

Where do Banks profitability go from here with present economic conditions - Payment Banks will it compliment or will it Supplement

Present status around payment world

Today in the digital world, we have apps to facilitate trade and money transfer on social network. Apart from this we see increase in mobile companies, mobile wallets, ecommerce sites which facilitate settlement of transactions directly through a payment gate way. This allows parallel money movement and banks are mainly working as book keepers to facilitate the settlement.

We see credit card being used for transfer of money between supplier and buyer , Amex is one which runs outside of banks involved card network independently, along with it we have VISA and Master who help in movement of money for banks around card payment space. Apart from this, we have organization which specialize in money transfer like Post Office, western union etc.

In parallel, we also have ATMs/Physical cash which facilitate money movement between individuals and organization

What is the present status of economy and banking?

Present Economy Growth and challenge to banks, largely the growth of economy is slower or more or less stagnant, very few larger countries are seeing more than 5% growth, India China are one such.

Today banks are under further stress due increase spend on Regulatory reasons, step up IT infrastructure to support growth and IT security concerns. It also need to compete with others to increase profitability along with fight with newer entrants coming into payments space. Further regulators and world bank are looking at cost of remittance, initiative like faster payments, SEPA are taking some of the money made out of remittance fees.

Most banks have their revenues growing very slowly, with economy slowing down, it is adding pressure on assets, there is an increase in non-performing assets in the bank and it is eating into profit share. The banks are trying to shed some of the assets to improve profitability or improve the business model.

Advent of Payments bank

We have now Payment banks coming in to the financial system and to help in handling small savings, payments of lower amount for lower income households and smaller business.

With this new introduction, the banks are to facilitate flow of money along with keep help in holding small deposits along with connecting various remote places. The payment banks will innovate along with push for more business to help take business away from payments banks. This means payment banks might be taking part of the business along with part of profitability, with economy growth going to be moderate, what will happen to Banks business and profitability.

Will it aid bank or will it eat into the profitability of Banks, time will tell, hope we will not end up bit more then what we can chew at this point.