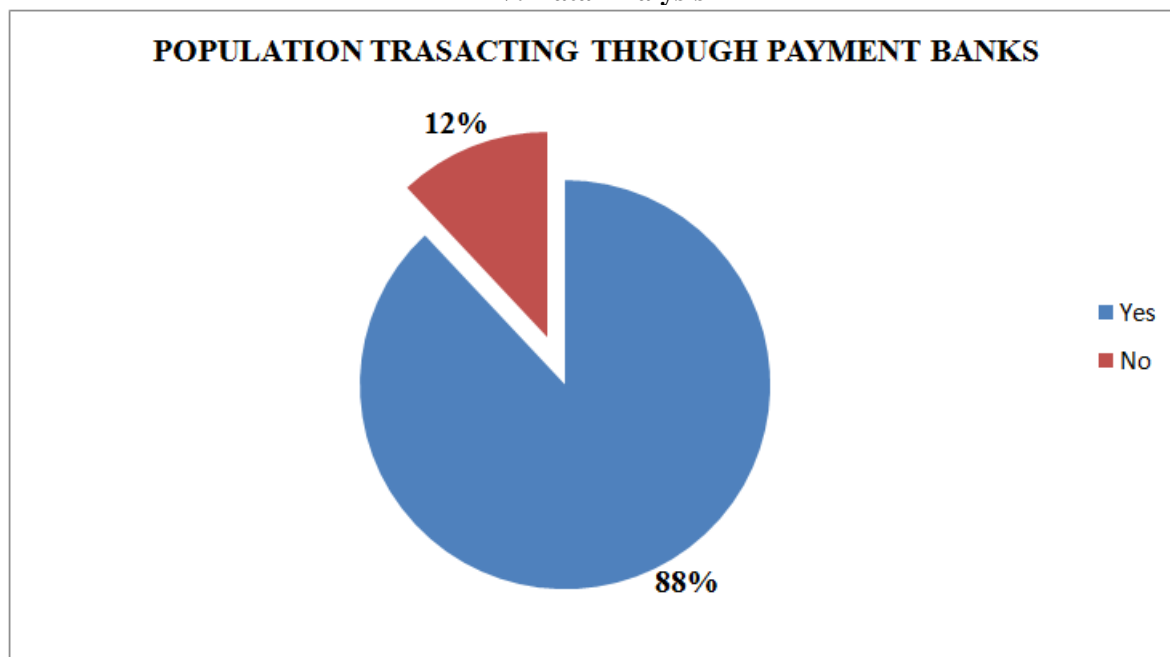
Mas (2009) Few studies have analysed the concept of payment bank. In a landmark article he discussed the regulations for branchless banking which includes payment banks in India. The study argued that the regulatory framework needs to evolve to foster competition by a broad range of players. It also stresses that the existing regulations should be modified to reduce the cost of entry and provide scope for business model innovation.

Conclusion: The concept of Payment banks and innovations coming up pertaining to the banking sector has been appreciated by the research scholars in their journals. It has also been suggested that there must be more improvements and modifications should be done, so as to keep in pace with the technological amendment.

