

BRANCHLESS BANKING: PAYMENT BANKS

Priyanka S. Kotecha*

ABSTRACT

In this study an attempt has been made to analyze the paradigm shift in Indian banking system with the inclusion of new age bank i.e. Payments Bank. In order to reach out the non-banked areas of the country, the payment bank which is the new model of banks conceptualized by RBI, is like any other bank but functioning on a smaller scale without attracting any credit risk. The main aim of such bank is to widen the financial inclusion by spread of payment and to provide financial services in secured technology-enabled environment. Such banking would be branchless and paperless as there would be no demand drafts or cheques. This study will reflect the basics of payment banks and its challenges.

KEYWORDS: *Payments Banks (PB), PB's Impacts, Workings and Challenges, Credit Risk.*

Introduction

The payment bank is the new model of banks conceptualized by Reserve Bank of India (RBI), is like any other bank, but functioning on a smaller scale without attracting any credit risk. The main aim of such bank is to broaden the financial inclusion by spread of payment and to deliver financial services in secured technology-enabled environment. Mainly it depends on mobile and ATM infrastructure to provide banking services. As per census data of 2011, only 59% of households have access to banking facilities. Also most villages in India do not have a bank branch, making it painful for the rural population to make proper use of banking services. This is where payment banks can prove to be the game changer. Mainly it reaches its customers via mobile phones rather than traditional bank branches. Corporate business correspondents, public sector entities, NBFCs, mobile phone firms, supermarket chains, and others can set up payment banks by meeting the minimum capital requirement of Rs.100 crores. Eleven entities have been given licences by the apex bank to start payments banks, viz:

- Aditya Birla Nuvo
- Airtel M Commerce Services
- Cholamandalam Distribution Services
- Department of Posts
- FINO PayTech
- National Securities Depository
- Reliance Industries
- Sun Pharmaceuticals
- Paytm
- Tech Mahindra
- Vodafone M-Pesa

(Of these, Cholamandalam Distribution Services, Sun Pharmaceuticals and the latest, Tech Mahindra have surrendered their licenses citing business concerns)

Working of Payment Banks

It is unique bank that can undertake only particular limited banking functions which the Banking Regulation Act of 1949 permits viz. both savings account and current accounts can be maintain by such banks, activities also include E-banking, acceptance of deposits, payments and remittance services, and can act as business correspondent of other banks. They are also authorized to collect deposits up to Rs. 1 lakh per individual and pay interest on these balances. They facilitate money transfers, mobile banking, automatic payments of bills, purchases in cashless, cheque-less transactions through phones and other banking services like online banking and third party fund transfers as well as selling and distribution of non-risk sharing, simple financial products like insurance products and mutual funds. Being a part of the gateway that connects banks, they can transfer money directly to bank account at nearly no cost.

* Research Scholars, Calorx Teacher's University, Ahmedabad, Gujarat, India.

Furthermore, they can also issue debit cards and ATM cards, usable on ATM networks in all over India, but not credit cards. They can provide forex cards to travelers, usable again as a debit or ATM card all over India. They can also facilitate forex services at charges lower than the banks. However, they cannot set up subsidiaries which can undertake non-banking financial services activities. Also, they are not authorized to undertake any lending activities. Moreover, they are not allowed to accept NRI deposits as well. Such banks can lend only to the government, which means, theoretically, they will be considered as the safest of banks as they have only government as the borrower. From government point of view, payment banks will play a pivotal role in implementing various schemes like the direct benefit transfer schemes, where subsidies on healthcare, education and gas are paid directly to beneficiaries' accounts.

BUSINESS MODEL - HOW ARE THEY DIFFERENT FROM TRADITIONAL BANKS?

