



IMPACT OF DIGITAL BANKING ON SMALL FINANCE BANKS AND PAYMENT BANKS

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Abstract

The study is an attempt to examine the impact of digital banking on Small Finance Banks and payment banks. The research aims at identifying the utilization of technology, the advantages and challenges they face in implementing digital banking and how these banks are transforming banking from traditional means to digitalization. The method used to collect data was primary by using questionnaire form and some of the secondary data was obtained by referring websites. All the respondents were asked the same questions in the same fashion and they were informed the purpose of study. The study concluded that Small Finance Banks and Payment Banks both have positive impact of digital banking.

Keywords

- Digital banking
- Small Finance Banks
- Payment Banks
- Impact

Introduction

Bank is a type of financial institution which basically provide services such as accepting deposit and providing loan facilities to their customers. Over the past few years the banking industry has gone through numerous changes, one of the most significant change being digitalization.

Digitalization

It is the integration of a digital technology into our everyday life. The world is becoming more and more technology dependent. Technology has impacted many sectors like information technology, research and development, consultants, service sector, and the most crucial one being the banking sector.

Digital banking

Digital banking is the moving of all traditional banking activities to online platform. Traditional banking activities that were historically only available to customers when physically present in the bank can now be accessed from any part of the world with the use of internet. This includes activities like money deposits, withdrawals, and transfers. In the recent times the banking industry has seen the emergence of small finance bank and payment bank.

Small finance Bank

Small finance banks are those banks which provide financial inclusion to disadvantaged sections like micro, small and medium business enterprises and other unorganized sectors who are not being taken care by other banks and financial institutions. In the year 2015 Reserve Bank of India has initiated a financial inclusion policy by setting up different type of bank in our country. Initially only few institutions got licensed to operate that dealing in the group of small finance banks.

Some of the small finance banks are as follows:

- Ujjivan small finance Bank
- Jana small finance Bank
- Equitas small finance Bank
- Fincare small finance Bank
- Capital small finance Bank



Payment banks

Payment bank is new model of bank conceptualized by Reserve Bank of India. These banks can accept a restricted deposit which is as of now constraint to 1 lakh per client and might be expanded further. These banks cannot issue loans and credit cards but can operate savings accounts, current accounts and it can also accept demand deposits, mobile payments etc.

Some of the payment banks are as follows

- Fino Payment Bank
- Airtel Payment Bank
- Paytm Payment Bank
- Aditya Birla Payment Bank
- Jio Payment Bank

Literature Review

1. **Pinal Barot (2017)** in his study titled “Financial Inclusion in India” the main objective of the paper is to understand the financial inclusion's importance, its extent, opportunities and challenges in India along with the present status of financial inclusion in the Indian economy. Some of the major problems in our country is that only certain section of the population is using financial services and financial literacy among the poor and underprivileged make the financial inclusion process more challenging.
2. **Prantik Ray (2016)** in his study titled “Small Banking in India – Issues and Challenges” this paper deals with the need for financial inclusion, issues, challenges, RBI guidelines for small finance banks. in this paper they discuss the case study regarding Ujjivan financial service limited to small financial banks and the way forward for financial banks in India. In this study we concluded that small financial bank has greater potential for financial inclusion but the performance of such institutions has not been satisfactory.
3. **Dr. Srinivasan, prof. Subramanian (2012)** has made a detailed conceptual study of payment banks. The researcher mainly concentrated on finding and answer to certain questions like who are the payment banks, why do we need payment banks when we already have public, private, foreign and cooperative banks, what are the value-added services rendered by payment banks and so on. The researcher concluded there is much possibility in the near future to open more payment bank accounts in addition to the regular bank accounts.
4. **Rahamath Safeenaet.al, (2012)** in his study “Technology Adoption and Consumer: Study on Mobile Banking” identify that the evolution of e-banking started from the use of automatic teller machines (ATMs) and telephone banking (tele banking), direct bill payment, electronic fund transfer and a wide variety of allied services offered by the modern banking system.

Statement of the Problem

Digital penetration and use of handheld devices make customer acquisition easier for all even without having physical presence in the interiors. Small Finance Banks and Payment Banks are attempting in their own way to redefine banking in India – a nation where urban centres are overbanked but in rural areas bank credit is still a scarce commodity. Rural India lags behind in internet access for online financial transactions. Thus, the study focuses on whether Digital Banking has a positive or negative impact on both the banks and the target customers.