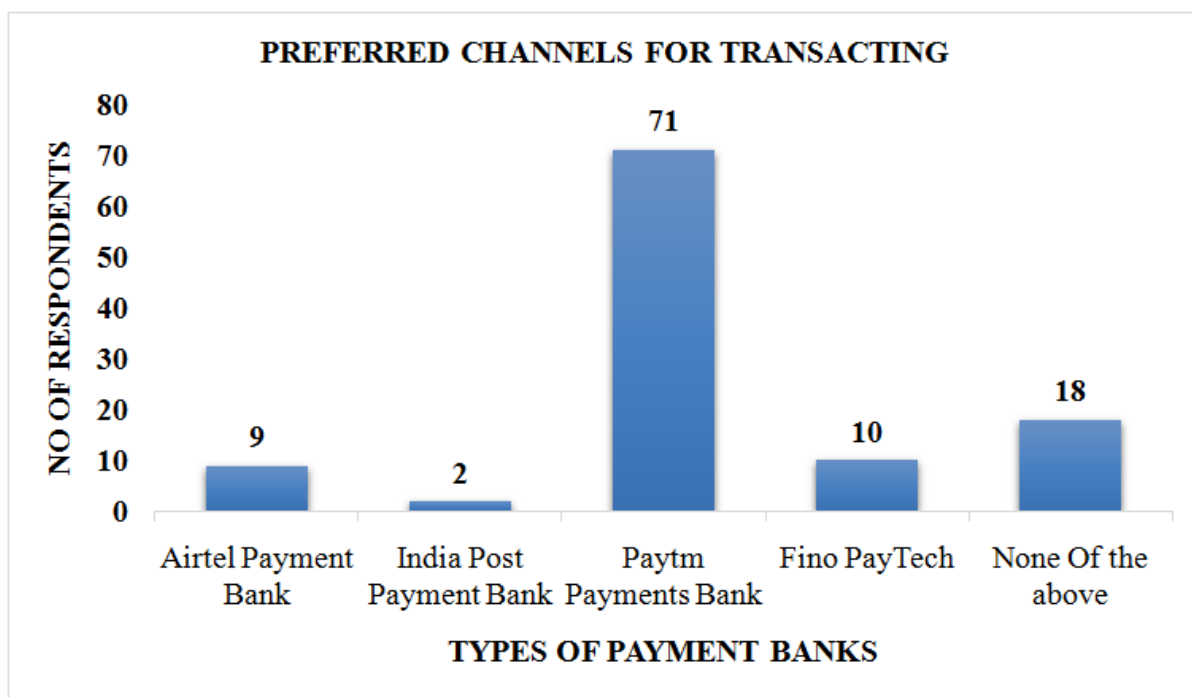
III. Methodology

A survey has been conducted with the help of questionnaire, circulated to a target population of 200 out of which 100 responses were received. The respondents include students, employees and others. The questionnaire is based on the four existing Payment Banks, which were licensed by the RBI. They are: - Paytm, India post, Finopay tech and Airtel payment banks. Data analysis has been done with a graphical representation and correlation analysis through MS Excel.

