A Study on Customer Awareness and Usage of Payments Bank and Neo banks in Chennai City

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Abstract:

The banking and financial sector has evolved over the years to meet the changing needs of the economy and industries, leading to the birth of innovative financial instruments. The Reserve Bank of India introduced payment banks to promote digital, paperless, and cashless banking in the country. Payment banks offer basic banking services to unbanked and underbanked individuals, particularly migrant workers and those from lower-income households, and bring them into the formal economy. The trend towards digital payments and net banking has increased, especially after the impact of demonetization and the COVID-19 pandemic. Neo banking is a fintech-powered concept that operates entirely in the virtual space. Technology has become crucial to satisfy customer demands, leading to the emergence of payment banks and neo banks. Despite their growing importance, research on payment banks and neo banks in India is limited. This paper aims to study customer awareness and usage of payment banks and neo banks in Chennai city.

KEYWORDS: Payments Bank, Neo bank, Digital Payments, Banking Services

INTRODUCTION

India's banking sector has undergone significant changes since 1991, with the Reserve Bank of India (RBI) introducing major banking reforms and technological advancements. These changes have enabled banks to offer a wide range of products and services, including digital banking, making banking more convenient for customers. Despite this, over 190 million adults in India remain unbanked, prompting the RBI to introduce Payment Banks and Small Finance Banks in 2014 to increase financial inclusion. Payment Banks focus on low-value, high-volume transactions and are prohibited from issuing credit cards or advancing loans. Payments Bank was launched after the suggestions made by the Nachiket Mor committee. Initiatives like Pradhan Mantri Jan Dhan Yojna and Digital India Campaign have also been launched to promote financial inclusion and deepening access to financial services in India.

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The list of the active payments banks in India are Airtel Payments Bank Ltd, India Post Payments Bank Ltd, FINO Payments Bank Ltd, Paytm Payments Bank Ltd, Jio Payments Bank Ltd and NSDL Payments Bank Limited.

The rise of Neo-Banks in India is a significant development in the e-banking space, providing customers with a customized banking experience and affordable pricing. While traditional banks and NBFCs have dominated the Indian banking industry, Neo-Banks offer a cost-effective alternative that does not require a physical presence. Additionally, Neo-Banks can serve the needs of millennials, unbanked clients, gig economy employees, and immigrants by onboarding them without relying on traditional documentation procedures. The expansion of Neo-Banks has been fueled by scalable cloud infrastructure, open-source technologies and smartphones with low-cost 4G connectivity, and a friendly user interface. While existing banks have the potential to recreate this concept in their environment, new-age Indian banks have already begun to open up their APIs and technological stack to collaborate on new digital products for clients.

The banking industry in India has undergone significant changes over the years, with the emergence of new types of banks like payments banks, small finance banks, and digital banks like neo banks. Small finance banks are designed to provide financial services to underserved populations in rural and semi-urban areas. These banks operate much like commercial banks but on a smaller scale, with a focus on lending to small business units, small and marginal farmers, and micro and small industries. They can also offer non-risk sharing financial services like mutual fund distribution and insurance products. Small finance banks are required to maintain a minimum capital adequacy ratio of 15%, and are expected to primarily be responsive to local needs. They have the potential to provide an alternative to existing institutions and increase financial inclusion by serving a variety of unserved clients in rural areas and small cities.

Digital banks, also known as challenger banks or neo-banks, are a new type of bank that operate entirely on a digital platform. These banks do not have any physical branches and offer banking services through a mobile app or website. Some of the major digital banks in India include Kotak 11, Niyo, Yono SBI, Jupiter, and Open. Digital banks are not regulated by the Reserve Bank of India (RBI) and are required to partner with a traditional bank to offer their services. Overall, the emergence of new types of banks in India is a positive development as it promotes financial inclusion and provides access to banking services to underserved populations. While payments banks and small finance banks are regulated by the RBI, digital banks operate in a regulatory grey area and are required to partner with traditional banks to ensure compliance with banking regulations. However, digital banks have the potential to disrupt the traditional banking industry and provide a more convenient and accessible banking experience to customers.

REVIEW OF LITERATURE

1. **SHABU, KAYVA AND RAMANKUTTY, VASANTHAGOPAL, (2022).** In their study, the authors aim to investigate the potential of Neo banking in India and examine the opportunities and challenges from the customer's point of view. They used content analysis and a thematic approach to analyse customer responses on Twitter and determine the likelihood of customers adopting and embracing the Neo banking system in India. The study found that there was a highly positive response and approach from Neo bank users.

2. **RAHUL PRAMANI & S. VEENA IYER, (2022).** The authors aim to investigate the reasons behind the limited success of payments banks in India, and focuses on the financially excluded customer segments. By using a grounded theory approach based on data collected from interviews with target customers and payments bank managers, the study identifies the main factors contributing to low adoption of payments banks among migrant laborers and small vendors, including lack of awareness, trust, and perceived need for their products/services. These factors stem from inconsistencies between the design of the business model and the needs of the target audience. The article also discusses the managerial and policy implications of these findings.

