Payment Banks for Benkable Un-Banked in India – A Myth or Reality?

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ABSTRACT

As per the recommendation of the Nachiket Mor committee submitted its final report on 7th January 2014, for the purpose of Comprehensive Financial Services for Small Businesses and Low Income Households, the concept of payment banks came in the existence on 17th July 2014. Subsequently in February 2015 RBI released the list of 41 applicants and out of which on 19th August 2015 it gave “in-principle” licenses to eleven entities to launch payments banks in India. The basic purpose was to provide the banking services to the unbanked areas. RBI in its guidelines says “the objectives of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

They are new stripped-down type of banks, which are expected to reach rural customers mainly through their mobile phones (rural banking & Mobile banking) rather than traditional bank branches. Hence in this study the researcher tries to do a comparative analysis of how much the people in the rural unbanked areas are ready for payment banks as compared to the urban and semi urban banking areas? The data collected are from both primary and the secondary sources and analyzed through an exploratory method by using histograms in the graphical techniques.

Keywords—— RBI, Payment Banks, rural baking, mobile banking, comprehensive financial services.

I. INTRODUCTION

Banking is an extra addition to the list of primary needs of the people of present day to the traditional concepts of Food, Shelter & Cloth and modern concept of Bijli (electricity), Sadak (road) aur (and) Pani (water). Especially the countries with under developed and developing economy are more concern about providing banking services to the bankable and unbanked particularly to those who are geographically, economically, demographically or digitally divided.

As per World bank guideline a person who earns less than $1.25 a day is regarded as BPL (Below Poverty Line) and can hardly afford any banking services, due to the high costs in the form of minimum deposit requirements and withdrawal rules that are generally associated with financial services. Govt. of India policies like Jan Dhan Yojana was an attempt to increase the inclusion of the poor, but what about those areas where the banks are not available at all? The only options left are either they shall be provided banks/branches or shall go cashless, like mobile banking or internet banking. But the problem is that how much a poor in rural unbanked area is ready for it?

I. History of Payment Banks in India:

Most probably the term “Payment Banks” is a new term in the banking industry and seems to have been invented in Indian context. A “Committee on Comprehensive Financial Services for Small Businesses and Low Income Households”, headed by Nachiket Mor, was formed by the RBI in September 2013. By January 2014, it submitted its final report and one of its recommendations was the formation of a new category of bank called payments banks.

After making suitable changes the RBI created a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks and payment banks etc. are designed to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force”, specially banking in bankable unbanked. In July 2014, RBI issued the draft guidelines on payments banks as differentiated or restricted banks and in November 2014 the final guidelines for Payment Banks are disclosed, and called the applications from entities which are interested to start such banks.
A total of forty one applicants applied for it and out of which eleven entities are given “in-principle” licenses for eighteen months from 19th August 2015 to launch payments banks in India.

The 'in-principle' approval granted will be valid for a period of 18 months, during which time the applicants have to comply with the requirements under the guidelines and fulfill the other conditions as may be stipulated by the Reserve Bank.

II. SUMMARY OF PAYMENT BANKS

2.1 What are Payment Banks?

Payment Banks in India are coming under other differentiated banks by RBI. These type of bank are not in-full service niche banks. They can only receive deposits and provide remittances by both cash and non cash.

2.2 Do’s and Don’ts for Payment Banks in India:

Payment banks can accept deposits restricted to Rs. 1 lakh per customer, and are allowed to pay customers interest on the money that is being deposited. They can be used for either current accounts or savings accounts. For companies that have operated as mobile wallets (which are a type of Pre-Paid Instrument aka PPI), this is a big step forward as it raises the funds limit, and allows interest to be paid on the deposits, making it more attractive for users to store their money with a mobile wallet. 25% of its branches must be in the unbanked rural area. The bank must use the term "payments bank" in it’s to differentiate it from other types of bank. The banks must maintain CRR, minimum 75% of demand deposits in government bonds of up to one year and maximum 25% in current and fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

Unlike a regular bank however, a payment bank can’t loan money to people, or issue credit cards. Also, the payment banks are only allowed to invest the money customers deposit into government securities.

While the payment banks can’t issue credit cards, they can issue ATM and debit cards. Since many of the 11 new license holders already operate mobile wallets, the ability to issue an ATM card helps close the loop and makes it easier to convert virtual money into cash, and vice versa.

