

# The Growth of Payments Bank in India: A Road Ahead

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## I. INTRODUCTION

After the approval of the licenses to the 11 new Private Payment Banks<sup>1</sup> by Reserve Bank of India, one question emerges that “Can the new generation Payments banks really make a dent in the current payment ecosystem?” This is the major concern for this paper studying the future of the payment banks and the various challenges faced by both the traditional and payment banks in increasing the customer penetration for providing the financial inclusion.

### 1.1. Current Payments Ecosystem

Currently there are more than 100 Scheduled commercial banks, 1600 Urban cooperative banks, 12000 Non Banking Financial Corporations and numerous payment / technology operators In India. They are introducing millions of Indians residing in the various urban and rural areas with the banking system so that they can take the benefits of the financial inclusion like making various payments through cheques, plastic money or mobile/internet money etc and mobilize their individual savings to earn the financial profits on their savings. However, still 70% of transactions in India are performed through cash as most of the daily purchases are done through cash only without any payment gateway and technology with majority of the population is still under-banked. So, this is the need of some system that facilitates the electronic payment system that caters to the population which remains excluded from the banking sector. The electronic payment system also is the need of the hour today as it helps in removing the black money from the money market as every transaction is recorded automatically which not the case with cash transaction.

To facilitate the above, the RBI recently issued the licenses of the Payment Banks to the private sector. They are different from the traditional banks as they have only the right of making transactions like payments through various gateways but not accepting deposits and dispersing loans as the traditional banks do. So, this helps in growing the digital space in the financial market.

Any type of the payment ecosystems can be divided into three main components, i.e. the Payment Infrastructure Providers, Financial Intermediaries and the cash wallet providers. The

Payment infrastructure providers provide the remittances process like clearance of cheques, Online payments through NEFT (National Electronic Fund Transfer) or RTGS (Real Time Gross Settlement) and the cash remittances from the ATM Machines which requires the complete IT support to integrate the various banking and non banking systems to a common platform that helps the individual to make the payments to and from anywhere. But the payment infrastructure providers require the help of some intermediaries like VISA/ Mastercard / Rupay etc, the second component of the payment ecosystem to make the online network connectivity among the Customer to Customer (C to C), Customer to Business (C to B), Business to Business (B to B) and even the Government to Customer (G to C) in the form of direct benefits with the introduction of the AADHAR by the government. The major concern here in India is the availability of the Payment infrastructure providers to make the efficient utilization of the services offered by the intermediaries. It has been found that still the majority of the population is unbanked as only 1.3 million point of sale terminals are present for more than a billion population. So, there is a need to get penetration of these payment infrastructure providers so that the individual can make the use of the banking system and make their transactions easy and quick. For achieving the same, there is need of the online banking, where the individual can get the banking access remotely and not by physically visit the bank which increases the bank reach to the customers who cannot visit physically. The another mean is also introduced which is the E-Wallets, a Prepaid Instrument where the credit can be stored in advance and any payments can be made from this wallet as and when required.

### 1.2. The Evolution of the Payment Banks

The lack of current banking infrastructure gives rise to the new class of banks “Payment Banks” which are not allowed to provide loans to public thereby reducing the chances of increasing NPA’s and credit risk but they are allowed to make the payments only and RBI has given licences to the 11 such payment banks to include the cash outs and earning interest to the end users. To achieve this change, the retail touch points will be very crucial like the small kirana shops and the mobile recharge outlets (the classic case is of PayTM)<sup>2</sup> where the

subscribers can keep the credit in the wallets and make the recharges from this wallet as and when required. This will lead to the both online and offline payment mechanisms along with the new merchant acquisitions, customer education and the ease of use etc. From these wallets the individual can pay their bills or make the payments to the various parties linking their account number to the wallet. So, this helps in making the huge number of transactions which reduces the burden on the traditional banking and making the efficient payment ecosystem. The Payment Banks should use the platform of mobile banking, as it reduces the overhead operational costs and increase the customer reach to the great extent due to the penetration of the smart phones in the market today. This is also studied under the KPMG – UBS Study<sup>3</sup> which proves that the penetration of the smartphones in India increases the financial reach of the customers with the minimum costs as banks need not to open the physical branches for accessing the banking services and hence making the financial inclusion an efficient system.

The payment banks have to focus on the good technology, providing huge discounts and introducing the marketing strategies to aware the customers about the efficiency of these systems and motivate the customers to use the banking channel as much as possible for making their operational transactions. The Payment banks can make the use of the existing retailer’s distribution network especially in the under banked rural areas for making the cash in and cash out operations, where the customers are reluctant to travel to the far away bank branches to withdraw and deposit their savings. This will definitely increase the banking penetration in the country and helps the economy to become a cashless economy.

