

A Study of Payment Banks in India (With Special Reference to Paytm)

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Abstract

India began the transition to digital payments after the demonetization. The goal of digitization is to make basic financial services accessible to everybody, however, some undeserving people continue to live in remote areas outside the reach of financial services. The research looks at how newly licensed payment banks might engage with disadvantaged and migrant groups within the demographic pie to effectively achieve the inclusion goals of the Indian banking regulator. Financial inclusion is a significant step towards inclusive growth; thus, the article tries to explore how payment banks are facilitating the achievement of financial inclusion throughout the nation, with special reference to Paytm Payment Bank. The study uses descriptive and exploratory research design. The exploratory study is conducted using secondary data sources and the descriptive study is conducted using a well-structured questionnaire and statistical analysis was done to arrive at the results. Findings suggest that age, gender, occupation and educational qualification are associated with the preference to use payment banks and no association has been found between gender, age and educational qualification with the frequency of using Paytm Payment Bank. Results also reveal the positive and negative correlation between various variables. This study will assist numerous scholars and institutions in better understanding the meaning of payment banks and their role and contribution in financial inclusion.

Keywords

Payment bank, financial inclusion, digital payments, digital economy, Paytm, e-wallets

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Introduction

Payments banks (PBs) in 2014 were launched by RBI, making them the first banks licensed to provide deposits (up to ₹1 lakh) and payments/remittances services, they are the first entirely unique form of bank in India. The idea of payment banks was first out in 2014 by the RBI Committee on (CCFS), in the direction of Dr Nachiket Mor. Small savings accounts and payments/remittance services are provided by PBs to 'underserved groups, including low-income households, small businesses, migratory labour workforce, and other customers'. A payment bank falls under the category of 'Scheduled Bank', however, companies must include the phrase 'payments bank' in their names to set it apart from conventional banks. The primary goal of PB is to provide banking and payment services in a safe and technologically advanced setting to migratory workers, low-income families and small businesses.

Bharti Airtel created the first PB in the country in January 2017 under the name Airtel Payments Bank to assist the government of India's projected transition to a cashless society. Besides the big names, other active Payment Banks in India include Financial Inclusion Network and Operations (FINO), NSDL, Jio, Paytm and a few others (Indian Money, 2019).

In August 2010, One97 Communications Ltd launched 'Pay via Mobile', often known as Paytm, as a website for prepaid cell phone recharging. Paytm started out as a website for phone recharges, but it has now developed into India's top online retailer. It accepts debit cards, credit cards and net banking transfers into its integrated wallet. It has grown over the last six years and is now the customers' first option among all current payment systems in India. It first provided a way to recharge mobile phones, but it swiftly extended to offer options for paying for other services as well, including metro cards, DTH, data cards, electricity and water bills, as well as for flights and buses bookings. Also, it provides the choice of making purchases through its online store. It joined the M-commerce market after achieving success in the e-commerce market and now allows smaller businesses to advertise their items on its website. The first payment app in India to surpass 100 million downloads was Paytm in 2010. The next year, it introduced Paytm Gold, a service that allowed consumers to purchase pure gold online for as little as one (Hans, 2020).

RBI gave Paytm permission to start a PB in August 2015. The Paytm Payments Bank is a totally independent company in which Vijay Shekhar Sharma, the company's founder, owns 51% of it, One97 Communications owns 39% of it and a One97 subsidiary and Sharma owns the remaining 10%. The main objective of payment banks is to enhance financial inclusivity by providing limited savings accounts and payment remittance services to low-income families, migrant workers, small enterprises and other organizations.

India's banking system has undergone major and recent improvements to promote financial inclusion. Opening accounts is just one aspect of financial inclusion. It includes easy and secure access to items for micro-investments, insurance and financing. For the varied demands of our population, there is no one-size-fits-all option to achieving full financial inclusion. Years have been spent

on a plan to provide financial assistance to the country's weakest regions. Now is the moment to take advantage of a framework to channel such efforts.

The adoption of payment banks is strongly influenced by individuals' perceptions and personalities. How people view payment banks, shaped by their experiences and cultural context, plays a crucial role. Those who see payment banks as secure and convenient are more likely to embrace them. Personality traits like risk tolerance and openness to innovation also impact adoption. A crucial step towards more equitable growth is financial inclusion. It assists with the overall economic development of the poor community. By offering them modern financial products and services, India's impoverished and disadvantaged people may escape poverty. This is only possible with effective financial inclusion.