2.3 Objective of Creating Payment Banks in India:

We can sum up the objectives in one sentence that these banks have been created to help India reach its financial inclusion targets. This type of bank can be highly useful for migrant labourers, low income households, small businesses, and other unorganised sector entities.

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2.4 List of eleven entities to launch payments banks in India:

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aditya Birla Nuvo</td>
</tr>
<tr>
<td>2</td>
<td>Airtel M Commerce Services</td>
</tr>
<tr>
<td>3</td>
<td>Cholamandalam Distribution Services</td>
</tr>
<tr>
<td>4</td>
<td>Department of Posts</td>
</tr>
<tr>
<td>5</td>
<td>FINO PayTech</td>
</tr>
<tr>
<td>6</td>
<td>National Securities Depository</td>
</tr>
<tr>
<td>7</td>
<td>Reliance Industries</td>
</tr>
<tr>
<td>8</td>
<td>Dilip Shanghi, (founder of Sun Pharmaceuticals)</td>
</tr>
<tr>
<td>9</td>
<td>Vijay Shekhar Sharma, (CEO of Paytm)</td>
</tr>
<tr>
<td>10</td>
<td>Tech Mahindra</td>
</tr>
<tr>
<td>11</td>
<td>Vodafone M-Pesa</td>
</tr>
</tbody>
</table>

III. REVIEW OF LITERATURE

Paul (2013) investigated the “adoption of electronic banking (e-banking) in Odisha, India” using demographic profile, computer knowledge and banking preference, by analyzing 200 bank customers in the state. It is found from the study that many factors like education, knowledge in computer, willingness of the people, people’s convenient and awareness etc. are responsible for the successful operation of e-banking in any area. A thorough study of the data shows that the young generation is more familiar with computer and internet banking. So they are more interested in using the e-banking system particularly in ATM & online transaction rather than old & traditional banking.

Burgoyne et al. (1999) demonstrated that tangible currency has a specific emotional meaning in that people tend to develop an emotional attachment to and often a dependence on a certain mode of payment (Herzberg, 2003). While cash and cheques are still prevalent in some parts of the world, electronic payment mechanisms and especially, mobile payments are gaining consumer acceptance in many economies due to the high penetration of mobile phone technology.
Mobile phone can augment the number of channels the service to be useful. But mobile banking in the traditional ways still has a long way to go as majority of customers prefer banking information and make payments. Mobile as a channel delivers convenience, immediacy and choice to consumers. But there are a large number of different mobile phone devices and it is a big challenge for banks to offer Mobile banking solution on any type of device. Some of these devices support Java2Micro Edition(J2ME) and others support Wireless Application Protocol (WAP) browser or only SMS.

Vyas (2009) stated that Indian banks will target non-online banking users who may lack regular access to desktop Internet but are very likely to own a mobile device, thus reporting great potential of Mobile banking in India. This report of Vital Analytics suggested huge potential of Mobile banking in India, as it found that urban Indian customers’ checking account balance is the most frequently cited reason for using Mobile banking. 40 million Urban Indians used their mobile phones to check their bank account balances followed by viewing last three transactions.

Rao & Prathima (2003) finds that there is huge potential of Mobile banking in India but Indian banks offering m-banking services still have a long way to go.

Kolodinsky, Hogarth & Hilgert (2004) stated that millions of Americans are currently using a variety of e-banking technologies including Mobile banking. However, millions of others have not or will not. They explored factors that affect the adoption or intention to adopt three e-banking technologies and changes in these factors over time and suggested that relative advantage, complexity/simplicity, compatibility, observability, risk tolerance, and product involvement are associated with adoption. Income, assets, education, gender and marital status, and age also affect adoption. Adoption changed over time, but the impacts of other factors on adoption have not changed.

Commins et al. (2008) suggested that consumers will only transact electronically (online/mobile banking) if there is convenience and security. Further Sharma and Singh (2009) found that Indian mobile banking users are specially concern with security issues like financial frauds, account misuse and user friendliness issue - difficulty in remembering the different codes for different types of transaction, application software installation & updating due to lack of standardization.

Puja Mehra (the Hindu, 20th august 2015) This is for the first time in the history of India’s banking sector that RBI is giving out differentiated licenses for specific activities. RBI is expected to come out with a second set of such licenses — for small finance banks — and the process for those is in its final stage. The move is seen as a major step in pushing financial inclusion in the country.

