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PAYMENT BANKS IN INDIA – CHALLENGES & OPPORTUNITIES

Dr. G.V.K. KASTURI**ASST. PROFESSOR****GITAM INSTITUTE OF MANAGEMENT****GITAM DEEMED TO BE UNIVERSITY****RUSHIKONDA****Dr. V. GOWRI LAKSHMI****ASST. PROFESSOR****GITAM INSTITUTE OF MANAGEMENT****GITAM DEEMED TO BE UNIVERSITY****RUSHIKONDA****ABSTRACT**

Redefining banking in India is move. The Reserve Bank expected payment banks to target India's target customers that centered on low-income households and small businesses, providing low transaction cost savings accounts and remittance services. It hopes that payment banks will enable poorer people who only transact in cash to take their first step towards formal banking. Opening branches in every village may be inexpensive for conventional banks, but availability of mobile phones is a promising low-cost medium to quickly take basic banking services to every rural resident. This is also hoped the breakthrough will speed India's transition into a cashless economy. The domestic remittance market in India is estimated at about Rs.800-900 billion, and is increasing. With money transfers made possible via cell phones, a large chunk of it might move to this new platform, particularly that of migrant labour. Payment banks will also play a key role in enforcing the government's direct benefit transfer program, where healthcare, education and gas subsidies are transferred directly to the accounts of the beneficiaries. Also, this is the first time that private sector business groups have bagged the RBI's nod for banking services since banks were nationalized. This paper talks about the objectives of payments banks, opportunities and challenges of future Indian banking system.

KEYWORDS

banking services, nationalization, cashless economy, unbanked area.

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INTRODUCTION

Economic Development of any nation begins with Financial and banking structure, for individual as well as trade and commerce. Banking directly as well as indirectly forms part of the economic growth. The Government's steps to channelize the savings and expenses are one of the major contributors for the development of any country. With the increase in number of people using smart phones and digital marketing, payment banks have become more popular with people from all walks of life due to many reasons like lack of time to visit to the bank branch in person, requirement of flexibility, easy to access and also increase in awareness through promotion. Payment Banks will definitely lead to the faster banking activities, which in turn paves the way for faster economic development. The trend of rising personal usage of cashless transactions it has been witnessed not only amongst the young population, but also the high net worth individuals, working and non-working including home makers who have been habituated to use these payment banks apps. Payments made easier, transfer of money within seconds of time and shopping at immediate effect.

Smart phones have brought revolutionaries in apps and more than 3 billion mobile phone users are using customer friendly mobile applications for personal and commercial purposes. These apps made our way of life easy. These are easy to download and quick and ready to use. This is one of the new instruments in the world of banking. BCG's Saurabh Tripathi says Payment banks may not offer higher interest rates on deposits but will challenge traditional banks with better services." The underlying aim is to use those new banks to press for further financial inclusion. Today, nearly 40 percent of Indians have no bank account and just around 30,000 of India's 5,94 lakh villages have a branch of commercial banks. Much of this imbalance has to do with the inability of bigger banks to reach into the hinterland.

SIGNIFICANCE OF THE STUDY

Information Technology and Banking Apps of mobile phones offers drastic opportunities for personal as well as commercial purpose. They are also presenting a continuous & challenging opportunity. Even though this service is available with alternative sources like internet banking, modern services of banks need to understand how better these services can be updated and created to the changing lifestyles of the customers. In this paper information about the most useful objectives of Payment Banks and perspectives are discussed and also about what can a mobile application do to all types of customers with multiple needs.

REVIEW OF LITERATURE

1. Goal (2015) in her article mentioned that the payment bank is a new arena in Indian Banking system and recommended that payment banks have an ample of opportunity for digital banking and financial inclusion.
2. Kesavan (2015) in his study mentioned that the age of digital banking with innovative models give success to the future of banking in India He also says that it must give the best services to get maximum customer satisfaction and retention of the existing customer.
3. Pande (2015) in his work "Payment Banks – A Newer form of Banks to Foster Financial Inclusion in India" suggested that financial inclusion will be benefited in Indian perspective and these will contribute towards the growth of rural India.
4. Sandanshive & Katdare (2015) in their paper "Analysis of In-principle License Entities to Act as Payment Bank: Financial Inclusion Perspectives" mentioned that the payment banks are a part and parcel of the financial inclusion which covers the unbanked population of rural India and low income group people, which is not possible with branches of banks in rural areas.
5. Chandarana (2015) in her paper "Payment Banks- A Need of Digital India" analysed the game changing business of payment banks for the future of Indian banking using mobile as the best and easy platform.
6. Chanderprabha *, Vol.5 (Iss.3): March, 2017] ISSN- 2350-0530(O), ISSN- 23943629(P) ICV (Index Copernicus Value) 2015: **seventy one**.21 IF:4.321(Cosmos Impact Factor), 2.532 (I2OR) InfoBase Index IBI **issue three**.86Http://www.granthaalayah.com ©International Journal of **analysis** - GRANTHAALAYAH [176] the country's biggest **company** and mobile **telecommunication corporations to start out** payment banks **guarantees** to be similar game changer in **Republic**

of India. Srinivasan & Subramanian (2015) in their paper "Payment Banks in Republic of India – Demystified" mentioned that with these payment banks the method of cashless and cash from banks accounts reaches digital wallets in Indian banking industry.