Considering this, several research questions are presented, such as:

RQ1: How payment banks are different from scheduled commercial banks?

RQ2: What is the role of payment banks in financial inclusion in India?

RQ3: What is the perception of people towards Payment Banks in India?

RQ4: Which are the prominent Payment Banks in India?

RQ5: What are the factors leading towards the usage or non-usage of payment bank services and what leads to their satisfaction level?

Given the major focus on financial inclusion in prior research, this study especially evaluates the contributions of payment banks in improving access to financial services and understanding the perception of people towards Payment Banks.

The study begins with an introduction to payment banks (first section) and then moves to the relevant literature review (second section). Research objectives and methodology are outlined in the third and fourth sections, while findings, discussion and conclusion occupy the fifth and sixth sections, respectively.

Literature Review

To get a thorough grasp of sustainable banking, it is essential to research and analyse the already available literature as well as its emerging trends and what earlier authors have revealed. This is due to the growing significance of digital financial practices in the banking industry and the increased academic attention in its various facets.

According to a study by RS and Chittawadagi (2019), the Indian government has introduced numerous digital payment methods, including UPI for smartphones, USSD-based mobile banking for basic and feature phones, BHIM app, a unified UPI app, Aadhaar Pay, which allows for the creation of cashless payments using an Aadhaar card and a fingerprint for biometric authentication, and Bharat QR Code for Cashless electronic payments to further simplify the payment process. Similarly, Goel (2015) highlighted that the payments-bank model is potentially a significant innovation that helps to expand the size and efficiency of the financial

inclusion process; nevertheless, there are many challenges involved in the success of payment banks. People have a preference for cash even in urban areas where alternatives exist, the over-the-counter trap which means the customer does not have an account but uses the agent banking model, Competition from other commercial banks. Furthermore, Pramani and Iyer (2022) conducted a study that there are several reasons why payment banks have not been as successful as expected. Low knowledge, trust have been highlighted as the main reasons for poor adoption by the client categories covered here, namely, migrant labour and small merchants. These issues develop because of discrepancies between the target audience's characteristics and the business model design. Naik et al. (2018) evaluated that there are many bottlenecks that must be removed before the true advantages of payment banks can be realised, Many Indians, millions of them, lack access to financial services. They are not eligible for government assistance, loans, insurance or even savings account interest. The underbanked and unbanked will be reached via M-Banking, IPPB and PMJDY in all societal and geographic segments. A study by Sarkar and Singh (2019) revealed that the Demonetization of currency in 2016 significantly altered how individuals spend their money. Additionally, it has transformed banking services. The payments have become easier as one now does not have to worry about cash as they can easily make payments through Paytm, Tez, Credit Card, Debit Card, etc. Now even schools and colleges have started collecting their fees through these digital transaction methods which have totally revolutionised the way of money transferring. These digital platforms have also decreased illegal money transfers as most of these platforms are directly linked with the bank, through Aadhar Cards or PAN Cards and thus they have complete information about the customers. Kaur et al. (2020) highlighted that today's kids are more technologically sophisticated compared to persons over 40 years old, it has been found that those with greater incomes are more productive than those with lower incomes. This is possible because of the higher income group's hectic schedules and limited time for branch visits. Additionally, they have enough money to purchase the newest cell phones with Internet capabilities so they may do banking transactions whenever necessary. As a result, people choose mobile banking as their favourite method of doing financial operations. Similarly, Mittal et al. (2017) pointed out that although factors like gender, qualification and employment all affect the customer's decision to use a payment bank, the comfort or convenience of technology has a positive impact on the usage of payment banks. Even though consumers still favour universal banks for savings, additional research reveals that they are frequently using payment banks for mobile phone bill payments. However, the payment institutions may influence the clients' mindset by properly promoting and raising their awareness. Yet another study by Sikdar and Kumar (2016) highlighted that to stay competitive both established commercial banks and emerging competitors must form strategic alliances with firms that have extensive retail outlets and agent networks. The decade of 2020 was anticipated to be a symbol of 'bank on the unbanked', with the new players opening the door for the realization of the long-cherished ambition of inclusive growth and including the hitherto excluded demographic. Mehta and Singla (2021) revealed that Paytm has advanced to provide a broad variety of