IV. OBJECTIVE OF THE STUDY

To analyze the perception of people from unbanked rural areas of India for the Payment Banks on the basis of following six parameters.
a. Availability of resources for cashless transaction.
b. Awareness of the people for cashless transaction.
c. Affordability of such cashless transactions services by the rural poor.
d. Relevance of cashless transaction for them.
e. Readiness of the people for the cash less transactions.
f. Reliability issues of cashless transactions for the rural people.

V. SCOPE & IMPORTANCE OF THE STUDY

Huawei has announced its third Global Connectivity Index report during the Global Analyst Summit 2016 in Shenzhen, China. The report which measures the progress of 50 nations in investment and deployment of Information and Communications Technology (ICT), says that globally broadband connectivity and speeds

In terms of numbers, United States, Singapore and Sweden top the rankings, while India is ranked 44 with a GCI score of 30 and is seen as starter in the world of ICT deployment. India may not have ranked well, but the situation might change rapidly in 2017 have improved enormously from last year. Huawei Global Connectivity Index 2016 notes that the Indian government’s Digital India initiative is driving growth, and improved broadband penetration.

As per State of Connectivity 2015: A Report on Global Internet Access, the second annual study by Face book, takes a close look at the current state of global internet connectivity, how it has changed since 2014 and how we can use the data identified to generate new insights.

At the end of 2015, estimates showed that 3.2 billion people were online. This increase (up from 3 billion in 2014) is partly attributed to more affordable data and rising global incomes in 2014. Over the past 10 years, connectivity increased by approximately 200 to 300 million people per year. While this is positive news in terms of growth, it also means that globally, 4.1 billion people were still not internet users in 2015.

Going by the international experience, this innovation of basically transforming a citizen’s mobile phone into a stripped-down bank branch has a greater chance of success. The initiative takes Vodafone’s M-Pesa closer to the version that is working successfully in Kenya, where payments on this product constituted about 30 per cent of the country’s GDP in 2014.

As per World Bank data the number of internet users in India in 2015 was 30.6 crore, which is 25% of total population of 121 crore. Out of which 21.9 crore were from urban India out of total 37.7 crore which is 58% of urban population, while only 8.7 crore of total 83.3 crore is roughly around 1% of total rural population in India.

Hence this study may enable us to know understand the scope of payment banks in bankable unbanked areas in rural India, and also to access the people on the major six

VI. RESEARCH METHODOLOGY

The study employs primary data as well as secondary data. Secondary data was collected from different published sources. Primary data was collected by structured questionnaire survey. Non probability and convenience sampling applied to conduct this research.

All items were measured by responses on a three-point Likert scale in agreement/relevance with statements, ranging from 1= No / Strongly Disagree to 3= Yes / Strongly Agree through 2= Can’t Say / neutral attitude. The analysis of primary data was presented in the form of Bar diagrams and presented in form of descriptive analysis.

6.1 QUESTIONNAIRE DESIGN:

Based on the research objectives, a structured questionnaire with 12 variables, mainly with a Three-point Likert scale (Yes, can’t say, No) was used, out of it six are for information of availability, affordability, awareness, relevance, readiness & reliance. The rest six are demographic questions

6.2 SAMPLE SIZE:

The data has been collected from 200 respondents from four unbanked rural villages i.e. fifty from each village with the help of questionnaire. The answer given by the respondents have led to carry forward this study.

6.3 SAMPLE METHOD:

Random Sampling technique was used in taking the sample. The employees and participants in conducting and solving the questionnaire have received 100% response.

6.4 MODE OF DATA COLLECTION:

The mode of data collection is survey method. Information gathered directly from the respondents through questionnaire, i.e. survey method is more appropriate to the study. The scales used to evaluate questions is three-point Likert scale. The questionnaire for the research was framed in a clear manner such that it enables the respondents to understand and answer the question easily.

6.5 SOURCES OF DATA:

6.5.1. Primary data:

Primary data has been collected directly from sample respondents through questionnaire and with the help interview from the respondents who belong to four different villages from Ganjam district where neither any bank nor any post office is available.

6.5.2. Secondary data

Besides the primary data help from the secondary data has also been taken in the study.
The information regarding industry has been derived from:
1. Referring Manuals and Magazines.
2. Referring Office file and Records.
4. Internet and websites.

