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PAYMENT BANK – SUCCESS OR FAILURE?

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ABSTRACT

This article seeks to discuss the Payments Banking model launched by the Reserve Bank of India with a view to bring the unbanked and banked population of India within the fold of the Digital India vision. This article discusses the measures taken by the RBI to set up and regulate payments banks in various locations of India in order to offer convenience of digital transactions for all. We gauge the progress of this program and identify the hindrances that deter the Payments Bank model from reaching its highest potential.

Keywords: *Payment Bank vs. Normal Bank, Payment Bank Airtel, Payment Bank Interest Rate, Payments Bank News*

INTRODUCTION

Payments Bank; a smart banking concept recently launched by the Reserve Bank of India is set to significantly multiply the number of organizations offering deposit and transaction facilities. This experiment by RBI has been ridden with wavering success thus opening debate on whether this smart move is a good idea for boosting Indian economy and whether it will yield fruitful results. The Payments Bank Model is built on the successful M-Pesa model in Kenya and was set to be a game-changer in the RBI's mission of financial inclusion for everyone. Ever since its inception in 2015, the Payments Bank model has receivedflak for its credibility owing to its failure more than once. The Payments Bank model was rolled out in 2015 with the RBI granting licenses to organizations to accept deposits and offer transaction facilities like ATM and debit cards. The difference between Payment Banksvs normal bank being that these institutions couldn't offer loans or credit cards. Payment Bank Airtel; the pioneer of payment banks in India proved to be most helpful during the demonetization drive. The basic idea of a payment bank is that anyone can open a branch of a payment bank and allow his/her customers to open an account, deposit cash and spend as much as they like with the expenses directly taken from this account.

Whether this is the greatest idea the RBI has come up with or not, here are a few pros and cons of payment banks that will serve as a means for deciding whether this is a progressive move or if its headed to absolute failure:

Pros:

Enhanced Financial Freedom:

In a country gripped with a Digital revolution, online banking is being viewed as a hope for the thousands of Indians living in remote areas lacking basic facilities to perform transactions faster and more efficiently. As more non-banking companies enter into the banking sector, there is more freedom for people to perform fast, secure transactions without having to rely on tedious bank procedures. The burden of cash withdrawals and spending limit is greatly reduced since payments get auto-debited without the hassles of juggling with money and searching for ATMs. Payment Banks have also given rise to intense competition in the arena. Besides, commercialized banks are reluctant to open branches in remote places, leaving villagers unable to access banking facilities. Since payment bank branches do not require infrastructure to set up, they bring financial freedom to more people.

Banking the unbanked:

There are still people in India who do not have bank accounts and perform their daily transactions using cash. Payment Banks are an opportunity for these unbanked individuals to experience banking without having to go through the entire procedure of opening a bank account. Migrant workers and people coming from very low-income households will be able to pay bills, insurance premiums, andperform domestic and international remittances using just their KYC number and Mobile Number. Thus, they can instantly get into the digital transaction world without sifting through documents and standing in queues to open a bank account.

Reduced Frequency of Banking Frauds:

Payment Bank accounts take only small deposits which you can then use to perform a transaction. Unlike bank accounts, there is less chance that you will undergo a bank or debit card fraud, and even if you do the loss is minimal owing to the small deposit sitting in your payments bank account. Users less familiar with safety procedures and guidelines pertaining to online transactions will not need to worry about losing their money since there is very less risk involved in performing a payment bank online payment. Also, they will not have to go through the many bank security procedures of endless pins and passwords tied to online debits. Payment is instantaneous,which is after all, what the reluctant Indian online banker is looking for.

Freedom to have a Zero Balance Account:

Unlike commercial bank accounts that require you to maintain ridiculous minimum balances, the zero-balance feature of payment bank accounts is a relieving factor for people who only want to use their payment bank accounts for online transactions rather than deposits. Individuals new to online payments don't need to constantly worry about maintaining the minimum threshold since there is no penalty for having zero balance for long periods of time. Another factor to note here is that having zero balance in your payments account is highly recommended since payment bank interest rates are very high and at the present juncture, it may be wise to use your account only for transactions rather than for savings or deposits.

