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Payments Banks- Prospects and Challenges

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*Address for Correspondence: editojohp@gmail.com***ABSTRACT**

Non-inclusion of banking sector in rural India is one of a very important challenges faced by the Indian Government. Payments Bank is a different kind of bank which is encouraged with the definite aim of extending the range of banking to massive majority of the unbanked and under banked sections of the population. The presence of payment banking in rural areas is very much required. These banks have been promoted by India to use the network of post office as well as the electronical or digital platform such as internet banking, debit cards, point of sale devices to reach to vulnerable population. The present study examines the scope of payment banking in India and to know the various challenges and opportunities for these banks to ensure the implementation of banking system at the primary level. Also this paper focuses on the role of fintech to improve the pattern and systems of payment banks in India.

keywords: Infrastructure, Payment Banking, Technology requirement, Traditional banks

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INTRODUCTION

There have been enormous changes in the payment system of India since 1980. In adopting the modern and latest technology, the banking system in India has proved its metal. In 1988 the RBI has embraced various computerized settlement facilities at all its clearing houses. In 2000 the core banking software was installed with the introduction of internet banking. Since 2007 government is striving very hard towards making the economy as cashless economy. The government has taken many initiatives and has created a catalytic environment for the greater propagation and progress of digital payments. Introduction of digital systems such as Real-Time Gross Settlement (RTGS) in the year 2004, National Electronic Funds Transfer (NEFT) in the year 2005, and Immediate Payment Service (IMPS) in the year 2010, and Unified Payments Interface (UPI) in the year 2016, are the government's initiatives which are a clear articulation and adaptation to the new era.

Advent of payment banks :

Payment banks are like any other banks but operating on a smaller scale without involving any credit risk. The RBI has issued the license to only 11 applicants out of 41 applications to undertake the operation of banking u/s 22(1) of the Banking Regulation Act, 1949. This has started the establishment of payment banks in India with an objective of providing the universal access to banking. These banks operate on a very small scale and use the mobile as a medium to reach the end user instead of the traditional bank mechanism. Airtel Payments Bank, Paytm and India Posts Payments Bank have already launched operations. Finotech, Vodafone and Reliance are expected to launch their payments banks soon.

Payments banks vs. traditional banks :

Though the payment banks have the same functional system as traditional banks are but still there are some differences between these two types of banks. These are as follows:

Table 1: Distinction between Payments banks and traditional banks

Payment Banks	Traditional Banks
These banks can raise an amount of up to Rs.1,00,000 (close to &1500)	There is no limit on the amount of total deposits.
There is no need for the customers to maintain any minimum balance in these banks	In the traditional banks, the customers need to maintain some minimum balance.
These banks can't offer loans	These banks can offer the loans.
They cannot issue the credit cards	They can issue the credit cards
The customers are charged for intra banking transactions and withdrawals.	The customers are not charged for intra banking transactions and withdrawals
It is mandatory for these banks to be highly technology driven from the very beginning.	It is not mandatory for these banks to be highly technology driven from the very beginning.
.These banks are not allowed to set up their subsidiaries to undertake non-banking financial services and activities.	These banks are allowed to set up their subsidiaries to undertake all their non-banking financial services and activities

Purpose of payment banks :

As the payment banks are entirely dependent on the current technology, the customer base is expected to increase as the medium of transaction has moved from Banks to Mobiles. The main aim of these banks is to widen the scope of payments and added financial services to the low income household, small entrepreneurs and businesses and to the vulnerable population. Also these banks aimed to migrant labour workforce in secured technology-driven environment.

Revenue model of payment banking :

Since no payment banks have furnished any annual report, thus it is very hard to remark on the earnings model of these banks. Though with the help of available information it can be stated that the primary source of income for these banks have been the transaction fee that they charge from their customers. For every intra transaction, the customers are charged some fees e.g. customers are charged fee for transferring money to the other banks or for withdrawing the money from their own account. Also, these banks receive some reasonable amount of income from the payment merchants for assisting the bill payments and remittances. For instance, if a customer uses the payment banks to do an online payment for electricity bill, the bank costs the issuer of the bill (electricity board in this case) for providing the services. Thus the payment banks just like the commercial banks also earn money, through point-of-sale (PoS) terminals and resultant MDR (merchant discount rate) in the form of commissions from transactions. The another way of earning for these banks are through interest. Payments bank can pledge money with some government deposits and/or other bank and provides higher rate of interest than they provide to their customers.

