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Impact of Payments Banks on Indian Banks and Customer's

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ABSTRACT: The Payment Banking System was set up in India with the purpose of financial inclusion and to promote digital transactions, however after two to three years it has been criticized from various perspectives. Studies suggest that Payment Banks are having difficulty thriving due to tough competition with Commercial Banks, as well as their fundamental structure. This study endeavors to analyze the customers' perception of Payment Banks. Primary research was conducted through a carefully constructed questionnaire and the results indicate that customers are very content with Payment Banks due to their ease, convenience, security and speed. Both males and females within young and Middle Ages equally enjoy and make use of Payment Banks for activities such as mobile recharges, ticket reservations, bill payments however they don't use them for all banking proceedings. This research provides insight into the real-world matters related to Payment Banks; thus this article can be very useful for both Payment Bankers and policymakers when they are making future decisions.

I. INTRODUCTION

Since 1991, the Indian financial system has undergone significant changes. The banking sector was among the few industries that flourished after liberalization, mainly thanks to RBI's policy reforms and the advancements in technology. Payments banks, a new type of bank in India envisaged by the Reserve Bank of India, are allowed to accept deposits of up to Rs 200,000 per person (which might be increased in future). Unfortunately, they are not authorized to provide loans or credit cards. Payments banks provide online and mobile banking services as well as debit cards and ATMs. These banks primarily focus on serving rural and underprivileged areas by allowing individuals to open accounts without any balance. This initiative has thus helped reduce regional disparities throughout India by enabling people in remote areas to access full banking services. Apart from deposits, payments banks facilitate payments through authorized payment systems such as NEFT, RTGS, and IMPS. They also allow their customers to pay utility bills such as water, power and gas charges. Currently 6 Payments Banks are operational out of the 41 applicants who sought a license from RBI; 3 have surrendered their license while 2 have become defunct.

List of active Payment Banks:

- 1) Airtel Payment Bank
- 2) Paytm Payment Bank
- 3) Jio Payment Bank
- 4) Indian Post Payment Bank
- 5) NSDL Payment Bank
- 6) Fino Payment Bank

The following elements are essential to our Payment Bank service-

- Instant payment service
- Instant cash transfer
- Any day, any time availability
- Simple and straightforward to use
- low-cost, quick, and secure
- globally accessible

Payment banks must follow the RBI's rules and regulations. They can accept deposits of up to Rs 200000 and offer ATM/debit cards, prepaid payment instruments, as well as provide advice on online banking and utility bill payments. However, they are not allowed to issue loans or credit facilities. The minimum paid-up capital has been set at Rs 100 crore, with a 3% capital adequacy ratio too. At least 75% of the deposits must be saved in government securities or SLR-based instruments, while the rest can be saved in new banks as deposits. The RBI also expects payment banks to use technology to reduce costs in the long run.

II. PAYMENT BANK

A payment bank functions similarly to other banks but on a smaller scale and without taking on any credit risk. Simply put, it can perform the majority of banking tasks but not advance loans or credit card issuance. It can provide third party financial transfers, mobile payments, transfers, and other banking services including ATMs and net banking. It can also accept demand deposits. Instead than using traditional bank branches to reach customers, new, simplified bank types are anticipated to accomplish so. The RBI has identified payment banks as one type of potential digital transaction. The Nachiket MOR committee was requested by the Indian Reserve Bank to investigate and make recommendations regarding ideas for establishing a special category of banks that would enhance financial inclusion in India. The Nachiket committee has proposed a new special category dubbed "payment Banks" as part of its suggestions. The Reserve Bank of India has granted licenses to a new type of bank called payment banks. Up to Rs 1,000,000 in restricted deposits per customer may be accepted by these banks. These banks are not permitted to make loans or credit cards by the RBI. Payment banks can, however, provide services for mobile banking, net banking, ATM cards, and debit cards.

III. HISTORY OF PAYMENT BANK

On September 23, 2013, the RBI established a committee under the leadership of Nachiket Mor to examine comprehensive financial services for low-income people and small businesses.

On January 7, 2014, the Nachiket Mor committee turned in its final report, which included a number of suggestions for the creation of a new class of banks called payment banks. The RBI released the draught guidelines for the payment banks on July 17, 2014, and invited recommendations and comments from interested parties and members of the public.

On November 27, 2014, the RBI published the definitive rules for payment banks.

The list of organisations that have filed for a license as payment banks was made public by the RBI in February 2015. A total of 41 people applied. It also said that the license applications would be reviewed by an external advisory committee (EAC) led by the Nachiket Mor.

28 February 2015: It was announced that Indian Post will use its extensive networks to manage the payment banks during the presentation of the budget. The external advisory committee submitted its conclusions on July 6, 2015. The applicant entities' financial history and legal troubles were investigated.

On August 19, 2015, 11 businesses received "in-principle" licenses from the Indian Reserve Bank to open payment banks; three of these licenses were subsequently revoked. The following list of the remaining 8 organisations:

Advertising Birla Nuvo National Securities Deposits, Airtel M-Commerce Services, the Department of Posts, FINO Paytech, Reliance Industries, Paytm, and Vodafone M-Pesa are just a few examples. The RBI will issue full licenses in accordance with Section 22 of the Banking Regulation Act of 1949 if it is satisfied that the requirements have been met.

