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Payment Banks: A Way to Make India a Cashless Economy

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Abstract

Indian banking industry passes through tremendous changes and advancement from its origin onwards. But these developments are always failed to cover each and every people in India to banking services. But India just crossed 1 billion mobile subscribers which are more than that of having basic bank accounts. India can achieve growth in banking inclusion by utilizing the increased use of cell phones among population. This provides a greater opportunity to the introduction and development of Payment Banks in India. Payment Banks can be defined as "new model of banks that are permitted to receive cash deposits from customers, store them in a digital wallet and allow customers to pay for goods and services from their digital wallet, which is come under Banking Regulation Act 1949." Payment Banks can be highly useful for migrant labor, low income households, farmers, small businesses and other users. Each of them can utilize the facilities provided by Payment Banks to manage their financial activities such as savings and remittances. It changes Indian economy to a cashless one by facilitating electronic payments and remittances. This paper aims to study the need of payment banks in a cashless economy and its challenges.

Keywords:

Cashless;
Payment banks;
Needs;
Challenges;
Economy;

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1. Introduction

In India, about 151 Scheduled Commercial Banks, 2104 Urban Cooperative Banks, 38,347 NBFCs and numerous payment or technology operators. However, 50% of Indians don't have a bank account and only about 30,000 of India's 5.94 lakh villages have Commercial Bank branch. Many initiatives such as Self Help Groups (SHGs) bank linkages, banking correspondents, ultra small branches, electronic payment systems, etc., are undertaken by RBI and Government of India to attract this unbanked section to banking activities. Since, these attractive steps are almost failed to catch the section of India mainly rural and weaker people to banking activities thus it lower the growth of financial inclusion in India.

But India just crossed 1 billion mobile subscribers which is more than that of having basic bank accounts. There arises a need for payment banks. As per the recommendations of Nachiket Mor Committee RBI gave "in-principle" licenses to 11 entities to launch Payment Banks (PBs) on 19th August 2015. Payment Bank is entirely new type of banks which are expected to reach customers mainly through their mobile phones rather than traditional bank branches.

Objectives of the study

1. To understand the concept of Payment Banks.
2. To find out the need for Payment Bank in India.
3. To analyze how Payment Bank make India a cashless economy.
4. To study the challenges faced by payment banks.

Meaning of payment bank

Reserve Bank of India has conceptualized the new concept of banks as Payment banks. The main objective of these payment banks is to reach customers through their mobile phones. Introduction of these banks will accelerate the path of making India a cashless economy. This step of Indian government redefines the banking as it is not feasible as well as uneconomical for traditional banks to open branches in every village, but mobile-phone provides a low cost platform to take banking services to all citizens of India.

To provide a technology based secure banking system and to create a technology driven environment is the main objective of these payment banks which will help in developing financial services. This system will also provide a simple payment method to the unbanked and remote population of our country. Payment Banks can be defined as "new model of banks that are permitted to receive cash deposits from customers, store them in a digital wallet and allow customers to pay for goods and services from their digital wallet, which is come under Banking Regulation Act 1949."

Need for payment bank

The need for Payment Bank can be analyzed through different sections:

Low income households

Most of the rural area not comes under formal banking and is excluded from financial services even after the implementation of LPG policy. The initiatives taken by Indian govt. and RBI such as no-frills accounts, relaxation of KYC norms, engaging business correspondents, use of technology, opening of branches in rural centers covers rural low income households to the circle of financial inclusion to some extent.

To speed up the growth level of banking inclusion the services of Payment Banks are helpful. From the statistics of telecom subscription data as on30th November 2015 there are 436.2. Million rural cell phone subscribers and 1.43% monthly growth rates. This situation provides a room for Payment Banks among low income households.

Migrant labour

There are large number of people migrated from one place to another places in India for labor purposes. So they need the facilities such as savings of their daily wages and remittance facility. Payment banks provide the needed facilities to them and also provide an access to the banking activities from anywhere in India.

Farmers

Indian economy consists of 38% of farmers out of total population. Majority of them are located in most rural areas that are unbanked. They needed to deposit their small savings and use their savings for their farming purposes such as buying seeds, pesticides, fertilizers etc. Payment bank meets their requirements to some extent through their cell phones.

Small business

The present business situation gives importance to electronic transactions. But the micro and small business are unaware about such requirements. So they need these electronic payment mechanisms to expand their business activities. The services of payment bank satisfy such needs by accepting their deposits and helps in joining cashless electronic transactions.

Other users

There are number of people in India who are interested in banking activities, but feel difficulty to approach bank due to various reasons such as transportation problem unawareness about banking facilities and other reasons. Payment bank can fill the gap and provide needy services like online purchases, online transfers, PoS services, utility bill payments, services to students etc.

Payment Banks; A move towards India's cashless economy

Indian Finance Minister, Mr. Arun Jaitley said payment banks "will change the way people think, change the way they keep the money, where they keep their money, the way they pay," Payment Bank is a digital wallet which promotes cashless transactions.