6.6. TABLE1. COMPILED DATA OF RESPONSES FOR PAYMENT BANKS:

<table>
<thead>
<tr>
<th>PARAMETERS</th>
<th>YES</th>
<th>NO</th>
<th>CAN’T SAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of resources, e.g. Smart Phones, tablet etc.</td>
<td>62</td>
<td>138</td>
<td>00</td>
</tr>
<tr>
<td>Affordability to internet and other related expenses</td>
<td>114</td>
<td>35</td>
<td>51</td>
</tr>
<tr>
<td>Awareness of m / e-banking</td>
<td>43</td>
<td>146</td>
<td>11</td>
</tr>
<tr>
<td>Relevance of m / e-banking to them</td>
<td>31</td>
<td>162</td>
<td>07</td>
</tr>
<tr>
<td>Readiness for a writing and reading in English on phone</td>
<td>64</td>
<td>136</td>
<td>00</td>
</tr>
<tr>
<td>Reliance on a unmanned transaction</td>
<td>37</td>
<td>131</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: prepared by the researcher from primary data

6.7. FIGURE1. BAR DIAGRAM OF RESPONDENTS FOR PAYMENT BANKS:

VII. DATA ANALYSIS

Data from questionnaire feedback forms were analyzed using excel and Bar Diagrams.

7.1 AVAILABILITY: Whether they are having a smart phone, tablet or a laptop to access the online banking services? Out of 200 respondents only 62 persons said that they have at least one of these, which is 31% of sample population. 138 persons denied of having any one of these, this is 69% of sample population.

7.2 AFFORDABILITY: whether they are able to bear the expenses for internet and allied expenses? 114 persons favored it, 35 persons denied, while 51 persons are not sure about.

As a part of population they are 57%, 17.5% and 25.5% respectively.

7.3 AWARENESS: Whether they have the knowledge of operating e-transaction 43 persons agreed yes they do have which is 21.5 of sample population, 146 or 73% of the population denied of having such knowledge, while rest 11 which is 5.5% of the population could not come with a clear cut message.

7.4 RELEVANCE: when they are asked for the relevance or need of e / m-banking for them, 31 persons or 15.5% of sample population said they want to do, 162 persons or 81% of the sample population replied they don’t need such banking, while the rest 7 persons or 3.5% replied they have not thought of it.

7.5 READINESS: readiness related to the proficiency in English language (read and write) or skill to operate an e-transaction, 64 persons or 32% of population found positive, while 136 persons / 68% of sample population found negative to operate such an account.

7.6 RELIABILITY: it relate to the psychological barrier where the people fearing of unmanned transactions, 37 persons / 18.5% people rely in an unmanned transactions, 131persons / 65.5% of sample population don’t rely, while 32 persons / 16 % of sample population are in confused state.

VIII. FINDINGS
India is still digitally divided as roughly 1% of rural population is connected by internet, while it is 58% in case of urban population. Urban population has multiple banking options, while rural are not connected, particularly specific to their residential region. Govt. of India introduced Payment Banks targeting the unbanked bankable. The researcher tried to analyze the future of payment banks in rural unbanked regions. As per the six parameters it 57% people can afford it 32% people are bankable, 21% people are having knowledge how to use, but 18.5% people who feel that e-banking is safe and reliable while a big mass of 81.5% of people don’t want to do any transaction to whom personally they have not met. Also 84.5% people don’t feel the importance of such new banking system for them.

IX. CONCLUSIONS

As per the above findings the people from rural area to an extent are aware of the internet, e-banking, m-banking etc. further they don’t have a bank in their locality and having resources and capacity to go for such transactions. People particularly don’t feel the importance of it and also they don’t believe in an alien banking system with whom they can interact personally. People seek an atmosphere of feel home, on whom they can rely without any inhibition.

If the e-banking system of Payment banks are not effective in rural area, then whether it will be a relaunching of old postal system and Regional Rural Banks to rural mass, and one more addition of banking option for equipped urban mass?

X. SCOPE FOR FURTHER RESEARCH

The research is only about the scope e-transaction system of payment banks in bankable unbanked areas rural India, it could have been extended to urban area and a comparative analysis could have been done. What will be the result if Payment Banks are operated in amalgamation or joint venture with post offices and RRBs?

REFERENCES