Benefits of payment banks :

For the very first time, it has been seen that Reserve Bank of India has issued differentiated license for such banking activities. Such kind of initiative will surely change the entire outlook of the banking industry. The following are the benefits that can be seen from the operation of payments banks in India:

- The account in the payment banks can be started free of cost and there is no need to maintain a minimum cash balance. This will force the unbanked population to enter into the formal banking system.
- Since the payments banks are highly technology driven, many customers and the established network can use the same in their favour. Since these banks are operating through their existing business points, their operation cost is quite negligible. This will help the banks to earn some profit even with the minimal charges imposed on the customers.
- The constant increase in the mobile and internet penetration in India is definitely an added advantage to the working of the payment banks in India.
- The USP of these banks is the fact that customers or people can open a bank account at their doorways with the support of an agent. The customers can do the transactions by utilizing their phones and they have the facility to make deposits of up to ₹1 lakh. Also, this is a win-win model for both consumers and financial service providers as it tackles the problems of approachability and affordability.

Challenges faced by payment banks :

There is a huge potential of payment banks in India but such an initiative is also facing several challenges:

- Since internet is the only way of operation for these banks, it will be fair enough to say that India is struggling with the internet speed and it has the speed which is much lower than the international benchmarks. According to one of the report by Akamai's state, the average speed of the internet was 5.6 mbps in year 2016. Thus such a low speed is creating a problem for success of payment banks in India.
- As the payment banks are completely technology based without any substantial physical presence, the payments banks is more tilted towards the more tech-savvy inhabitants.
- Both the customers as well as the agents have a very less awareness of the concept of payment banking and its uses.
- Apart from the technological hurdles, there is more for behaviors which is the main reason of to accepting all the digital challenges faced by the customers.
- It is very difficult to find out the agents required for purpose of implementing these technological shifts with the customers as they themselves need to be motivated financially and technical to carry forward the objective of digital payments.

Since the implementation of demonetization in India, the digital payment system in India received a great boost but at the same time this consequently leads to decrease in the use of cash. But despite of this fact most of population is heavily reliant on cash (cash circulation of June 2018 was more by 9.8% as compared to June 2017).

Opportunities for payment banks :

- **Big size of the market:** There is a big market which has not been tapped and efforts can be made to include the unbanked population, which is approximately 233 million, to use banking facilities. To achieve this objectives, the payment banks should segment the whole market on the basis of both demography and geography, to offer the custom made products for the females and the poor and the prospective customers.
- **Generalization:** Since demonetization and with the government initiative on (Jan-DhanAadhar Mobile), there is a push for demonetization. Despite of initiative taken, most of population prefer cash mode for small value transaction. The Merchant Discount Rate is levied at the rate of 0.75-1.0% on debit cards and 1.5-2.5% on credit cards which is pretty high and seems unaffordable for small traders. Even the RTGS and NEFT are chargeable and OTP-based digital solutions offered by banks are too costly and all the more they expect a higher level of technology comfort.
- **Provide for Financial Advisory:** Financial advisory is a conventional term, that has been used but rarely applied. Most of the Indians have a little or no access to the financial advise being given by banks or any other third party and hence there lies a huge gap in the services and their implementation.

Future action for payment banks :

There are three kinds of customers that payment banks are adhering to: 1) the tech savvy young Indian who are happy to use proactive banking services and a secure platform for the payments. 2) The lower income financially excluded Indians who basically deals in cash and look forward to basic banking services on mobile. And 3) financially included although digitally non savvy customers. Thus looking at the kind of people it can serve, the payment banks need to work on the following areas:

- Knowing that this is a creative idea to bank the unbanked population, the Payment banks must invest a good amount of money in advertising, especially in rural areas, and remunerate the sales force significantly — move ahead and try to implement beyond the payment structure based on commission — to encourage them to spend time with customers in prospecting the paybacks of the services. This mechanism needs to enlighten the product and its characteristics to the sales force in a manner which will lead to the conviction of the customer.
- To authorize retail agents in their full capacity, the payment banks need to be involved at each and every part of the process. To commence with, the process should move a step further in associating the agents as an integral part of the process in order to make an easy pathway for the customer to adapt and use the process.
- Also it becomes imperative to put the technology in picture especially for the customer support whenever desired by providing effective training and technical knowledge to the sales force who in turn will be able to deliver the same to the end users.

The Payment banks must take an all-inclusive approach, starting from increasing the amount of money spent in the training to making it easy for the agents to continue to be able to deliver not only for short term but also for long term.

CONCLUSION

There are huge evidences to prove that the traditional banking is leaving its space. The use of technology is reaching to a modulation point to shift the banking paradigm. A fintech can better assess this paradigm shift than any other. The payment banks effectively make use of the digital era which not only caters to the existing customer base but also helps to attract and build prospective customers. To achieve the same, the payment banks need to do immediate collaboration with new age disruptors, resource optimization, and continual enforcement by RBI to develop the nittigritties of the games. Finally the payment banks need to work slowly with great efficiency by incorporating the benefit for the agents as well as the customers by introducing the great positive effects of using the technology based banking than the traditional banking.

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