



## A Study Identifying Growth, Prospectus and Challenges of Payment Banks In India

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### Abstract

For economic growth of the nation to be sustainable all sections of the society must be included and each one should participate in the growth process. Amongst all, banking industry is the prime contributor for the health of any economy; which can generate huge mass of customers through its differentiated services using technologies. Considering the requirement of the current economic scenario besides universal banking the concept of differentiated banking developed and with this Small Finance Banks and Payment Banks came into existence. Introduction of new technology based banking products and services have put the banking industry on a new growth. The current paper attempts to study the feasibility of payment banks and challenges faced by such banks in India. Post demonetization phase has observed peoples' flow towards digital payment system on one hand but still 100% financial inclusion is a big challenge for Indian economy. Payment banks surely can help to increase financial inclusion of under-banked region but payment bank currently in operation shows zero profitability or huge losses. Therefore the objective here is to study challenges faced by such banks.

**Keywords** – Payment Banks, Financial Inclusion, Digital Payment Option

### Introduction

The vast economy of India is highly affected by any policy change made by the union government. One such important declaration on 8<sup>th</sup> November, 2016 'Demonetization of 500 and 1000 rupees notes' encouraged Indian citizen to take up digital payment options. But financial inclusion of India fails to cover the rural population and therefore a niche bank was the demand of the time. Also due to recommendation made by Nachiket Mor Committee the "Committee on Comprehensive Financial Services for Small Businesses and Low Income Households" Set up in Sept. 2013 differentiated banking got principle approval. The Mor Committee suggested feasibility of four types of differentiated banks viz. Small Finance Banks, Payment Banks, Custodian Banks and Wholesale and Long-Term Finance Banks(WLTF). Based on the suggestions of Mor Committee RBI in the initial stage gave approval to two types of banks viz. Small Finance Banks and Payment Banks. Thus besides universal banking other banks like differentiated banks got established in Indian

economy, but these banks have to compete with the existing established banks on one hand and on the other hand the arena of banking services were limited by law for such newly established niche banks.

On August 19, 2015 RBI granted 'In Principle Approval' to 11 applicants (out of 41) to operate as payment banks within 18 months. As prescribed in RBI guidelines the payment banks can offer services like internet banking, sell mutual funds, insurance and premium, can have business correspondents and ATMs, offer bill payment service for customers, enable transfer and remittances from a mobile phone, can offer forex services at lower charges than bank, can provide forex cards to travelers and can offer card acceptance mechanism to third parties. Few of the banking activities are kept out of the purview of payment banks which includes issue of credit card, extend loans, handle cross-border remittances and accept NRI deposits. Despite of RBI approval the commencement of such payment banks began in later period of 2016 and still such banks are struggling for its existence due to lack of awareness about services and products offered by payment banks.

### **Objectives**

1. To study the feasibility and challenges faced by the payment banks since its commencement
2. To analyze the need, growth and acceptance by people for payment banks

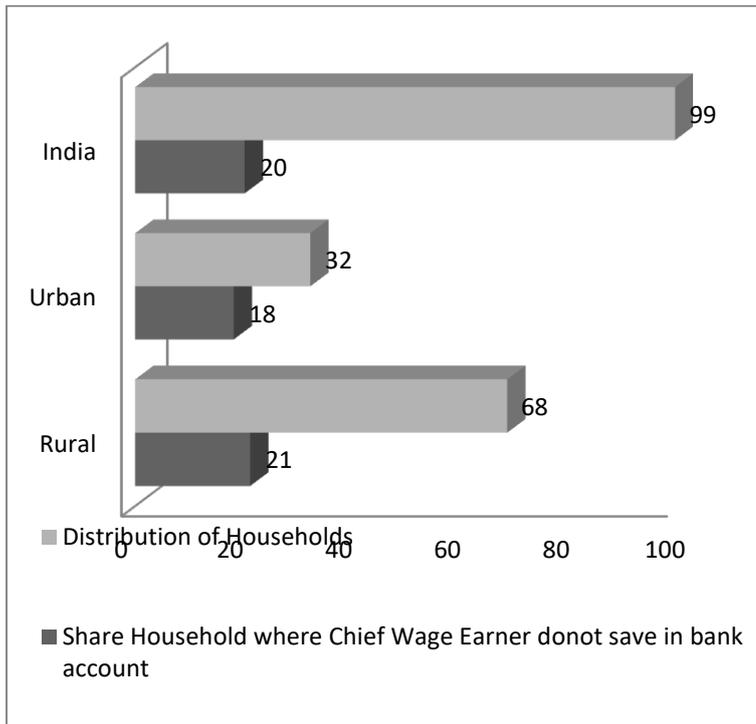
### **Research Methodology**

The study is collected through secondary sources. The secondary data are collected from reports of Government and private agencies, research articles journals, business newspapers, books, magazines, websites, study reports of the expert committee and commissions, working paper etc.