services before reaching its zenith and becoming a standalone payment bank. Yet another study by Vikas and Kumar (2018) on the Paytm app offers advantages and disadvantages. One set of users claimed that the Paytm app is free and simple to use. The opposing side believed that Paytm had connectivity concerns, meaning that it could not connect without an internet connection. Burhan et al. (2020) highlighted the factors of phone banking with expanded Technology Acceptance Model (TAM) as the foundation. Although perceived security risk has been demonstrated as statistically insignificant, perceived value is considered to be significant in understanding the adoption of m-banking by users. m-banking adoption is negatively impacted by service pricing, a country-specific variable, but easy accessibility has been found to have the most beneficial impact in the context of Bangladesh. Another study by Gupta et al. (2020) investigated the TAM-based customer behavioural intents while adopting fintech services. The results show that views about utilizing fintech services are highly influenced by brand and service trust. Additionally, perceived utility and simplicity of use have a very beneficial impact on attitudes. The employment of modern ICT technology has exponentially reduced the burden on financial operations and services. Thathsarani and Jianguo (2022) revealed digital finance role as a mediator between financial inclusion and SME success, as well as how the TAM promotes both. TAM, digital finance and financial inclusion all have an impact on how well small and midsize businesses operate. More particular, digital finance and TAM favourably influence the relationship between financial inclusion and performance in SMEs.

Research Objectives

In the view of above research questions and Literature Review, the following objectives are formulated. First, the study aims to identify the role played by payment banks in promoting financial inclusion in India. Second, it seeks to understand the perceptions of individuals regarding Paytm Payment Bank. Third, the study intends to identify the factors that influence customer satisfaction levels when using Paytm Payment Bank. Lastly, it aims to determine the factors affecting the usage of services provided by Paytm Payment Bank. These objectives provide a structured approach to examining the role of payment banks, with a particular focus on Paytm Payment Bank, in the context of financial inclusion and customer behaviour in India.

Research Methodology

The exploratory study relies on secondary data sources, which encompass publications in national and international journals, magazines and papers, as well as research conducted by organizations such as Deloitte, KPMG, Forbes, McKinsey and others. With the use of a structured questionnaire, descriptive research was carried out. Purposive sampling was employed for gathering data

from a sample of 250 respondents with access to mobile phones. Out of the total responses, 240 responses were fit for the study. The respondents were split into categories based on several criteria, including gender, age, employment, frequency and purpose of usage. The data analysis was done using the statistical software SPSS (Statistical Package for Social Sciences), chi-square and Bivariate correlation analyses were conducted on the data to arrive at the results. Cronbach's alpha is a simple test to determine the reliability, internal consistency or value given. 0.70 is considered good. In this article, the value of Cronbach's alpha is 0.793 which is good and reliable.

The article seeks to substantiate the above statement by examining the impact of age, gender, qualification, and employment on the use of services provided by payment banks.

- H_{1a} : There is an association between gender and preference to use services provided by Paytm Payment Bank.
- H_{1b} : There is an association between gender and satisfaction level of various services provided by the Paytm Payment Bank.
- H_{1c} : There is an association between gender and frequency of using Paytm/Paytm Payment Bank.
- H_{1d} : There is an association between gender and difficulty level of using Paytm Payment Bank.
- H_{2a} : There is an association between age and frequency of using Paytm/Paytm Payment Bank.
- H_{2b} : There is an association between age and the difficulty level of using Paytm Payment Bank.
- H_{2c} : There is an association between age and preference to use services provided by Paytm Payment Bank.
- H_{2d} : There is an association between age and satisfaction level of various services provided by the Paytm Payment Bank.
- H_{3a} : There is an association between occupation and the preference to use services provided by Paytm.
- H_{3b} : There is an association relation between occupation and the difficulty level of using Paytm.
- H_{3c} : There is an association between occupation and satisfaction level of various services provided by the Paytm Payment Bank.
- H_{3d} : There is an association between occupation and frequency of using Paytm/Paytm Payment Bank.
- H_{4a} : There is an association between education qualification and the preference to use services provided by Paytm.
- H_{4b} : There is an association between education qualification and the frequency of using Paytm.
- H_{4c} : There is an association between education qualification and the difficulty level of using Paytm.
- H_{4d} : There is an association between education qualification and satisfaction level of various services provided by the Paytm Payment Bank.