	TRADITIONAL BANKS	PAYMENTS BANK
Target Group	The focus is on all customer groups	The focus is on migrant laborers, low income households and small businesses
Distribution Model	Reliance on traditional brick and Mortar stores in the form of bank branches	High use of technology involved, with high focus on leveraging mobile phones as a platform
Cost structure	Cost of acquiring an un-banked customer is high – contributing to high transaction costs	There is low cost of financial inclusion
Operational Activities	A range of activities are allowed with limited restrictions	Only certain functions have been allowed. Lending is not allowed, ensuring that the banks do not have credit risk

(Source: <https://crisil.com/crisil-young-thought-leader/dissertations/2016/Sakshi-Gupta.pdf>)

Objective of the Study

- To demystify the concept, impacts and working of payment banks in India.
- To highlights the various challenges of payment banks in India.

Research Methodology

It is a conceptual study and descriptive in nature with detailed available review of literature. Good journals and research papers were also required during the study.

Impact of Payment Banks on the Indian Banking System

Owing to introduction of payments banks, drastic changes are expected in banking landscape. There are innumerable reasons why payment banking will revolutionize money movement in India. It's the step to redefine banking in India. For traditional banks, it could be quite uneconomical to open branches in every village but the mobile phones coverage is the promising low cost platform for rapidly taking basic banking services to every rural citizen and by this way financial inclusion is feasible too. With this innovative innovation, India's journey into a cashless economy is being expected to speed up:

- Ñ Since payments banks are made up by players from different industries, they can bring in their own customer base to the banking sector. Furthermore, the all-round network with easy access points in rural areas and hinterland of the country will be focus area of the payments banks. Therefore by comparing the commercial banks that follow the branch banking system, their reach is expected to be better.
- Ñ Another point is that customers would be free to open both savings bank accounts and current bank accounts with payment banks. As a result, both retail as well as business customers can likely to be attracted by payment banks.
- Ñ Costs of banking will be reducing owing to extreme competition driven by the proliferation of payment banks. And, the more a competition, the better will be products and services. Currently, we pay heavily for banking services, like cost of ATM transactions, cheque-books charges, draft issuance fees, minimum maintenance balances. It will come down too, as payment banks started offering low-cost services and zero-balance accounts.

Ñ Higher rates on short-terms deposit from payment banks can be earned by bank depositors. After the payment banks, the apex bank will license “small finance banks”, which have to target loans on small borrowers and not big corporate. Once it is done, non-bank finance companies will become "small banks" and make financial inclusion more accomplished from small borrower's point of view.

Ñ One of the biggest beneficiaries of such banking will be the government, as it will enlarge its access to the cheap funds. Till now, the banks are the major investors in government bonds. While it will be same even after the entry of payment banks, the significant impact of surplus money coming into payment bank accounts which can only invest in bills of up to one year's maturity i.e. short-term government, which means short-term rates, will come down. Therefore, borrowing can be done by the government cheaply comparatively.

Challenges of PB

- **Requirements of Capital for Long Term:** Payments banks are allowed raise deposits but these funds will not be enough for expansion. So they will require wealthy risk taking investors who will stay there for long term.
- **Need of Solid Leadership and Partnership:** Since it is first of its kind the world, in order to succeed payments bank have to look for a right leadership with right mix of people. Furthermore, in retail sector, effective partnership is also needed for running digital payments.
- **Scheming the Right Product:** Payments bank need to create a differentiation between business correspondents and them that essentially means investing largely in customer centric product which will include remote and face to face transactions. By being innovating and offering through mobile phones this can be done too
- **Changing the Mentality:** To succeed Indian markets, PB will require to migrate to digital alternatives i.e. rather than technological changes, it will need behavioral changes. In India most of the customers have debit cards and prefer ATM transactions rather than mobile banking. To change these patterns, PB has great potential.

Conclusion

The process of shifting money from bank accounts to wallets will become truly easy with the entry of payment banks, and therefore it is possible that many customers in addition to their regular bank accounts, may open payment bank accounts. It would be really a game changer in Indian Banking System as this is a key value proposition. So, considering the population, growing mobile and internet penetration, payment banks have a fair chance of being a huge success story in India.

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