3. **ASMA, UMME & GEORGE, GISA & JOHNSON, JOHNSY. (2022).** The authors' objective is twofold: first, to understand the structure of neo banking, and second, to investigate the potential challenges that Neo Banks face. The study employs a descriptive research design, incorporating both qualitative and quantitative data from various secondary sources, and uses a comparative method to analyze the situation of Neo Banks and Traditional Banks. The study finds that neobanks have emerged as the new face of the Indian banking system, filling the gap between users' needs and traditional banks' services. Neobanks ensure consistent service and hassle-free transactions for their customers.

4. **SHARMA DIMPLE, (2022).** The importance of Payment Banks services in India is increasing, yet limited research has been conducted on the awareness and satisfaction of customers, especially in Punjab. To bridge this gap, the study analyzed the awareness and satisfaction level of 600 customers towards Payment Banks in four districts of Punjab. The sample size was determined based on time and cost constraints, and multistage random sampling was used to select customers of Payment Banks. The study used a well-drafted and pre-tested questionnaire to collect primary and secondary data and analyzed the results using a tabular technique. The study aimed to see the changes taking place after the introduction of Payment Banks and understand customer awareness and satisfaction towards them. The study's results could potentially provide insights into the needs of customers in Punjab and inform future policy decisions.

OBJECTIVES

- To study the awareness of Payments Banks and Neobanks among the youth in Chennai.
- To identify the most frequently used Payments Bank and Neobank among Youth in Chennai.
- To analyse the demographic variables that has an influence on awareness and usage of Payments Banks and Neobanks among Youth in Chennai.
- To identify the reasons for using Payments banks and Neobanks
- To identify how often is Payments Banks or Neobanks are used among the youth in Chennai

STATEMENT OF THE RESEARCH PROBLEM

Indian banking sector tremendously moving towards Digitalization. The growth of digital financial services has created new opportunities for payments banks and neobanks to serve the financial needs of the country. Despite the recent surge in the popularity of Payments Banks and Neobanks, there is a limited understanding of the level of awareness and usage of these financial institutions among the youth population in Chennai. This study aims to fill this gap by examining the extent of awareness and usage of Payments Banks and Neobanks among the youth in Chennai, exploring the demographic factors that influence their usage, and identifying the reasons for using these financial institutions.

RESEARCH METHODOLOGY

The research was conducted through the collection of primary data. The questionnaire was circulated through Google Forms and data was collected from a total of 100 respondents. The sampling technique used was snow-ball sampling. Analysis and interpretation was done with the help of SPSS software using various statistical tools such as ANOVA, Chi- square and Frequency Analysis.

DATA ANALYSIS AND INTERPRETATION

Frequency Analysis

1. Are you aware of Payments banks?

Yes	No
85	15

2. Do you use Payments banks?

Yes	No
49	51

3. Are you aware of Neobanks?

Yes	No
49	51

4. Do you use Neobanks?

Yes	No
32	68

5. Most popularly used Neobanks

Neobanks	Frequency
Kotak 811	9
Yono SBI	20
Fi Money	1
Jupiter	1
Open	1
None	68
Total	100

6. Most popularly used Payments banks

Payments Banks	Frequency
Paytm Payments Bank	36
Airtel Payments Bank	10
Jio Payments Bank	2
NSDL Payments Bank	2
India Post Payments Bank	2
None	48
Total	100

One-Way ANOVA:

H0: There is no significant difference in the frequency of usage of Payments Banks and Neobanks across different age groups

H1: There is significant difference in the frequency of usage of Payments Banks and Neobanks across different age groups

ANOVA

7) How often do you use payments bank or neobank?

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.707	3	.569	.247	.863
Within Groups	220.733	96	2.299		
Total	222.440	99			

Inference:

The ANOVA test resulted in a significance level of 0.863. This means that there is no significant difference in the frequency of usage of payments banks and neobanks between the age groups. Therefore, the null hypothesis is accepted and alternate hypothesis is rejected.

H0: There is no significant difference in level of satisfaction on usage of Payments Banks and Neobanks among males and females

H1: There is significant difference in level of satisfaction on usage of Payments Banks and Neobanks among males and females

ANOVA

10) What is the satisfaction on usage of Payments Banks and Neobanks?

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.008	1	.008	.013	.909
Within Groups	62.632	98	.639		
Total	62.640	99			

Inference:

The ANOVA test resulted in a significance level of 0.909. This means that there is no significant difference in level of satisfaction on usage of payments banks and neobanks among males and females. In other words, the genders being compared do not differ significantly in terms of the level of satisfaction on usage of payments banks and neobanks. Therefore, the null hypothesis is accepted and alternate hypothesis is rejected

H0: There is no significant difference in perception that Payments Banks and Neobanks have easier and convenient account opening process among males and females

H1: There is significant difference in perception that Payments Banks and Neobanks have easier and convenient account opening process among males and females

ANOVA

13) Do you think Payments Banks and Neobanks have easy and convenient account openir

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.108	1	1.108	1.456	.230
Within Groups	74.602	98	.761		
Total	75.710	99			

Inference:

The ANOVA test resulted in a significance level of 0.230. This means that there is no significant difference in perception that payments banks and neobanks have easier and convenient account opening process among males and females. In other words, the genders being compared do not differ significantly in terms of perception that payments banks and

neobanks have easier and convenient account opening process among males and females. Therefore, the null hypothesis is accepted and alternate hypothesis is rejected.