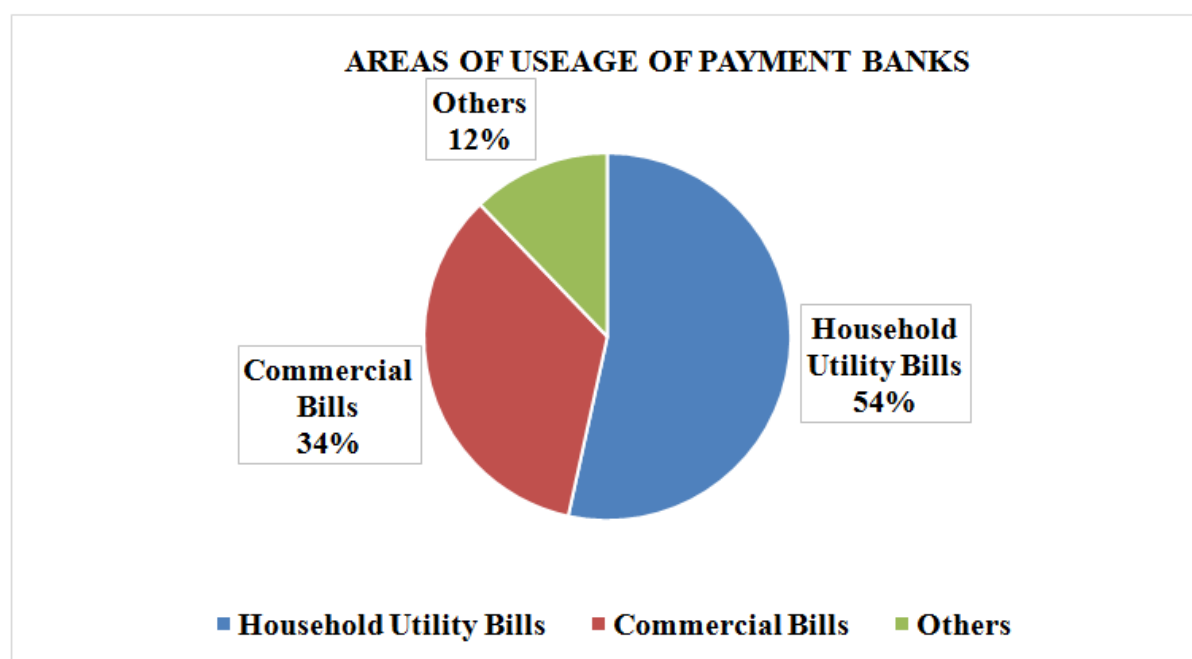
IV. Data Analysis



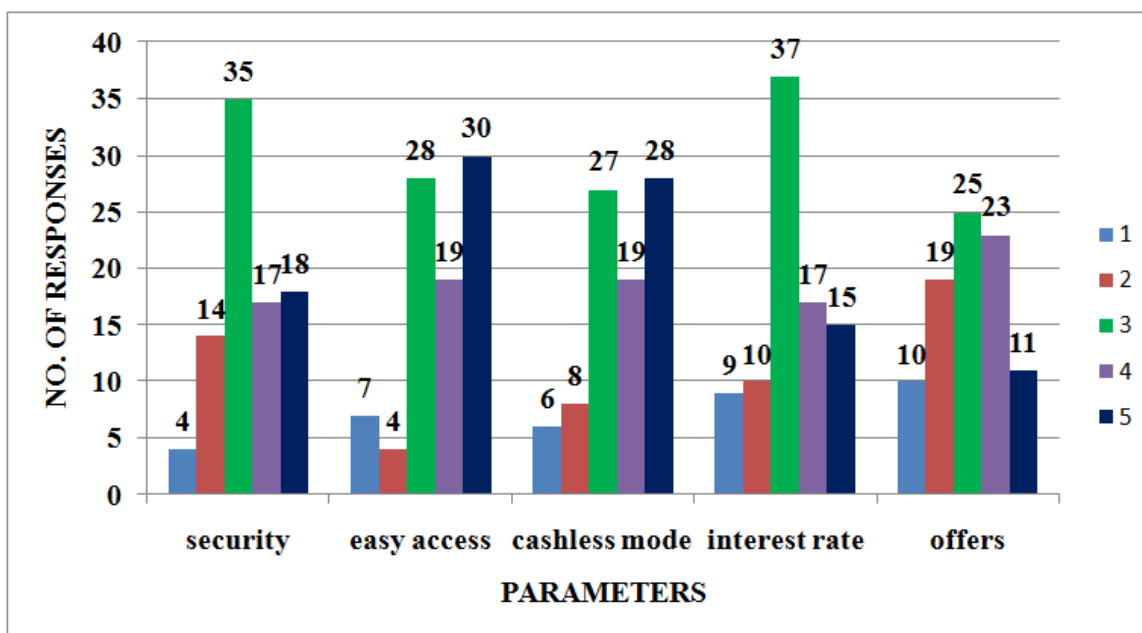
More than half of the respondents prefer transacting through payment banks and it's a positive sign to the banking sector.