### **Financial Inclusion**

There are 150 commercial banks (comprising 26 Public Sector Banks, 20 Private Sector Banks, 44 Foreign Banks, 4 Local Area Banks, 56 RRBs) and over 2700 co-operative Banks operating in our country, because of which scope and reach of banking has increased over a period of time but huge demand for financial services remains unsatisfied, the other end shows that prior to demonetization 40 per cent of the adult in India had formal bank accounts. Ever since the government announced the scrapping of high value currency notes on 8 November and government declaration of Jan Dhan Yojana (JDY) resulted in increase of formal adult account holder. The Household Survey on India's Citizen Environment & Consumer Economy (ICE 360<sup>o</sup> Survey) conducted in 2017 shows that JDY scheme has been a roaring success in getting people to open bank accounts. The survey also shows that a significant chunk

of households which have access to banking still don't use banking instruments to save or invest, such accounts are in dormant situation.



The report of ICE 360° Survey shows 99% of the households in India have at least one member with a bank account and also survey shows a big jump in banking access. The survey shows that 20% of the chief Wage Earner does not use their bank accounts for saving purpose because of lack of education. This suggests that the lack of education may be a serious impediment to India's ambitious financial inclusion agenda.

### Current Operation of Payment Banks- Services and Future Plans

Financial Technology is spreading its wings all around and 'Payment Banks' are yet another important addition to it providing a new set of digital innovation to the banking sector. Payment Banks are the latest initiative from the Reserve Bank of India with the primary motive to promote digital, paperless and cashless banking in our nation. It is an approach in which other non-banking financial organizations are granted the authority to offer basic bank services to every Indian citizens catering the unbanked and under-banked rural area. Payment Banks are like other banks but operating on smaller scale without any credit risk. Currently four payment banks officially function in India which includes Bharti Airtel India Post, Paytm and Fino Payment Bank. Among them Bharti Airtel payment bank was India's first Payment bank which started in November 2016, subsequently India Post Payment Bank was launched on January 2017 thereafter came Paytm, Payment Bank in May 2017, and on completion of 11 years of launch(July 2006) of Fino on July 2017 Fino Payment Bank officially launched itself as payment bank in India. Operations and future plans of payment banks are –

## Challenges

	<b>Airtel Bank Payment</b>	<b>India Post Payment Bank</b>	<b>Paytm Payment Bank</b>	<b>Fino Payment Bank</b>
<b>Interest Rate</b>	7.25%	5.5%	4%	4%
<b>Minimum Balance</b>	Minimum First Cash Deposit of Rs. 100	Zero	Zero	Zero
<b>Debit Card</b>	No	Free Debit Card	Customers to Pay Rs. 100 + Delivery charges for RuPay Debit Card	Rs. 99 on issuance and Rs. 199 charges from second year onwards for RuPay Debit Card
<b>Fund Transfer</b>	Airtel to Airtel Payments Bank transfer free. Transfer to other banks to attract charges of 0.5% of transferred amount maximum of Rs. 50	Transfer using Aadhaar Enabled Payment System to be free. IMPS to cost Rs. 5 per transaction. NEFT upto Rs. 10000 to be charged at Rs. 2.5 per transaction	Free	Fino Payment Bank to Fino Payment Bank transfer free. Transfer to other banks charges of Rs. 5 or Rs.10 or Rs. 15 depending on amount
<b>Cash Withdrawal</b>	Customer to Pay Rs. 5.25 for withdrawal between Rs. 10 to Rs. 4000 and have to Pay 0.65% of the amount withdrawn for the amount exceeding Rs. 4000			The first two transaction are free and charge of Rs. 5 per Rs. 1000 at bank branch, at merchant outlet it charges 0.6% of transaction or Rs. 5 per Rs. 1000 whichever is higher
<b>ATM Transaction</b>	No ATMs, but nearby retail shops/Airtel stores to be converted into Airtel banking points	Free cash withdrawals at post offices, Punjab National Bank, other ATMs 5 free transaction in non-metro and 3 free transaction in metro	5 transaction free in non-metros and 3 free in metros, beyond this a charge of Rs. 20 per transaction on every cash withdrawals	5 transaction free in non-metros and 3 free in metros, beyond this a charge of Rs. 20 per transaction on every cash withdrawals and Rs. 8 for non-financial transaction, for ATM services have partnered with ICICI Bank
<b>Doorstep Banking</b>	Not Available	Limit of Rs. 10000 for cash withdrawals and Deposits, Charge per visit between Rs. 15 and Rs. 35	Not Available	Doorstep banking services available within the specified radius of Fino Payment Bank branch and is subject to availability of staff
<b>Freebies</b>	Equivalent talktime on Airtel Mobile network for every Re. deposited free insurance cover of Rs. 1 lakh	NIL	Cashback of Rs. 250 on Rs. 25000 deposit	NIL
<b>Branches</b>	Plans 6 lakh banking points by year-end	1000 ATMs currently, plans to open 650 branches	Plan to open 31 branches and 3000 customer service point in first year	Fino Money Market outlets will be converted into bank branches and approximately 410 branches
<b>Target</b>	Aims to cover 100 mn out of its total 270 mn subscriber base	2 crore customers in FY 2018	500 mn customer by 2020	Rs. 10000 crores of deposits within five years of commencement
<b>Investments</b>	Earmarked Rs. 3000 crore for pan-India launch, Rs 1000 crore already invested	Rs. 500 crore allocated for FY 2018	Over Rs. 200 crore to date, plans to put in another Rs. 400 crore in two years	Rs. 400 Crore so far, of which 251 crore was from Bharat Petroleum Corp. Ltd.