H0: Perception on whether Payments Banks and Neobanks lead to Digital and Cashless economy do not differs significantly across the demographic variables.

H1: Perception on whether Payments Banks and Neobanks lead to Digital and Cashless economy do differ significantly across the demographic variables.

Age of the Respondents

ANOVA

11) Do you think Payments Banks and Neobanks lead to Digital India?

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.267	3	1.422	2.077	.108
Within Groups	65.733	96	.685		
Total	70.000	99			

Gender of the Respondents

ANOVA

11) Do you think Payments Banks and Neobanks lead to Digital India?

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.938	1	.938	1.331	.251
Within Groups	69.062	98	.705		
Total	70.000	99			

Native of the Respondents

ANOVA

11) Do you think Payments Banks and Neobanks lead to Digital India?

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.885	1	.885	1.255	.265
Within Groups	69.115	98	.705		
Total	70.000	99			

Educational Background of the Respondents

ANOVA

11) Do you think Payments Banks and Neobanks lead to Digital India?

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.093	1	1.093	1.555	.215
Within Groups	68.907	98	.703		
Total	70.000	99			

Inference:

Perception on whether Payments Banks and Neobanks lead to Digital and Cashless economy do not differs significantly across the demographic variables; Age of the respondents (Sig = 0.108 > 0.05); Gender of the respondents (Sig = 0.251 > 0.05); Native of the respondents (Sig = 0.265 > 0.05); Educational Background of the respondents (Sig = 0.215 > 0.05). Therefore, we can conclude that there is no significant difference in the perception of Payment Banks and Neobanks leading to Digital and Cashless economy across the demographic variables of age, gender, native, and educational background. Thus the null hypothesis is accepted and alternate hypothesis is rejected

Chi-Square:

H0: There is no significant relationship between the perception of payment banks and neobanks having a good user interface of and age group.

H1: There is significant relationship between the perception of payment banks and neobanks having a good user interface of and age group.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	16.579[a]	12	.166
Likelihood Ratio	11.508	12	.486
Linear-by-Linear Association	2.410	1	.121
N of Valid Cases	100		

a. 17 cells (85.0%) have expected count less than 5. The minimum expected count is .06.

Inference:

The results of the Chi-Square test show that the significance level is 0.166. This shows that there is no statistically significant relationship between the two variables being compared at the 0.05 level of significance. In this case, the variables are perception of payment banks and neobanks having a good user interface and age group. Therefore, we accept the null hypothesis and reject the alternate hypothesis.

H0: There is no significant association between gender and the reasons for using Payments Banks and/or Neobanks.

H1: There is significant association between gender and the reasons for using Payments Banks and/or Neobanks.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	2.595[a]	5	.762
Likelihood Ratio	3.643	5	.602
Linear-by-Linear Association	.708	1	.400
N of Valid Cases	100		

a. 7 cells (58.3%) have expected count less than 5. The minimum expected count is .38.

Inference:

The Pearson chi-square result show that the significance level is 0.762. The result suggests that there is no significant difference in the reasons for using payments banks and/or neobanks across different genders. In other words, the gender of the respondents does not have a significant impact on the reasons for using payments banks and/or neobanks. Therefore, we accept the null hypothesis that there is no significant association between gender and reasons for using payments banks and/or neobanks.

Findings:

The study finds out that the frequency of usage of Payments Banks and Neobanks across different age groups is the same. There is no significant difference in level of satisfaction on usage of Payments Banks and Neobanks among males and females. Gender of the respondent does not influence their perception that Payments Banks and Neobanks have easier and convenient account opening process. The demographic variables do not affect the respondent's opinion on Digital and Cashless economy. There is no significant relationship between gender and the reasons for using Payments Banks and Neobanks. Age group does not influence perception of payment banks and neobanks having a good user interface.

Suggestions:

This study had various limitations that can be eliminated in the future study. Owing to the restraint in the time period for collection of data, sample size used was not sufficient for in depth understanding of the research. This paper also had a bias towards the age group of 18-22 accounting for around 90% of the respondents. There is a scope for further research to analyse the preference of customers towards various Payments Banks and Neobanks and the reason for the choosing them. Furthermore, the research can also be expanded across India to gain a comprehensive understanding of this topic from the nation as a whole.

CONCLUSION

People of different demographic backgrounds have similar views on the shift towards a digital and cashless economy. Payments Banks and Neobanks are equally popular among people of all ages. Both genders are equally satisfied with these banks and find these banks convenient to open an account with. People of all ages find these banks equally easy to use. Both males and females have similar reasons for using these banks.

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