Performing a wide number of transactions seamlessly:

Payments Bank accounts can be used for a wide number of online transactions including mobile recharges, bill payments, supermarket bill payments, sending money worldwide, etc. They can also act as mobile wallets for easy payment of goods and services online. Payments accounts can also act as Current or Savings accounts. The debit cards or ATM cards issued with your payments account can be used to withdraw cash from a local ATM. These cards work on ATM machines of all banks. IMPS and NEFT transactions are also possible with your payments accounts. So, in every way, a payments account acts like a real bank account with the only difference being that it doesn't come with the tedious procedures of commercial bank accounts.

Cons:

No Loans or Credit Cards:

In latest Payment Bank New, Payments banks were not allowed to offer loans or credit cards to customers unlike a normal bank. Licenses to Payment Banks issued by the RBI came under the condition that they wouldn't offer loans to account holders so until this changes, you must rely on commercial banks for loans and credit cards. Currently there is a deposit cap of 1 Lakh Rupees for a Payments account making it very restrictive for large transactions. This deposit cap holds for both Current and Savings accounts. Also, 25% of the payments banks branches are meant to be present in rural areas and you will find few in large cities.

High Competition:

Payments Banks may lead to high competition in the deposits sphere and devour margins. Since payments banks are licensed to augment savings deposits, if they venture close to poaching rates; it may result in loss of a chunk of lower-priced deposits by commercial banks and subsequently hamper their ability to transmit rates and offer loans at low interest rates. Also, Payments Banks interest rates are high for savings deposits and not for long-term fixed deposits. Since they are fully de-risked from bad loans, customers will move their cash payments to payments banks. In urban areas, people will perform all their cash payments via payments bank deposits leading to commercial banks suffering a loss of low-cost savings and idle deposits.

Payments-Only:

The payments-only model of payments banks relies on low-ticket account balances for profits. Customers stick around less on their payments accounts and are mostly chasing their commercial banks for everything else other than payments. Convenience and Pricing are the only two things prompting payments banks due to which the payments banks are forever busy in maintaining a fine balance between cost of acquisition of granular liabilities, maintaining competitive prices on transaction fees, and being ever ready to reach critical mass in the shortest time. High interest rates and high transaction charges discourage customers making payments banks much less preferable than commercial banks which are currently the best source of low-cost funds.

No Incentive:

Under the RBI rule, Payments Banks must hold 75% of their liabilities in SLR securities and the remaining 25% as deposits in other banks. Thus, the asset risk is mitigated. But payments banks have 0 net interest margin, leaving no room for them to cover costs. As a result, the cost of funds will be significantly higher than that of commercial banks. Also, in comparison, commercial banks seem to be the better option since they offer better credit along with inter-bank options, and overnight liquidity. As compensation, Payments Banks would charge on payments making them a bad choice for customers. On the other hand, centralized banks have online payment and net banking services for free. Online money transfers by centralized banks like IMPS and NEFT are also free of transaction charges. The only benefit of payments banks here seems to be the absence of high operational costs.

Cross-Selling Fee:

Payments Banks view a 'cross-selling fee' as a way to usher in profits but this has a few limitations. First, Insurance and Mutual Funds cannot be sold by anyone other than a certified and trained individual. The distribution of these products and the sales commissions on them are monitored and regulated which calls for higher costs. Two, credit products from banks and other financial institutions are harder to sell on Payments Banks. And finally, payments banks do not have a customer-centric approach since they rely heavily on third-party retailers. Thus, cross-selling will be less successful and revenue from cross-selling will be significantly low.

The concept of Payments Bank is an excellent idea since it helps shift everyone from the dwindling system of traditional banking through the power of technology. But Payments Banks need better planning and execution if they must stop failing repeatedly and progress.

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