Results and Discussion

Introduction to Payment Banks and Their Role Towards Financial Inclusion in India

A new kind of bank developed by RBI is a payment bank. These banks are only permitted to take a maximum deposit of 100,000 per client, with the possibility of an increment. These banks can provide services like net banking, ATM cards, debit banks and mobile banking but they cannot make loans or dispense credit cards. PBs' primary objective is to advance financial inclusion by offering small savings accounts and payments and remittance services to migrant workers, low-income households, small businesses and other users. This is achieved by enabling high volume, low-value payments and remittance services transactions in a secure, cutting-edge setting.

There are no substantial credit or market concerns for the PB. The payment bank's paid-up equity capital must be at least ₹ 100 crores. Subject to any greater percentage that RBI may occasionally impose, the bank must maintain a minimum capital of 15% calculated based on its risk-weighted assets (RWA). At least 7.5% of RWAs should go to Tier I capital. At least 100% of all Tier I capital should go to Tier II. For the first time, the RBI is now granting unique licenses for specific businesses, and this move is seen as an important step towards advancing financial inclusion in the country.

It is a path towards redefining banking in India. The Reserve Bank anticipates that payment banks will offer low-cost savings accounts to small enterprises, rural households and migratory workers in India. PBs are intended to help less fortunate people who now solely use cash enter the formal banking system. Traditional banks could find it unprofitable to establish branches in every community, but the widespread use of mobile phones offers a potential, low-cost platform for swiftly bringing essential financial services to every rural resident. The development is anticipated to enhance India's transition to a cashless society.

The domestic remittance business in India is thought to be worth between ₹ 800–900 billion and rising. With the ability to send money via mobile devices, a sizable portion of it—particularly that of the migratory workforce—could switch to this new platform. Payment banks may also be used to conduct the government's direct benefit transfer program, which deposits government subsidies for gas, healthcare and education directly into beneficiaries' accounts.

Various Payment Banks Operating in India

Several entities were given approval by the RBI to conduct activities and other businesses that banking corporations may participate in, as defined, and detailed under the Banking Regulation Act, 1949, accordingly. The payment banks that are active in India are as follows:

Airtel Payments Bank Ltd: Eleven businesses received in-principal approval to create payment banks from the Reserve Bank of India in 2015, in accordance with

the rules for licensing payment banks. Airtel was one of them, and in September 2016 it launched Airtel Payments Bank. The Rajasthan-based pilot program for Airtel's first PB began in November 2016. In order to contribute to the government of India's promised cashless revolution, the largest telecom business in the country, Bharti Airtel, launched Airtel Payments Bank in January 2017.

Jio Payments Bank Ltd: Reliance Industries owns Jio Payments Bank, an Indian payments institution that debuted in 2018. It joined forces with the State Bank of India to create Jio Payments Bank Limited in November 2016. It is a 30:70 joint venture between the two.

India Post Payments Bank Ltd: This is wholly owned by the Indian government. On 1 September 2018, Prime Minister Shri Narendra Modi introduced IPPB. The bank was established with the intention of being India's most approachable, affordable and trustworthy financial institution. By utilizing 160,000 post offices (145,000 of which are in rural areas) and 400,000 postal workers, IPPB's main objective is to remove barriers for individuals who are underbanked and unbanked and to cover the last mile.

FINO Payments Bank Ltd: On 30 March 2017, FINO got the RBI's final clearance to operate as a PB. The bank provides various services to the rural poor. FINO Payments Bank has an asset-light business model and provides a variety of financial goods and services with a focus on payments that are predominantly digital. Moreover, the bank is primarily reliant on fee and commission-based revenue from its merchant network and key commercial alliances.

Paytm Payments Bank Ltd: PPBL, an Indian PB with its main office in Noida, was established in 2015. The company wants to connect half a billion Indians into the global economy through payments, commerce, banking and other services. With 500 million customers, Paytm Payments Bank wants to become the largest digital bank in the world, offering everything from credit cards and stock market trading to wealth management.

NSDL Payments Bank Limited: With effect from October 29, 2018, National Securities Depository Limited began operating as a PB to aid the effort to offer streamlined financial services to every Indian. Since then, the bank has been offering services for creating and maintaining individual clients' savings accounts as well as launching its Android mobile application, NSDL Jiffy.