Objectives of the Study

1. To find out the impact of digitalization on Small Finance Banks and Payment Banks.
2. To find out the reach of the banks post digitalization.
3. To suggest effective means to overcome the gaps.

Research Methodology

The method used to collect data was primary by using questionnaire form and some of the secondary data was obtained by referring websites. Area of study is confined to Bangalore. Information required for the study was



directly acquired from employees of Small Finance Banks and Payment Banks. All the respondents were asked the same questions in the same fashion and they were informed the purpose of study. The respondents were co-operative and confidentiality of response was assured of them. The respondents were:

- Jana Small Finance Bank
- Ujjivan Small Finance Bank
- Fino Payment Bank
- Airtel Banking

Findings and Analysis

Do you use E - banking?

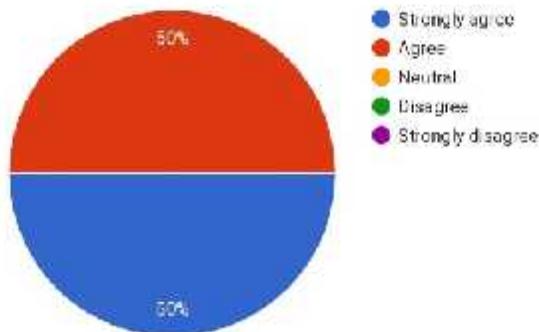
4 responses



From the above graph, it is clear that all the respondents use e-banking. As the world is moving towards digitization, banking sector is also incorporating the use of technology in its activities which was earlier lacking in the traditional banking method.

Has digitalization helped your bank to function smoothly?

4 responses



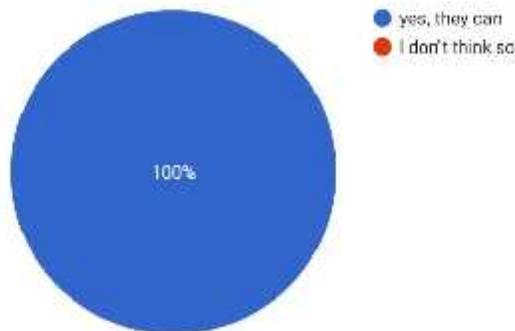
From the above graph it can be seen that 50% strongly agree that digitalization has helped their bank to function smoothly, while the other 50% agrees to the same. The positive response towards the use of digital banking is



because of the numerous advantages that comes with digitalization like time saving, reduction in human error in calculations and recordkeeping, easy and quick money transfer and so on

Do you think rural people can adopt to the digital change in the country?

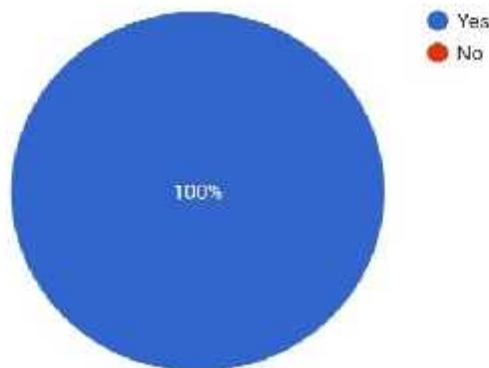
4 responses



From the above graph it is clear that all respondents think positively that rural people can adopt to the digital change in the country. If not for the hindrance like poor network quality, less access to technology and lack of proper guidance on the use of technology, rural people can definitely adopt to changing scenario.

Does online banking provide more revenue than traditional banking?

4 responses

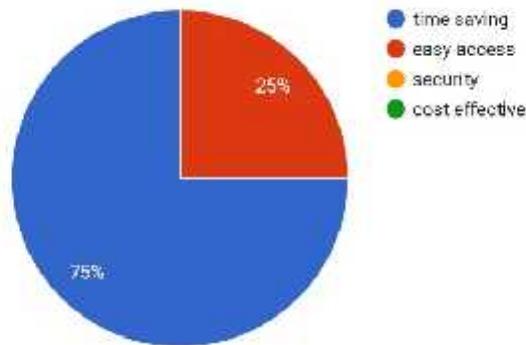




From the above it is evident that all the banks agree that adopting online banking methods has increased their revenue. The reason for this is increase in customer base, able to provide enhanced customer services, reduces human errors thereby building customer loyalty and does generating more revenue for the banks.

