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A CHANGE MAKER IN INDIA'S FINANCIAL INCLUSION: THE POST PAYMENT BANKS

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Abstract—*This research focuses on the scope of Indian Post Payment Banks, which is the latest initiative of the plan of Reserve Bank of India and the Government of India. One of the main issues in rural India is the non-financial inclusion of the Indian rural citizens. Payment banks real aim is to reach people in high volume but low value transactions specifically for low-income families and small businesses. The purpose of this research paper is to study the feasibility of payment bank and top analyze new opportunities and challenges attached to this initiative. This research also focuses on assessing people's perceptions towards post payment banks.*

Keywords—*Financial Inclusion, Indian Banking system, Indian Economy, Low Value Transactions, Post Payment Banks.*

INTRODUCTION

RBI has established the concept of payment Banks that will further promote financial inclusion India, especially in rural areas; mainly it will focus on low-income groups and small groups Merchant of rural India.

Airtel is the first company which will launch Payment Bank in India with Pay tm Service which will begin before February. In order to secure the payment bank working within the prescribed agenda, the Reserve Bank of India has developed guidelines.

Some features are not allowed paying the bank, but in other respects it is a tool like Traditional public and private banks:

- Issue of credit card is not permitted.
- Do not accept NRI deposits.
- No subsidiaries are allowed
- Non-banking financial activities are not allowed.

To become the owner of the payment bank, following standards have to be achieved.

- The leverage ratio of the bank should not be less than 3%, i.e. its external liability should not exceed 33.33 times of its Net assets (capital and reserves).
- Min. equity capital is fixed to Rs.100 Crore.
- For the initial 5 years, owner or sponsor's share should be at least 40%.
- Foreign shares of the entity should be followed according to Banking Institute's FDI Rules
- 25% of branches must be in unbanked rural areas.

CHALLENGES TO POST PAYMENT BANKS

On paper, the concept of payment banks is two-fold. First, it promotes financial inclusion initiatives by expanding digital payment infrastructure. Second, it encourages the financial technology culture of the Indian banking industry and shows that RBI keeps pace with the times, despite its legacy.

Although both are ideal goals are competitive, in fact, the payment bank situation in reality is a difficult problem to solve.

1. The Payments-Only Model:

The payment-only model is an incomplete claim and is highly dependent on low fare account balances (up to a maximum of Rs. 100,000) for profit. It is not very similar to any large, low-margin commercialization business driven by convenience and pricing, with little customer stickiness. Making payment banks viable requires a good balance between the cost of obtaining fine-grained liabilities, the ability to provide competitive transaction pricing, and the ability to quickly reach critical mass.

2. Cross-Sell Fee

Although the cross-selling fee was touted as a “green pasture” for building profitability, unfortunately, its price is lower than green for the following reasons:

- Sales of insurance and mutual fund products are strictly regulated by industry regulators (IRDA and SEBI). Not only the distribution and sales commission limits, but also strict requirements to prevent wrong sales. Both require certified and trained manpower to sell the product, which means hiring higher quality manpower, training their costs and longer brewing before resources are produced. To put it simply - the cost is high and the room for revenue growth is limited.
- Cross-selling credit products, such as loans from NBFCs or banks, are not easy. Building a basic credit assessment capability for the right customer has a learning curve for both individuals and organizations.

3. Restriction on Fund Deployment

The payment bank must invest 75% of its CASA balance in government bonds or T-Bills that meet the statutory current assets ratio (SLR). The balance is 25% and the options are deposited in other SCBs. Although this is considered a depositor's safety net, it limits their ability to optimize their treasury operations.

4. No Lending. No NII (Net Interest Income) or IRR (Internal Rate of Return)

Scheduled commercial banks (SCBs) and small financial banks (SFBs) receive 4% to 10% of NII from working capital loans and up to 30% of IRR on small business loans or credit cards. Even the microfinance institution (MFI) has a loan interest rate of 25%.

Payment banks are not allowed to lend. Their investment in government securities and bank FDs will generate a net capital cost of 2-4% (if they attempt to actively mobilize the balance at a higher interest rate (such as Airtel), it will have a negative impact). After adjusting for other operating costs, the net return may fall below 1%, again confirming the high profit margin and low profit margin of the business.

5. Over-Competition

As the existing SCBs are more concerned, many payment banks and SFBs are scrambling for customer attention, and even FinTech's startups are destroying existing models, so this segment is too hot to cope. While some of the participants, such as Airtel or Vodafone, who have an existing distribution network and a large customer base, have an advantage, the nature of the relationship they are now trying to build with customers is different from the duopoly market we usually see in telecommunications. The first two players became market makers. India Post may be an outlier with a significant advantage of large volumes of logistics; however, for others it takes a long time to obtain critical mass.