People Perception Towards Paytm Payment Bank

First, this section includes the demographic profile belonging to the 240 people forming the sample.

As can be seen in Table 1, 240 people participated in the research. A total of 93 participants are females and 147 are males. A total of 185 participants in the sampling group are between 18 and 30, 23 participants are between 30 and 45, 24 participants are between 45 and 60 and 8 participants are above 60 years of age. A total of 111 participants are service professionals, 73 participants are self-employed and 56 participants are not working. A total of 13 participants are in intermediate, 74 participants are graduates, 130 are post-graduates, 21 of them have professional degrees and 2 are having some other degree.

Table 1. Properties of Sampling Group.

Variable	Groups	<i>n</i>	%
Gender	Female	93	38.7
	Male	147	61.25
Age	18–30	185	77
	30–45	23	9.5
	45–60	24	10
	Above 60	8	3.3
Occupation	Service	111	46.7
	Self-employed	73	30
	Non-working	56	23.3
Education	Intermediate	13	5.4
Qualification	Graduation	74	30.8
	Post-graduation	130	54.1
	Professional	21	8.75
	others	2	0.83

To examine the association between the categorical variables, the chi-square test is used. H_1 is there exists a relation between gender and preference to use services provided by Paytm Payment Bank. The test result indicates the p value to be .460 which is greater than 0.05 so we accept the null hypothesis. Hence H_{1a} is supported and the hypothesis is accepted that there exists a relation between gender and preference to use services provided by Paytm Payment Bank. Similarly, H_{1b} , H_{1d} , H_{2b} , H_{2c} , H_{2d} , H_{3a} , H_{3b} , H_{3c} , H_{3d} , H_{4a} , H_{4c} and H_{4d} are also supported as the p value is greater than .05. Hypothesis H_{1c} , H_{2a} and H_{4b} are having p value .000 which is lesser than the value of .05. The null hypothesis is rejected, and we adopt the alternative hypothesis that there is no correlation between gender and the frequency of utilizing Paytm Payment Bank. Furthermore, there is no correlation between age and the frequency of using Paytm Payment Bank and between education qualification and the frequency of using Paytm.

Overall, 91% of respondents said that they will recommend Paytm Payment Banks to their friends, family and associates and only 9% of respondents said that they are not happy with the services provided, hence they will not recommend it further to their friends, family and associates.

It can be observed that people mostly use Paytm for UPI for the purpose of making payments, followed by the Paytm wallet. Most of people did not prefer to use Paytm Bank for any purpose even when they are being offered high-interest rates.

Table 2. Hypothesis with their *p*-values.

S. No.	Hypothesis	<i>p</i> Value
<i>H</i> _{1a}	There is an association between gender and preference to use of services provided by Paytm Payment Bank.	.460
<i>H</i> _{1b}	There is an association between gender and satisfaction level of various services provided by the Paytm Payment Bank.	.558
<i>H</i> _{1c}	There is an association between gender and the frequency of using Paytm/Paytm Payment Bank.	.003
<i>H</i> _{1d}	There is an association between gender and difficulty level of using Paytm Payment Bank.	.614
<i>H</i> _{2a}	There is an association between age and frequency of Using Paytm/Paytm Payment Bank.	.000
<i>H</i> _{2b}	There is an association between age and the difficulty level to use Paytm Payment Bank.	.270
<i>H</i> _{2c}	There is an association between age and preference to use services provided by Paytm Payment Bank.	.088
<i>H</i> _{2d}	There is an association between age and satisfaction level of various services provided by the Paytm Payment Bank.	.995
<i>H</i> _{3a}	There is an association between occupation and the preference to use services provided by Paytm.	.636
<i>H</i> _{3b}	There is an association between occupation and the difficulty level of using Paytm.	.346
<i>H</i> _{3c}	There is an association between occupation and satisfaction level of various services provided by the Paytm Payment Bank.	.338
<i>H</i> _{3d}	There is an association between occupation and frequency of Using Paytm/Paytm Payment Bank.	.099
<i>H</i> _{4a}	There is an association between education qualifications and the preference to use services provided by Paytm.	.623
<i>H</i> _{4b}	There is an association between education qualifications and the frequency of using Paytm.	.000
<i>H</i> _{4c}	There is an association between education qualification and difficulty level of using Paytm.	.132
<i>H</i> _{4d}	There is an association between education qualifications and satisfaction level of various services provided by Paytm Payment.	.491

Factors Affecting Satisfaction Level While Using Paytm Payment Bank

Ease of use: It is about making things easy. It is generally believed that technology is considered user-friendly when an individual can use it effortlessly and without much exertion. The simplicity in the usage is a key factor in attracting women and elderly users. With the ease in using technology, individuals are more inclined to use financial services.