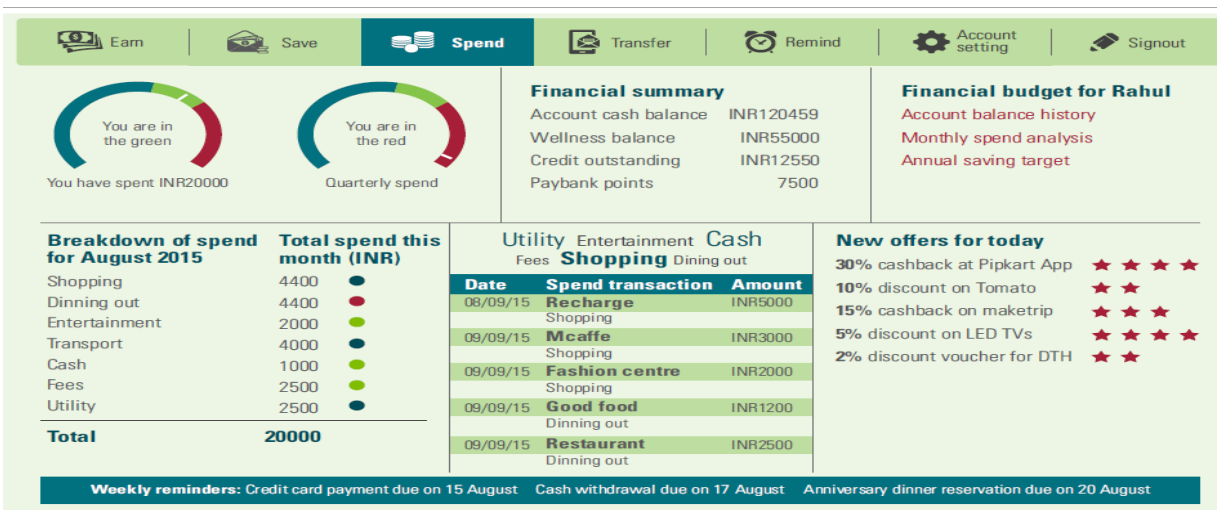
The Payment banks are the new revolution in the financial services sector and get penetration in the market through the price and service differentiation, providing choices to the

customer, relying more on the volumes rather than the margins for earning profits and mainly the deconstruction of the traditional paradigms adopted by the traditional banks. These banks are more agile and nimble, therefore more adaptive to the changing customer needs and can better serve the new unbanked population of the country as also they don’t have any pressure for offering the full banking solution services as the traditional banks did. These banks must adopt the innovative models and hi tech digital approach to cater to the new blood and the new needs of the customers in the financial sector. The payment banks in addition to providing the financial services, need to evolve the other non financial services too that results from making the transactions like keeping the track record of the transactions and store all the receipts made by the customer in the past and providing continuous reminders for the due bill payments.

The following exhibits 1.1 and 1.2 show the conceptualized future transaction statements that should also present the tools for budgeting, spend analysis and tracking of expenses across the various categories, so that the customers can plan their purchases in future and make their expenses in the required direction and curbing the unnecessary expenses incurred in the past. His statement should also includes his social media activities, so that his current activity may suggest the best place to make his expense depending upon the past records made by him recorded in the statement. For example, if the customer has the business tour to Mumbai and want to have a hotel stay there, then the system should suggest him the best place to stay there depending upon his past records and expenses made by him in the past.

