

Changes payment banks can usher in for you

Soon, you will have 11 new banking entities vying for a share of your pocket's pie. We explain how you stand to gain from the advent of payment banks.



PREVIEW KARNI

As the banking space welcomes payment banks into its fold, consumers can look forward to better service and lower transaction costs.

Last week, the RBI gave its prime right approval to 11 payment banks to establish payment banks. These banks will provide products and services like accepting deposits and remittances, but cannot extend loans. They will offer services through their own network of access points, branch or correspondent networks provided by others.

While they are expected to deepen financial inclusion, it's not clear the established or lesser success groups who will benefit the most pay-

ment banks. "They will service all customers. They will appeal to the youth in particular," says Ashish Dwivedi, National Head, Financial Services, FSI. "They will target customers from all segments. If they don't, they won't be able to profit," adds Shantanu Karan, Partner and London, Banking and Capital Markets, PwC.

The RBI's recent approval of 11 digital payment banks is a first. Digital payments are set for a big leap, according to a Boston Consulting Group study, the digital banking customer base, which is projected to cross the 200 million mark by 2025, could touch 500 million with payments banks coming in. Moreover, existing mainstream banks and entities that provide payment processing services have already created a basis

ground for such banks. Half of all digital banking customers say they are keen to try out payment banks once launched. How is how they use after the only year to start?

Lower transaction costs

While payment banks are expected to complement the existing banking services, competition will push banks to up the bar. Given that many of the approved entities have deep pockets, you can expect transaction costs to go down. "The biggest by way of new entrants is a possibility," says Karan. Today, for transactions are similar amongst all banks, but payment banks could change the sector. However, Vikas Bhatia, Group Head, Financial Service India, ICRA, cautions, "National bank

230 MN
Projected digital banking customer base by 2020

300 MN
Likely digital customer base with the advent of payment banks

50%
Digital banking customers are expected to be smartphone users

20% people have Net access

34% to have a smartphone by 2015

35% of digital banking customers are expected to be mobile internet users

180% growth of digital banking services

charges are regulated to a larger extent. It remains to be seen if payment banks can manage to actually reduce transaction costs."

Better service standards
Competition from established banks, which are expected to be more stable financial and hence in a better position to be responsive to changing customer needs, is likely to force existing banks to provide better services. Moreover, the banking process customers see often changed. For instance, some banks may not charge payment for issuing a demand draft despite account holders being long-time customers. "This could be a good ground for new banks to step in," says Karan.

Bigger role for technology
Some entities like IndusInd MF group, First Money and First Step bank that have received the payment bank approval, have a track record of providing mobile-based as well as technology-enabled payment processing services. "New banks are likely to emphasize on technology-driven solutions, reducing transaction time. This will help customers out down as well as up," says Dwivedi.

Innovation
While they have to comply with established banks, payment banks will have to innovate to differentiate themselves and stay in the game. Karan feels the entire approach to creating products and services will change. "They will have to start thinking from the customer's perspective," he says.

Wider network
Some of the players who have been allowed to set up payment banks have a strong presence—physical or digital—in the space. For instance, India Post, Paytm, First Pay and India Chikitsa have established their own services around a large customer base. "Some entities will be able to leverage the strength of their existing network, thereby improving accessibility of banking services," says Dwivedi.

ENTITIES THAT HAVE BAGGED RBI'S APPROVAL

DEPARTMENT OF POSTS

FINANCE INDUSTRIES

INDIA POST PAID

INDIA POST PAID

APTEL IN-COMMERCE

TECH PARASERA

INDIA POST PAID

INDIA POST PAID

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