- Lack of awareness** - The main purpose to establish payment bank was to cover the rural unbanked and under-banked area of India, but the purpose

remains unserved because people in this region hardly know about this type of bank also this banks operates with the help of mobile app again the rural people are have very lower technological knowhow.

2. **Huge initial investment** - As per law for commencing business this bank needs at least 100 crore of investments also other investment of opening new branch besides these banks need to invest largely on advertisement to promote their products and services offered.
3. **Competition from existing universal banks** - Payment Bank is entirely new concept and although they are bank but totally a different type of bank providing limited range of services as compared to universal banks, the other side of the coin shows that the purpose of payment bank to some extent is also served by the universal banks as these banks also offer such services by offering E-wallet services. Therefore payment bank is facing tough competition from existing universal banks.
4. **Limited services** - Payment Bank cannot lend money they can accept deposit and the source of income for this bank is transaction cost. For eg. Airtel is offering 7.25% interest that can attract deposit but on the other hand the transaction charges is too high which fails to attract customer to use the services provided by Airtel.
5. **Fund deployment restriction** - Payment banks are required to invest 75% of its Current Account Saving Account (CASA) balances in Statutory Liquid Ratio (SLR), eligible government bonds or T bills, for the balance 25% the option is deposits with other SCBs. While this is considered as safety net for depositors, but it restricts the ability of bank to optimize treasury operations.
6. **Limited income generation** - Due to limited services and strict guidelines for CASA balances these banks earn 2-4% by investing in Government securities while these banks pay more interest on their deposits due to this, currently this bank are suffering from huge losses because of huge initial investment, advertisement expense and strict legal policy.
7. **Cash addiction of Indians** - Cash addiction of Indians is also hindrance in success of Payment Banks. A survey conducted by inter media Financial Inclusion Insight (2014) 82% of the Indians prefer cash transaction. To promote non-cash transaction and to increase usage of payment banks these banks will initially have to provide services at lower rate or zero rate.

## **Conclusion**

The primary objective of payment bank is to serve financial inclusion of unbanked or under-banked region of India. In order to achieve this objective payment bank need to make huge investment in technology, diversified portfolio, innovative products and a very sharp pricing policy that can attract customer to use payment products of these

payment banks. Although these banks are facing lot of challenges initially this is due to Indian psychology which can be reduced by conducting advertisement campaign and awareness programme. Besides this RBI should rethink and reframe the service arena of payment banks that can attract more customers. However the competition between universal bank and payment bank may lead to better and low cost services to the customers which may serve the purpose of financial inclusion. However there still exist many challenges in the successful implementation of this endeavor. There are numerous bottlenecks that need to be addressed before the real benefits of any differentiated bank can be enjoyed by the targeted beneficiaries.

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