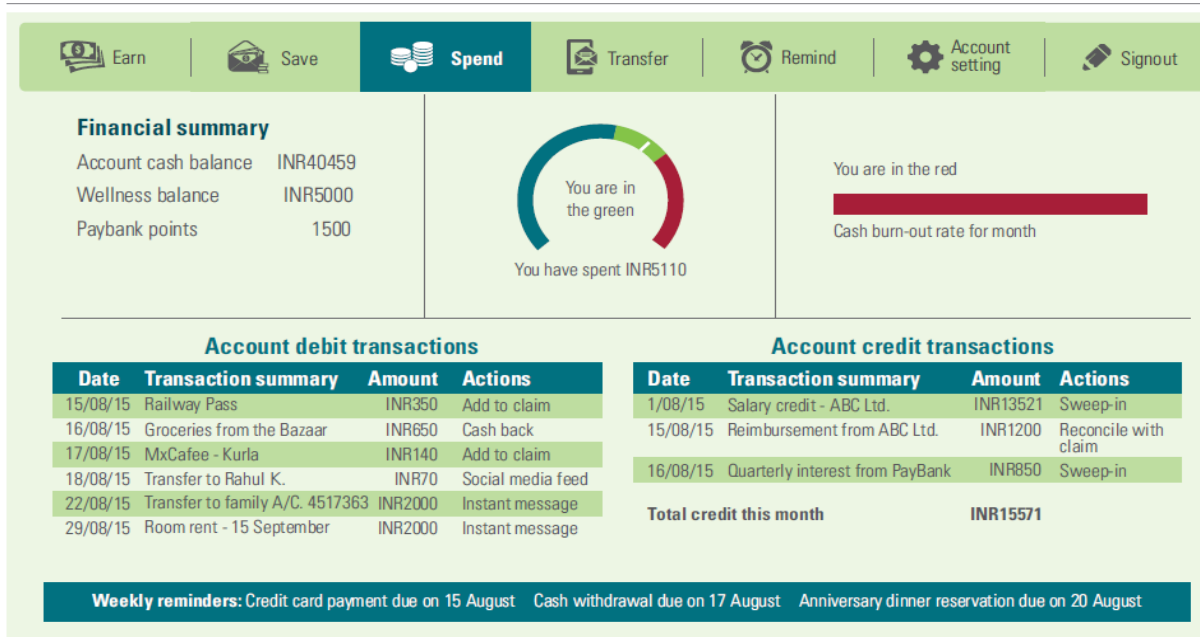
So, these following statements show all the debit and credit balances of the individual along with the complete personal details which motivate the customers to do the transactions through these modern payment banks as these banks also stored their information for their future reference also.

Exhibit 1.1: The Conceptualized Bank Transaction Statement 1/1



Source: KPMG in India analysis, 2015

Exhibit 1.2: The Conceptualized Bank Transaction Statement 1/2



Source: KPMG in India analysis, 2015

### 1.3. Challenges for the Payment Banks

The biggest challenges for the payment banks are the emergence of the two extreme distinctive segments within India. On the one end, there is the young blood population residing in the urban areas who are technological savvy and aware of the various banking channels and are gradually moving to the more sophisticated banking solutions like mobile banking and the E-Wallets from the internet banking and the card based monetary systems to grab the benefits of

multichannel, anytime and any device banking. On the other hand, there is the low income population residing in the rural areas, which are still unbanked and have no or little awareness about how to use the various banking channels. These differences are due to the demographic variations, distinctive adoption patterns and expectations from the new payment systems. These differences according to the various parameters and the challenges for the payment banks and the traditional banks are discussed in the following exhibit 1.3.

Exhibit 1.3: Differences & Challenges for the Payment Banks for the two extreme sets of Indian Banking Population

Basis of Difference	Banked, Young, Technology Savvy Population	Rural, Unbanked and Traditional Population
Customer Demographics	<ul style="list-style-type: none"> <li>Highly educated and technology savvy population with unlimited access to the internet and such infrastructure.</li> <li>Young and high income population residing in mostly the urban, metros and the semi urban regions.</li> </ul>	<ul style="list-style-type: none"> <li>Less Educated and lower access to the internet and IT infrastructure and more important less awareness of implementing the payments through the e-payment systems.</li> <li>Mostly the older and low income population residing in the rural or semi urban regions.</li> </ul>
Challenges faced by the payment Banks	<ul style="list-style-type: none"> <li>In the banked segment, the biggest challenge for the payment banks is the resistance of change of the customers, to make them shift to the new payment system as they are already banked with the traditional banking system. Also, they have the security and reliability issues in the mobile and the electronic wallets payment systems, which further increase the challenges for the payment banks in this category.</li> </ul>	<ul style="list-style-type: none"> <li>Under unbanked population, the biggest challenge is the banking illiteracy, as the customers are not aware of the electronic wallets and the payment system with no access of the internet and such infrastructure. Also, they consider cash to be the safest and reliable option in making the transactions.</li> </ul>
Potential USP's (Unique	<ul style="list-style-type: none"> <li>In the banked category, the payment banks</li> </ul>	<ul style="list-style-type: none"> <li>To the unbanked category, the payment</li> </ul>