Why do you think customers are moving towards digital banking?

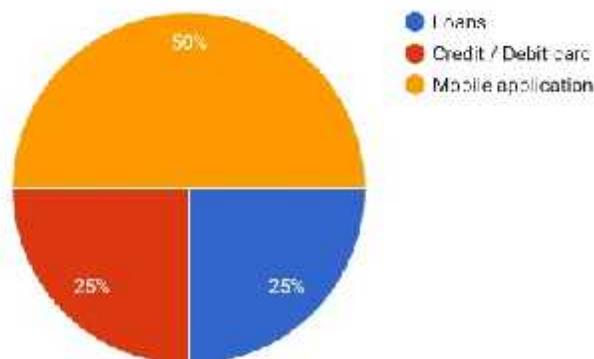
4 responses



From the above graph, it can be observed that 75% of the respondents consider time saving as the main factor which has influenced the customers to move towards digital banking and 25% of the respondents consider easy accessibility as a factor. Security still remains a matter of concern while they are also worried about the cost.

What is the most used service by customers?

4 responses

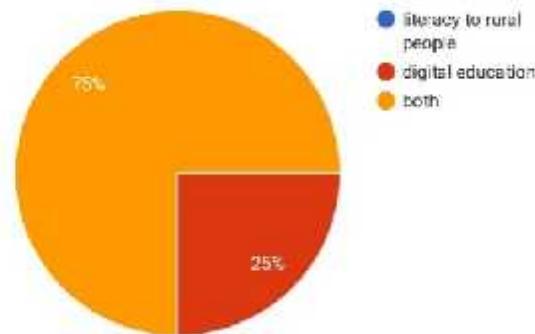




According to the above graph it is observed that most used service by customers in Small Finance Banks is loans and credit / debit cards. It is no surprise as these banks provide the best interest rates in the industry. In the case of Payment Banks, mobile applications are the most used. These applications help customers to make bill payments, scan and pay, flexibility of sending money from wallet, check balances and so on.

According to you what is the most important thing to convert India digitally?

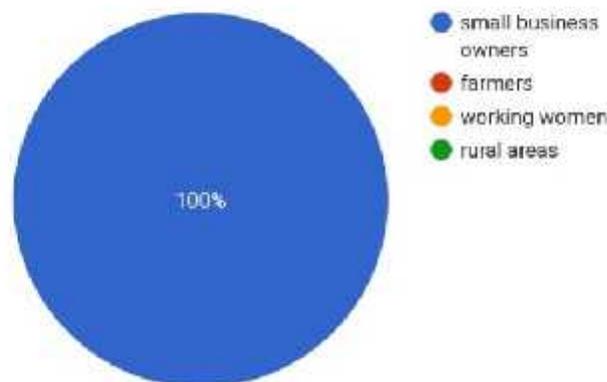
4 responses



According to the respondents both literacy to rural people and digital education are crucial factors to convert India digitally. 25% of the respondent felt that providing proper guidance on the use of technology is more important.

Who is your target customers?

4 responses

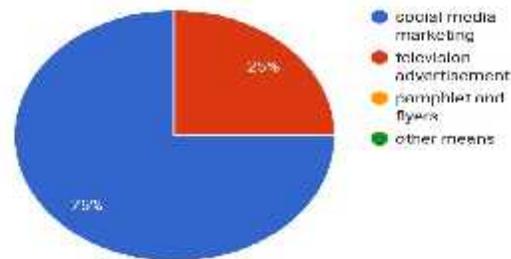


From the above graph, it is evident that the target customers of all the 4 respondents are the small business owners. The main aim is to encourage entrepreneurship and to motivate individuals to become more self-reliant.



How do you create awareness about your bank?

4 responses



75% of the respondents feel that social media marketing plays a huge role in today's world for promotion as it is gaining importance in recent times. 25% rely on television advertisement for promotion as they are able to cover a huge audience.

Conclusion

The inclusiveness of digitalization in various sectors has become necessary as it helps to improve the efficiency, consistency and quality of business. The advantages have outnumbered the challenges as digitalized form of banking has helped in eliminating human errors, shortening of communication chain and facilitate a better informational exchange. Small Finance Banks and Payment Banks both have positive impact of digital banking as it can be seen in the form of increased revenue, increased customer base and so on.

E-Reference

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