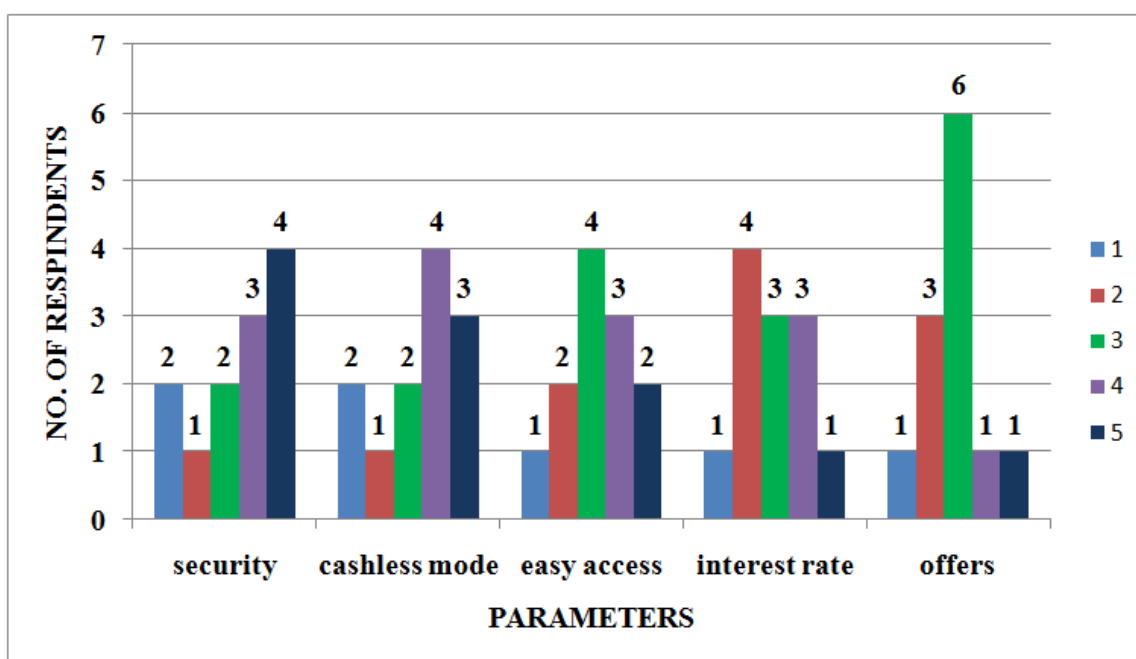
Maximum number of respondents prefer transacting through Paytm Payment Banks.\



These payments banks are generally used for payments of House Utility bills(water bill etc.) and Commercial bills(shopping etc.). Others include transfer of funds and banking related transactions.



- The above graph represents the ratings(1-lowest,5-highest), given by the respondents on the parameters they looked for, while opting payment banks.
- More than 75% of the respondents preferred payment banks due to the interest rates offered on deposits, which are slightly higher than the general commercial banks.
- Easy access, as it's completely digitalized and simpler for making transactions or opening an account in payment bank.



- The above graph represents the ratings (1-lowest, 5-highest), given by the respondents on the parameters due to which they did not prefer payment banks.
- Overall there are 12 respondents who don't prefer transacting through this mode as they feel it lacks security and doesn't involve easy access.

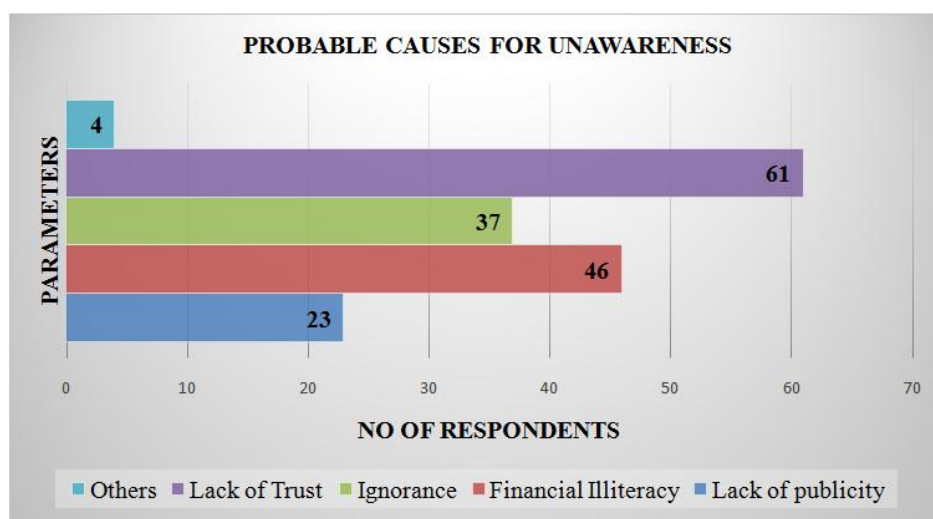
Table showing **Correlation** between various parameters and the ratings.