1. Handling cash will become a lot easier via payment banks. We can transfer money using our mobile phone to another bank or to another mobile phone user and we can also receive money through our device. Or we can also transfer the amount to point-of-sale terminals at large retailers and take out cash.
2. The attractive feature of Payment Bank is 'high quality – low cost of delivery.'
3. People can book movie tickets, pay utility bills, insurance premium payments, recharge mobile

phones and dish TVs, etc., electronically.
4. Our mobile phones can become virtual ATM even if we are not carrying cash and in a search of ATM nearby. While the payment banks can't issue credit cards, they can issue ATM and debit cards. Since many of the 11 new license holders of payment banks operate mobile wallets, the ability to issue an ATM card helps mitigate the gap and makes it convenient to convert virtual money into cash, and vice versa.
5. Payment banks can be integrated with your savings bank accounts via IMPS and NEFT transfers. As already mentioned, the payment banks ATM or debit cards will also work on all banks' machines. Payment banks can't accept NRI deposits, which makes sense considering the goal of financial inclusion.

The challenges

According to Indian govt the concept of payment banks kills two birds with one stone. Firstly, it gives an impulsion to the financial inclusion initiative by broadening the digital payment system. Secondly, it encourages the FinTech culture in the Indian banking system and also indicates that RBI is changing itself with times, despite its legacy.
While both are desirable objectives, in reality, the case of payments banks is a tough concept to implement. The key challenges are:

1. The payments-only model
A payments-only offering is an incomplete offering and relies highly on low account balances for profitability. It’s equivalent to any high volume-low margin business, with little customer stickiness. Making a payments bank profitable requires a fine balance between cost of acquiring liabilities, offering competitive pricing on transaction charges and ability to quickly reach masses. Current account-savings account is still the best source of low-cost funds while high transaction charges are the worst way to build customer loyalty contrastingly in traditional banking.

2. Cross-sell fee
While the cross-sell fee is touted as a ‘green pasture’ for building profitability, unfortunately, it is a shade less than green for the following reasons:

- To comply with IRDA and SEBI norms for selling insurance and mutual funds one requires certified and trained manpower to sell the products, which means PBs need to hire better quality manpower, expense on training them and longer gestation before the resource is productive. In simple words – higher costs and limited scope for income.
- Payments banks rely on third party intermediaries which makes it impossible to have a deep relationship with customers. Therefore revenue from cross-selling will not make a significant contribution to the remote area.

3. Restriction on fund deployment
Payments banks are required to invest 75% of their CASA balances in Statutory Liquidity Ratio (SLR) eligible government bonds or T-Bills. For the balance 25%, the option is deposits with other SCBs. While this is considered as a safety net for depositors, it restricts their ability to optimize treasury operations.

4. Over-competition
Multiple payments banks and small finance banks seeking for the customer attention and this the segment is already too hot to handle. While some of the players like Airtel or Vodafone, with the existing distribution network and large customer base, have an advantage, the nature of the relationship they have with customer is different from an oligopolistic or duopoly market we normally see in telecom where top two players become market makers. India Post may be a deviation with unique advantages of large physical distribution; however, for others, it’s a long journey to acquire critical mass.

5. Finding right set of skills
The Payments Bank concept is a hybrid of banking and distribution with a running thread of technology which is first of its kind. Business leaders from the FMCG and technology sectors have led to full set of complementary skills in the payments space in India. But with payments now adjoining to banking – a business which manages distribution points – it will be crucial to have the right set of skills matches’ payment banks requirement. Without the right mix of people, they may reach towards failure.

6. Designing the right products
Due to its “rémittence plus” model payment banks essentially require investing heavily in customer oriented

product design. It helps in capturing face to face and remote transactions by offering innovative and unique products. This becomes a big challenge when it comes to offer such products via mobile phones.

7. Pulling customers from cash mentality.

The challenge of moving toward e-payments isn't limited to infrastructure: For payment banks to succeed liquidity obsessed Indians will need to transfer to digital alternatives, which will need behavioral changes beyond technological barriers. Though a few e-wallet players and online marketplace providers like Paytm, Food panda, Shop clues etc., have been experimenting in this space in recent years – operating mainly in urban areas – for payment banks the task will be tough.

Steps taken by RBI and Government to discourage use of cash

- Licensing of Payment banks
- Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, and recharge mobiles, book movie tickets, and send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1, 00,000 based on a certain KYC verification
- Promotion of e-commerce by liberalizing the FDI norms for this sector.
- Government has also launched UPI which will make Electronic transaction much simpler and faster.
- Government has also withdrawn surcharge, service charge on cards and digital payments

Conclusion

Payments banks are expected to revolt financial services the way e-commerce has changed the retail industry; by offering prompt service, reasonable prices, a new approach and infinite options for customer. The success of these challenges to make a place for themselves in the industry that has being ruled by conventional banks for decades and boost healthy competition will depend on the way they approach the market and the financial products they offer. The market forces are waiting to challenge the established banks existing for long and may shift the balance of power in favor of these challenges banks for specific banking services. Payments banks will be more approachable and dexterous, and can promptly respond to changes in the economy. With few / no inherited limitations and greater receptiveness and approachability to customer needs they will attract a large pool of un-served, under-served and well-served customers. Though attracting customer might be easy but it would be necessary to monetize these relationships. While the incumbent banks are constrained by their outdated business model, payments banks are expected to introduce fresh 'hi-tech and hi-touch' digital approach in improving as well as deepening their reach. The ever-growing customers' expectations for faster-easier-simpler banking facilities will drive the bankers to work creatively and passionately, and contribute to the growth of different sections of the society and economy at large.

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