Practical constrains of payment banks

What is the issue?

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- Payment banks was introduced to by RBI to increase the accessibility and affordability of banking.
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- But recent estimates reveal that payment banks are facing practical constrains in achieving their goals.
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What are payment banks?

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- Payment banks was introduced to deepen access to formal financial services in unbanked and under-banked areas.
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- It can’t offer loans but can raise deposits of upto Rs. 1 lakh, and pay interest on these balances and can issue debit cards and ATM cards.
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- It primarily aimed to help people to open a bank account almost at their doorsteps with the help of an agent.
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- Payment banks can enable transfers and remittances through a mobile phone and can offer services such as automatic payments of bills, and purchases in cashless, cheque less transactions through a phone.
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- Few example of payment banks in India are Airtel money, Paytm payments bank, Vodafone m-Pesa, etc.
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What are the practical constrains with payment banks?

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- **Lack of awareness -**Theawareness about payment banking system is yet to reach the vulnerable, illiterate, low-income and rural population.
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- **Different options -**Among those customers who knew about the product, especially in urban areas, there was little interest in using it, since several other options already existed to perform financial transactions.
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- **Lack of training -**Agents who work for payment banks have limited training on the features of the product, terms and conditions and its benefits.
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- **Heavy workload -**Payment bank agents are frustrated due to amount of time needed to on-board customers, conduct transactions on their behalf.
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- **Less incentives -**The agents were not provided with adequate incentives to promote the product.
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- The monetary commission provided per transaction was also too low.
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What measures needs to be taken?

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- Payment banks need to intensify their efforts and try different approaches to create awareness about the product.
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- Payment banks need to heavily invest in marketing, especially in rural areas, and compensate agents substantially.
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- Payment banks need to explain the features and uses of the product to their agents such that they can effectively transfer this knowledge to the consumer.
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Source: Business Line

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