<b>Selling Propositions) of the Payment Banks</b>	can provide a secure and encrypted payment platform with standardized services through e-wallet or m-wallet and advising the future transactions of the customer seeing the historical transactions and offering various motivational factors like discounts, cash backs and bonus or royalty points for making the payment through these payment bank gateways.	banks can provide access to the basic banking services with the multi-lingual interface so that even the less educated population can take access to the banking services offered by the payment banks. They can also create the awareness program for the population seeking the advantage of using payment banks to make their transactions and conversion of cash transactions to the non – cash through e or m- wallet platform.
<b>New offerings</b>	<ul style="list-style-type: none"> <li>• Introduction of any time banking which is secure and reliable and make the payment system effective and real time.</li> <li>• More incentives to the banked customers to switch over by providing cash backs, discounts and bonus points by making the payments through the payment bank system.</li> <li>• The payment banks can link the person bank account with his social media account, seeking his activities and suggesting the future customized transactions for the customer.</li> </ul>	<ul style="list-style-type: none"> <li>• Process the direct benefit transfer such as pensions and the small savings by the government into their e accounts or wallets making them familiar with the payment banks and creating the confidence in using the payment banks platforms for making their transactions.</li> <li>• They can also open the new electronic kiosks which serve as the help centers, creating awareness and the easily accessible payment platforms.</li> </ul>

#### 1.4. The Future of the Payment Banks

The payment banks have the great scope of growth in the future as it is the need of the hour today to bank the major portion of the unbanked population in India which is residing mostly in the rural areas to mobilize their savings and contribute to the growth of the country. The payment banks for their extensive growth must follow the following principles to cater to the maximum unbanked population and providing the efficient and effective banking services to serve the population and also to earn the huge profits in the business.

- **Leverage the traditional banking system:**  
The payment banks should retain the usual banking along with going digital to acquire the new customers to succeed in the future. As the customers have the resistance to change, so it is equally important for the payment banks to retain the usual banking and retain their existing customers, so as to make them aware of the payment bank products and instruments and upgrade them to the new techniques gradually.
- **Reframing & Restructuring of the Business Strategies:**  
The payment banks should restructure their long term business strategies according to the adaptive needs of the emerging e-commerce ecosystem, urban & rural finance corridors, medium and small scale enterprises, so as to cater them in the best efficient manner.
- **Human Interface:**  
The payment banks should go digital at core with all the systems going digital but it must not ignore the human touch in front office operations regarding the

awareness of the various digital products offered by them and also helping them in the implementation of the electronic transactions by opening the help desk kiosks and the customer care contact numbers, from where the customers can get the information quickly and easily making the complete system much more effective.

- **Follow your Customer:**  
The payment banks should follow their customers, regarding their activities like social, recreational, fooding etc so that the payment banks can suggest the best customized offers on the products and services which depend upon their past purchases. So, follow your customer should replace the traditional “Know Your Customer” for recording and regulating the customer accounts.
- **Look at the innovations:**  
Explore the innovations that can be easily structured through the existing infrastructure set up, skill sets and technologies, so that these innovations can be accepted by the stockholders of the company in an efficient manner.
- **Proactive Approach for Regulations:**  
The payment banks must not only regulate on the basis of the RBI guidelines, but must be proactive ensuring that all the regulatory milestones are met in a time bound manner and also in a regular manner.
- **Transformation Challenge:**

The payment banks must take the challenge in the transformation from the conventional banking system to the modern payment banks and prepare for the future well in advance so as to cater all the difficulties in implementing the system. They should provide training and awareness to all their stakeholders so as to motivate them to upgrade the system in an efficient manner. This is also the opportunity for the banks to tap the conventional customers and increase their business.

- *Foster Collaboration and Alliances:*

To meet the adaptive and the emerging needs of the new customers in the payment banks and to make their transactions easy and quick, the payment banks should foster collaborations and alliances with the specialized service provider, so as to satisfy the customers in an efficient manner, and providing them the required service or product at the minimum cost, time and at the required place.

- *Focus on value rather than only cost:*

The payment banks should not play only the price game, but focus on providing the value to the customers in terms of quality services at the required time, place, quality and differentiate themselves on the basis of service quality.

## II. CONCLUSION

The payment banks are likely to challenge the traditional banking on the 6 C's including Customer Engagement, Channels for providing services, Cost, Capital, Culture and Collaboration. The Payment Banks provide higher customer engagement by providing them 24 X 7 access to the different kinds of services for making their transactions at the minimum cost at their doorsteps which are accessible to them anytime. Also, they are adaptive, dynamic and innovative as they are less capital intensive system and do maximum transactions on electronic media rather than opening branches at various locations which are too capital intensive and hence static in nature. Also, they support this through the various collaborations by which they can provide the specific services to their clients at the extreme high quality depending upon their needs. But, the payment banks should blend their business with the traditional banks and gradually shift to the new systems to cater the resistance of change of the stakeholders.

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