OBJECTIVES

The paper is to reach the following objectives:

1. To understand the functions of payment banks.
2. To analyze the challenges of these banks compared to the branch/net banking.
3. To analyze the threats to the existing banks.
4. To classify the opportunities of future banking system in digital or cash less economy.

METHODOLOGY

This study is conceptual and descriptive since the information is only the gathering from the literature, official websites, research papers, newspapers, private and government websites like rbi.org.in, business-standard.com, ndtv.com, economic times.com and journals.

ANALYSIS AND RESULTS

CHALLENGES

- ✓ The payments banks cannot undertake lending activities
- ✓ They maintain Cash Reserve Ratio (CRR) with the Reserve Bank on its outside demand and time liabilities, it will be required to invest minimum 75% of its demand deposit Statutory liquidity reserves Ratio of qualifying government securities / treasury bills with a maturity of up to one year and holding a limit of 25 percent in current and time / fixed deposits with other scheduled commercial banks for operational and liquidity management purposes.
- ✓ The challenge of financial inclusion promotes Fintech culture – only transfers are incomplete and not appropriate for more than one lakh in high deposits.
- ✓ It's not easy to sell a chain.
- ✓ Scheduled commercial banks earn 4% to 10% of net interest generated from working capital
- ✓ Also up to 30% IRR on credit cards/small business loans – Micro Finance Institutions also lend at 25%. Since payment banks are not permitted to lend except in Government securities which yield 2 to 4% net of cost of funds or negative.
- ✓ Three companies Cholamandalam, Sun Pharma, and Tech Mahindra have surrendered their licenses to RBI, which lets us understand the practical problems.
- ✓ When there is no value and no income / how are sustainable business models built over the long term?
- ✓ The survey indicates a lack of product knowledge, features and advantages. So the market is still weak.
- ✓ Customers who are well versed with IT and available other sources or apps are less interested because of available other options.
- ✓ The big government banks (SBI, PNB, etc.) are much trusted by the masses. These new payment banks will find it difficult to earn market share winning the same level of trust that the government sector banks command today.
- ✓ Another challenge is the capital requirement. The minimum paid-up equity capital for payments banks shall be Rs.100 crores. The payments bank should have a leverage ratio of not less than 3 % ie., outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).
- ✓ Promoter's contribution towards paid up capital is at least be 40 per cent for the first five years from the commencement of the business is another challenge to the promoter.
- ✓ Foreign shareholding in payment banks will be as changed from time to time in keeping with the Foreign Direct Investment (FDI) policy for private sector banks, which may not be very attractive to international investors and institutions.
- ✓ The operations of the banks should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms. The bank should also have a high powered customer grievances cell to handle customer complaints.

OPPORTUNITIES

- As per the guidelines of RBI, 25% of all branches opened in a year should be in rural areas. For newer banks this quotation has been modified into untapped rural areas, that means there is an ample of opportunity to reach the target audience
- Network line Idea/Airtel – Large customer Base – Post office also – advantage to large physical distribution.
- Unbanked population is more than 233 million. Rural, bottom – of – pyramid (BOP), unbanked & women, which can be the potential area to be covered by payment banks.
- It can be a host of innovative services which can be easily penetrated.
- Cross selling water purifiers/LED bulbs/ clean water in rural areas or energy saving.
- Relationship beyond transactions – crop insurance, weather forecasting services for integrated electronic National Agriculture Market, social cards issue, etc. Guidelines are not closed ended regulations.
- RBI & Commercial Banks annually spend around Rs.21000 crore in currency operations cost. RBI spends approximately Rs.11300 crores in printing. Low-value notes must be replaced within less than a year.
- Service charges will be reduced in the case of payment banks and most consumers will be able to use them for small transactions.
- In comparison to commercial banks 'savings account, consumers do not need to maintain a minimum balance between 3.5 and 6 percent.

These banks may make handling cash a lot easier.

As of now, Airtel payments bank is also giving the highest rate of 7.25% which may attract some of the customers and also on Fixed Deposits they offer up to 7%. Payments bank can offer credit products on behalf of partner banks and can earn transaction fees on the banking activity that the customer does and through cross-selling charges. Payment banks may also build alternative payment models for retailers and consumers, with low transaction costs.

While some banks have decided to charge a fee from customers on cash withdrawals from bank branch, others will charge Automated Teller Machine (ATM) cash withdrawals above a certain limit.

In the years to come, data monetization can turn out to be another big source of revenue for these banks.