IV. FEATURES OF PAYMENT BANKS

1. Payment banks may also accept demand deposits with a per-customer limit of Rs. 1 lakh (but only for current and savings accounts).
2. Payment banks must pay interest at the rate that the RBI has specified.
3. Only payment banks are authorised to offer debit cards; credit cards cannot.
4. This removes the concern over non-performing assets by prohibiting payment banks from providing loans or other lending services.
5. Like bank accounts, the Deposit Insurance and Credit Guarantee Corporation insures deposits up to Rs. 1 lakh.
6. Payment banks are prohibited from taking on any credit risk and may only invest in G-Secs or Treasury Bills having a maturity of less than one year.
7. A commission-based fee will be tacked on by the payment bank. This will be the banks' sole source of income.
8. Payment banks will also be required to maintain CRR (cash reserve ratio), just like other scheduled commercial banks (SBI, PNB, BOB, Dena, ICICI, etc.).

V.SERVICES OFFERED BY PAYMENT BANKS

- A payment bank is only permitted to receive deposits from one customer up to a total of Rs. 1 lakh.
- Demand deposits and saving bank deposits from individuals, small businesses, and other entities are acceptable.
- With these payment institutions, you can open a savings or current account.
- Just like regular banks, payment banks pay interest on the deposits.
- Payment banks are permitted to transfer funds through a variety of channels, including business correspondents, ATMs, and branch locations. Debit cards and ATM cards can be issued to consumers by payment banks. These payment banks provide access to mobile banking.
- A payment bank that accepts payment methods approved by the RBI, such as RTGS/NEFT/IMPS, may offer internet banking services. Utility bill payments can also be made through a payment bank app.
- Under certain circumstances stipulated by the RBI, a payment bank may offer basic financial services like as access to mutual funds, insurance, pension, and FX services.

SERVICES PAYMENT BANK CAN'T OFFER:

- These payment banks are not permitted to offer credit cards under RBI regulations.
- Payment banks are not permitted to engage in any lending activities, including the issuance of personal loans or any other types of loans to their clients.

Non-Resident Indians (NRIs) cannot deposit money with payment banks, and they are not permitted to establish up subsidiaries to provide non-banking financial services.

BENEFITS FROM PAYMENT BANKS

1. To ensure and improve the financial inclusion of the unbanked and underbanked population is the main goal of the introduction of payment banks in India.
2. The implementation of payment banks would be highly beneficial for small businesses, the unorganized sector, low-income households, farmers, and migratory workers.
3. These individuals typically need small-dollar transactions, and payment banks can provide these demands.
4. Payment banks may potentially develop into a means of delivering government monetary benefits to the intended recipient.
5. They are helpful for transferring wages, affiliates, or other social welfare programmes.
6. The operations of payment banks would enhance the region's macroeconomics as well as the receivers' microeconomics.
7. The availability of fundamental banking services will help the area expand and thrive. Due to the ease of accessibility, it will also encourage the much-needed saving habits through the banking industry, particularly in rural areas.

VI.THEORETICAL BACKGROUND

Today banking is having its most dynamic phase. New products and services have been continuously introduced basis the needs and requirements of the customers. Additionally, the services are constantly upgraded to provide enriching experience to the customers. There are several factors that affect the decision-making process of a customer.

Age

Further and further banks are moving towards cashless services and are trying to make banking accessible so that the client doesn't have to walk to the branch for any of the services. Digitalization is the crucial factor of banking. Maximum services are operated through the internet, however there's a difference between the exercises of technology with age group. The youngish generation is further technology prone in comparison to the aged section of society. To encourage older people to use technology, similar services should be made easier to operate and understand.

Gender

Both men and women actively participate in financial decision-making in today's culture. I moment's society, both men and women are laboriously sharing in the fiscal decision timber. The banking assiduity is leaving no gravestone unturned to give benefits to the womanish section of society. From offering female-specific accounts to furnishing special interest rates, all the conditioning are done to make them independent. For women, an important factor to

choose a financial service is ease of use whereas for males apart from ease of use, the comparative advantage they get over the other banks is also an important factor to choose a bank.

Qualification

Banking serves all the sections of the society. They've products and services that can fulfill the requirements of all the people, but like gender, indeed qualification has a huge impact on the adaption of technology in the banking sector. It has been observed that the more qualified a person is the higher the chances of him adopting a new method or technology. Hence, the study will also find the relation between the customer's educational background and his use of banking technology with reference to payment banks.

Occupation

The need of fiscal services also changes with the change in occupation of the client. For cases, an entrepreneur would be interested in current account, whereas a pupil will be interested in a zero balance saving account. Occupation plays a major role in deciding which bank a customer is using. Internet banking or banking based on technology affects different occupations differently and hence, people's perception in using these services also different.

Products And Services

Universal banks in India give a wide variety of products and services to its guests similar as different types of accounts, loans, demat services, collective fund services, etc., while RBI has put a restriction on the number of products and services a payment bank can offer. As per RBI, these payment banks should help in adding the fiscal service penetration in the country with the help of technology. The products and services that payment banks offered were eventually also handed by universal banks.