| Parameters | For opting | For not opting |
|---------------|------------|----------------|
| Security | 0.44 | 0.83 |
| Easy access | 0.81 | 0.69 |
| Cashless mode | 0.84 | -0.12 |
| Interest rate | 0.56 | 0.42 |
| Offers | 0.14 | -0.14 |

- It can be observed that, there exists a strong correlation for Easy access and cashless mode, due to which maximum number of respondents preferred opting for payment banks
- Offers tend to be one of the least factors impacting potential payment banks customers.
- The major reason which influenced them not to opt is lack of security. They feel that in today’s technologically advanced world, there are comparatively higher chances of occurrence of online fraud and hacking.
- A negative correlation shows that cashless mode and offers were not considered as a factor for the respondents not opting for payment banks.



More than 50% of the respondents have given highest ratings for the introduction and concept of payment banks. This can be observed through the responses of 88 people who not only use but, are also satisfied with payment banks due to various factors involved, as analysed earlier.



Most of the respondents believe that, Lack of trust is the main cause of unawareness among many other people who don’t prefer Payment banks. It’s a general tendency among people in ignoring new innovations in the banking sector mostly due to financial illiteracy.

V. Findings

- Our study shows that around 88% of the population transacts through payment banks whereas, 12% have never used these channels. One probable reason is; the “Digital India” programme initiated by the Government of India(GoI) is still in the nascent stages. However, Airtel and Paytm can help create greater utility as they have already established their prominence.
- Majority of the respondents (54%) utilize payment banks for electricity bill payments, grocery bills in local supermarkets, Pre-paid mobile bill, recreation expenditure etc. A significant amount of commercial transactions are preferable in the form of fund transfers, hotel room bookings, clothing etc.
- Approximately 84% of the population have rated “cashless mode” and 81% prefer “easy access” as the prime factors which influenced them to adopt payment banks. Since, there is no restriction on the eligibility of individuals in opening a payments bank account; the student population staying in residential universities use this facility to pay their fees. Employees of small factories receive their salaries through these accounts.
- Of the population who do not prefer payment banks, “security” and “easy access” have been the primary factors restricting them from transacting through this medium. Our research also reveals that a predominant part of the respondents (66%) feel that lack of “maintaining stringency in KYC (Know Your Customer) norms” is a major loophole in ensuring customer security.
- Only 25% of the population surveyed are satisfied with the rate of interest offered by payment banks. The USP of payment banks is its high deposit interest rates. But, since these banks do not earn from lending on credit, it is difficult to predict if these banks will continue to offer higher interest in the future.
- The greatest advantage of a payment banks is the convenience of carrying out transactions at the customer’s doorstep. 82% of the respondents agree to this statement.

VI. Suggestions

- Financial literacy is a major concern, there should be free seminars conducted across cities, especially in the under-banked and unbanked areas; which would increase awareness among the people and also prove to be a great marketing strategy for the payment banks as well. A two-way benefit.
- It is suggested that these Payment banks should also keep innovating new options to make it easier for the customers according to their preferences.
- Security is considered as a major limiting factor. There is leniency in Know Your Customer (KYC) norms mainly to cater to the non-banking population. But, it needs to enhance its security protocols in the future in order to earn the trust of its customers.
- Payment banks must maintain a fine balance between their costs and benefits. Example: - Airtel payments bank offers 7.5% interest rate to attract customers, but, also charges high inter-banking transaction fees. Similarly, the investments of payment banks are limited to government securities and fixed deposits, while they cannot lend to the public. So, their net income is low when correlated with the high volume (customers) and low margin (yield on investments) of doing business.

VII. Conclusion

Payment banks are becoming the most popular medium of digital transactions. India is going towards a cashless economy, which is more feasible and adaptable in relation to the recent technological and economic trends. In this study, the most preferred payment bank is Paytm since it's easily accessible and creation of account is instantaneous. Payment banks are providing a gateway to the low income and middle income groups. Innovation and improvisation of the business could be the key elements of success of Payment banks. On comparison, it's too early to judge the competency of Payment banks with respect to, well established banks. Lastly, the negative aspects of payment banks will come to an end along with time, as nothing remains constant in a dynamic economy.

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