Such banks will produce a high volume of customer transaction-led data, including transactions such as mobile recharges, payment of utility bills, spending on e-commerce and offline merchant transaction.

A significant value can be unlocked if this data is analyzed and consumer insights are be monetized, which can help in very precise targeted marketing without compromising on data privacy.

THREATS TO PAYMENT BANKS

- All the Payment Banks who got licenses are not in a good position except four who have a clear business with good network. Therefore, it's not a cake walk. Some of these like Cholamandalam, Sun Pharma and Tech Mahindra surrendered their approvals. Another four are in line according to the recent information and survey.
- The environment, in which people are so much habituated to the commercial banks with huge amounts of transactions, cannot easily shift to these banks.
- Every payment bank is bound to have lower and middle income customers who will take some more time to enter into this digital platform. More number of services to deepen financial services may take some time around five to 7 years. These banks viability is also a threat once the customers of Public Sector Banks move to UPI interface.
- E- Wallets and mobile payment systems need a smart phone and an internet connection, but less than a quarter of the population owns a smart phone.

- When all the banks launch its own app and provide you the same facilities, customers may not go for these Payment Banks. Then it's a survival threat to Payment Banks.

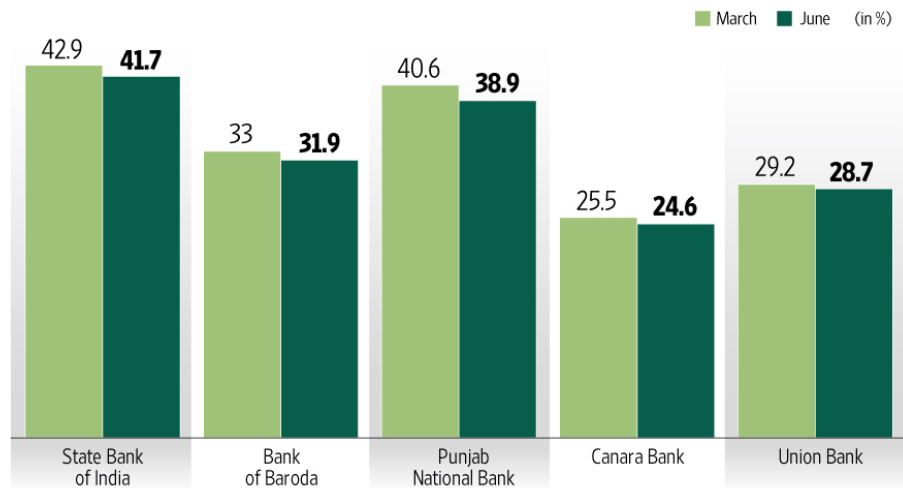
THREATS TO TRADITIONAL BANKS

- Payment Banks offer limited services, but still they can easily provide more and more innovative and creative services which may not be within the reach of traditional banks.
- Payment Banks resulting in financial deepening with innovative and strategic services, it increases the market share of low cost deposits and it will create further threats or challenges to the existing Commercial Banks in the coming days.
- ✓ Survey proves that there is decline in the Savings rate even in top performing Public Sector Banks in the year 2017.

CHART 1

ON THE DECLINE

Public sector banks are seeing their current and savings account deposit share slowing.



Source: Capitaline

SUGGESTIONS TO THE CUSTOMERS

- Identification code must never be shared just like PIN of ATM, since these codes protect your money.
- When you have digital wallets in your mobile, you need to always maintain screen lock.
- One should never use public WiFi Networks in public places like restaurants, railway stations, airports, etc.,
- Checking bank statement with Digital wallet pass book is necessary to ensure or spot any incorrect debits.
- One should not open promo emails, which may ask your security details to login.
- If daily limit is set, you can easily manage if anyone tries to get money from your wallet.
- Logging out from the app is important after the transaction.
- Telephone icon can be used to call for any queries.
- Easy to trace and collect the payments, therefore, Government needs to encourage.
- Government of India (GOI) should conduct certain awareness programme in this context of Internet and digital literacy.
- Imparting free internet access to the rural persons to fill the digital gap in rural areas.
- Encouraging people to get appended with the banking system and using such innovative banking modes.

CONCLUSION

Traditional banks have not yet included the vast unbanked population and also could not offer easy way of transactions with less cost. Therefore, the payment Banks will definitely try to occupy this vacant position and fill this gap. Public Sector Banks have launched its own UPI apps. The idea is to keep money with them and retaining the customers in small transactions also. The payment banks will definitely bridge the gap between traditional banks and the untapped rural customers. These people can divert their small savings safely towards payment banks without going or high risk investment area or in unorganized chit funds.

At the base of conclusion, the study state that definitely Payment Banks will pave the way for cashless digital economy and encourages the financial inclusion by reaching the unbanked and under banked persons to the banked media. In conclusion, Payment Banks is a great initiative which has the long term potential of transforming our financial inclusion scenario.

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