Given these challenges, it is understandable that some players will feel cold. For those who have decided to stick to this opportunity, there is a bright light at the end of tunnel.

THE OPPORTUNITIES

1. Sheer Size of the Market

India has a bank account population of 233 million. Even those who are considered "included" by Pradhan Mantri Jan Dhan Yojana (PMJDY) are still new to banking products. According to the 2011 census, 833 million people remain in rural areas, and a large proportion of them have insufficient knowledge of banking services in the new era, even if they have accounts.

Another problem with patriarchal societies like India is that women (48% of the population or 586 million) are less involved in financial management and decision-making. These challenges stem from the complexity associated with banking and financial transactions.

This is exactly what the payment bank should honor. It requires intelligent segmentation, including geography and demographics, to provide tailored products for the bottom of the pyramid (BOP), rural, bankless accounts and women.

What's important is that the sheer size of the market can accommodate multiple participants and serve the various parts of society.

2. Simplification

With the government's initiative on JAM (Jan Dhan-Aadhar-mobile) and the recent non-monetization, digitalization has been promoted. Still, cash is still the preferred model for small transactions because there are no better alternatives, whether anonymous, convenient or free. The debit card has an MDR (Business Discount Rate) of 0.75-1.0% and a credit card of 1.5-2.5%, which is extremely high and not feasible for small traders. Even RTGS and NEFT are not free, and the OTP-based digital solutions provided by banks are too cumbersome and require a higher level of technical comfort.

Mobile devices are everywhere, but mobile banking is not. Even less tech-savvy customers can store, dial phone numbers, send text messages but still find it difficult to find mobile banking! For them, the bank still means visiting the branch. In case of some problem, the solution is not that simple.

The initial traction of the wallet was mainly made up of "free" and "more convenient" payment methods. There is still an opportunity to bring a cost-effective and streamlined technical interface to real-time payments.

Payment banks can take advantage of the payment infrastructure of the National Payments Corporation of India (NPCI), which may have some lags due to its legacy systems. Biometrics is another opportunity that is not yet popular. Payment banks must act quickly, provide simplified solutions, and occupy specific niches or market segments before others. Can a payment bank bring us a simple single-thumb printing bank?

3. Offer Financial Advisory (Not Cross Sell!)

Financial advice is a cliché term that is often used but rarely applied. Unfortunately, the ulterior motives for achieving cross-selling goals are confused with more informed financial advice. Unless you calculate the amount of insurance for a bank relationship manager, 99% of Indians can hardly get any form of financial advice. When you step down the economic pyramid, there is no fund management advice at all.

This inefficiency provides a huge space for payment banks to provide real advisory services to rural and international revenue and expenditure platforms. However, the key is to control the tendency to mislead or prejudice. This is an opportunity to bring lost "trust" back to the banking industry. Although the Indian Post Payment Bank, which has an existing deposit base, may be unique, others can use it as an opportunity.

4. Bank as a Platform

The spin-off of bank products has led many FinTech companies to become leaders in their respective fields. Whether it is an algorithmic lending model or robotic or NFC payment or real-time transaction monitoring or personal financial management, there is an opportunity to offer new age services. The payment bank can be a financial services gateway or platform to re-bundle a range of innovative services. One such healthy combination may be cooperation with a microfinance institution.

They may also explore beyond financial services. For example, cross-selling water purifiers or LED bulbs not only solve the challenge of cleaning water in rural areas or energy saving, but also help to achieve a relationship beyond trading.

There is more: crop insurance, weather forecasting services or integration with eNAM (Electronic National Agricultural Market) or the issuance of soil cards - the list is endless.

CONCLUSION

There is enough evidence that the traditional banking industry is on the verge of death. Technology is reaching a turning point in changing the banking paradigm. Paying a bank license provides a good place to look at these changes better than any FinTech. In addition, the RBI statement indicates that the guidelines are not closed regulations. While it seems very cautious in developing systemic risks, based on learning and performance, account balances, product offerings, and “upgrades” can be revisited to pay banks. Payment banks can strategically use technology and smart segments as disruptive tools and tactically leverage their existing customer base and distribution channels to quickly achieve critical mass. This requires rapid collaboration with new age interferers, optimizing resources, continuing to rotate and regularly working with RBI to develop game rules. In short, it's like a humble, flexible startup, not a temptation to be an upper-level layman.

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