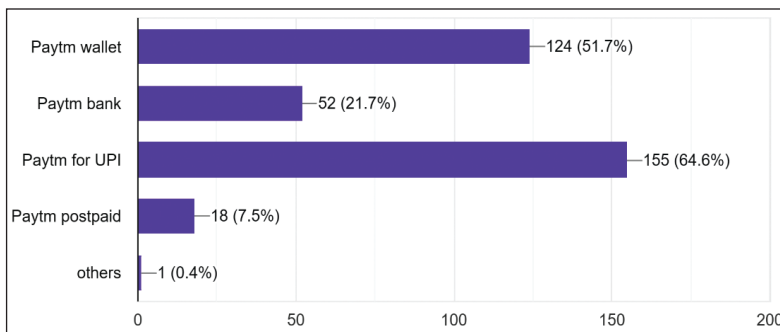


Figure 1. Preferred Mode of Payment While Using Paytm.

Ease of learning: If an individual is confused about managing a service, they are always hesitant to use it. Customers that are not technology proficient have issues with technology. Therefore, banks must provide a user interface that is simple for clients to use. In addition to being simple to use, the interface should also benefit the user.

Responsiveness of service: Responding to clients' questions and issues in a timely manner can help to win their trust. Since it offers financial services to everyone, the financial sector is mainly a people-focused enterprise. Since all the services offered by banks are focused on meeting the demands of their customers, they must run smoothly. The fastest possible reaction time while serving a client will assist the bank gain their confidence and keep them as customers, which will increase the bank's profitability.

Security: For users, every financial transaction or information is extremely sensitive. Therefore, before implementing any financial technology, a consumer values security as one of the key aspects. To make online banking safe, efficient techniques and procedures are needed. The technology employed should be both practical and safe to use. The trust of individuals and the reputation of Internet banking will both benefit from such security and privacy.

Trust: In essence, trust is used to measure the level of risk involved in financial transactions, meaning that it directly relates to consumer satisfaction. As trust grows, users' perspective of mobile payments also increases.

Reference group influence: An individual lives in a social setting and is significantly influenced by those around him. If his reference group uses the same financial service, the consumer is far more likely to utilise it with confidence.

To understand whether the ease of use derives satisfaction or not which further impacts the frequency of usage, a bivariate correlation study was performed to demonstrate the relationship between these variables. The obtained findings are as follows:

The findings of correlation analysis proved there is a negative relation between the difficulty level and satisfaction derived from using Paytm Payment Banks because when people find something difficult to use, they do not feel happy and satisfied with it which in turn stops them from using it again. There is a positive relation between satisfaction level and frequency of using Paytm Payment Bank

Table 3. Correlation Between various variables

S. No.	Statement	R Value
1	Relation between difficulty and the satisfaction level of using Paytm Payment Bank.	-0.111
2	Relation between satisfaction level and frequency of using Paytm Payment Bank.	0.278
3	Relation between difficulty and preference of using Paytm Payment Bank	-0.259
4	Relation between preference and frequency of using Paytm Payment Bank	0.323

because when people are satisfied with the services, they are using it again and again. It further reveals that there is a negative relation between difficulty and preference of using Paytm Payment Bank and a positive relation between preference and frequency of using Paytm Payment Bank.

Conclusion

Payment methods have gone through an evolutionary progression, starting with cash and moving on to online payment applications like Google Pay, PhonePe and Paytm, and finally to e-commerce and phone banking nowadays. The article tries to understand people perception of payment banks. It suggests that age, gender, occupation and educational qualification have a direct relation with the preference to use payment banks. Additionally, the technology's ease has a favourable effect on both the frequency and degree of satisfaction when accessing payment banks. However, the user still prefers universal banks for savings but often chooses payment banks for services like phone recharge and payment services. Customers' mindsets may be altered with the right advertising and education from payment banks. Since the RBI has placed several constraints on payment banks' ability to conduct business, removing some of those regulations might increase their level of competition.

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