VII.LITERATURE REVIEW

The services provided by Payment Banks were detailed by Dr. J.C. Pandey in 2009. The researcher also described how to establish a payment bank in accordance with RBI regulations.

In their 2010 empirical study, G. Sivakrishna and S. Venugopal examined how e-banking increases client base. The survey also made an effort to examine how customers felt about, what they preferred, and how satisfied they were with e-banking services. According to the study's findings, banks will be able to decide what needs to be done to please clients if they have a better understanding of customer perceptions.

In her study, Dr. Malhotra (2010) addresses the findings that demonstrate whether commercial and foreign Internet banks have outperformed public sector banks in providing a broader variety and more sophisticated services of Internet banking. She also notes that the most important characteristics of the successful payment banks are discovered to be the bank's size, experience with providing Internet banking, financing pattern, and ownership.

The necessity of Payment Banks in India was the subject of a conceptual research by Nidhi Chandaran in 2011. Secondary data were used to inform the study. The conceptual study of PPIs (Pre-payment Instruments), which was also a focus of the researcher.

Prof. Subramanian and Dr. Srinivasan (2012) conducted a thorough conceptual analysis of payment banks. The researchers focused mostly on determining the answers to specific issues, such as who these payment banks are, why we need payment banks when we already have public, commercial, international, and cooperative banks, what value-added services payment banks provide, and so forth. The analysts came to the conclusion that there is a good chance that people will open extra payment bank accounts in the near future in addition to their ordinary bank accounts.

According to the study "Technology Adoption and Indian Consumers: Study on Mobile Banking" by Rahmath Safeena et al. (2012), the use of Automatic Teller Machines (ATMs) and telephone banking (Tele-banking), direct bill payment, electronic fund transfer, and a wide range of auxiliary services offered by the modern banking system were the beginnings of e-banking. Vishal R. Sandanshive.

Tavishi and Santosh Kumar (2013) examined the effects of perceived usefulness and perceived risk on the use of internet banking and mobile banking in their study, "An Empirical Study on Technology Adoption by Indian Banks," which illustrated the factors influencing customers to use these services in India.

In her research piece "Factors Influencing Consumer Adoption of Internet Banking in India," Prema C. (2013) investigated the procedure for using online banking services and conducted a thorough analysis of the advantages it offers to the general population. The researcher came to the conclusion that banks must raise awareness in order to draw customers to their online banking services.

In her study report from 2014, R. Elavarasi identified the bank that offers clients superior e-banking services and also examined the degree to which customers are satisfied with the interbank website of banks. It is clear that a customer's age, education, occupation, income level, etc., are the characteristics that affect how often they use e-banking services. The study came to the conclusion that clients needed to be made more aware of e-banking services.

VIII. ANALYSIS

IMPACT ON INDIAN BANKS:

The introduction of payment banks has posed a significant challenge to traditional banks in India. Payment banks have lower operating costs and can offer digital services at a much lower cost compared to traditional banks. This has forced traditional banks to reduce their fees and charges to remain competitive. The lower fees offered by payment banks have also put pressure on traditional banks to improve their digital offerings.

Moreover, payment banks have introduced a new level of competition in the market. They have attracted customers who were previously underserved or excluded from the banking system, such as low-income households and those living in rural areas. The competition from payment banks has forced traditional banks to innovate and improve their services to retain customers.

IMPACT ON CUSTOMERS:

The impact of payment banks on customers has been significant. Payment banks have made banking services more accessible to a large number of customers who were previously excluded from the formal banking system. The digital services offered by payment banks have made it easier for customers to access banking services from anywhere at any time.

Moreover, payment banks have introduced lower fees and charges compared to traditional banks, making banking services more affordable for customers. Payment banks also offer higher interest rates on deposits, which has incentivized customers to save more money.

Payment banks have also introduced new products and services such as mobile wallets, digital payments, and remittance services, which have made transactions faster and more convenient for customers. Customers can now transfer money to friends and family instantly and at a lower cost compared to traditional methods.

Most people are wary of payment banks, but because they aren't widely advertised in the mainstream media, they are unaware of their advantages and simplicity of use. The results of this check show that 41.7% of respondents are prepared to present accounts with Payment Banks.

IX. SUGGESTION

Payment banks have the potential to contribute significantly to both fiscal addition and the transformation of India towards a cashless society. The cheque states that there is a need to increase awareness of the advantages of Payment Banks, especially among middle-aged people. Despite the fact that payment banks have government certification. Businesses may as a result gain comprehensive understanding about Payment Banks, which facilitates digging.

X. CONCLUSION

Due to the fact that accounts for holdalls will be completely error-free, many customers may open payment bank accounts in addition to their regular bank accounts. By maintaining separate accounts, they may keep smaller bank payments separate from larger bank payments. This crucial value proposition would revolutionise the Indian banking industry. Nevertheless, many people in India are still unaware of Payment Banks, its services, gratuities, and security



laws because they are a relatively new institution. Owners of Payment Banks must therefore increase public awareness.

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