



**Agpaytech's Research**  
**5th October, 2023**

# **The Vital Role of Transaction Banking in Driving Financial Inclusion**

**Agpaytech**



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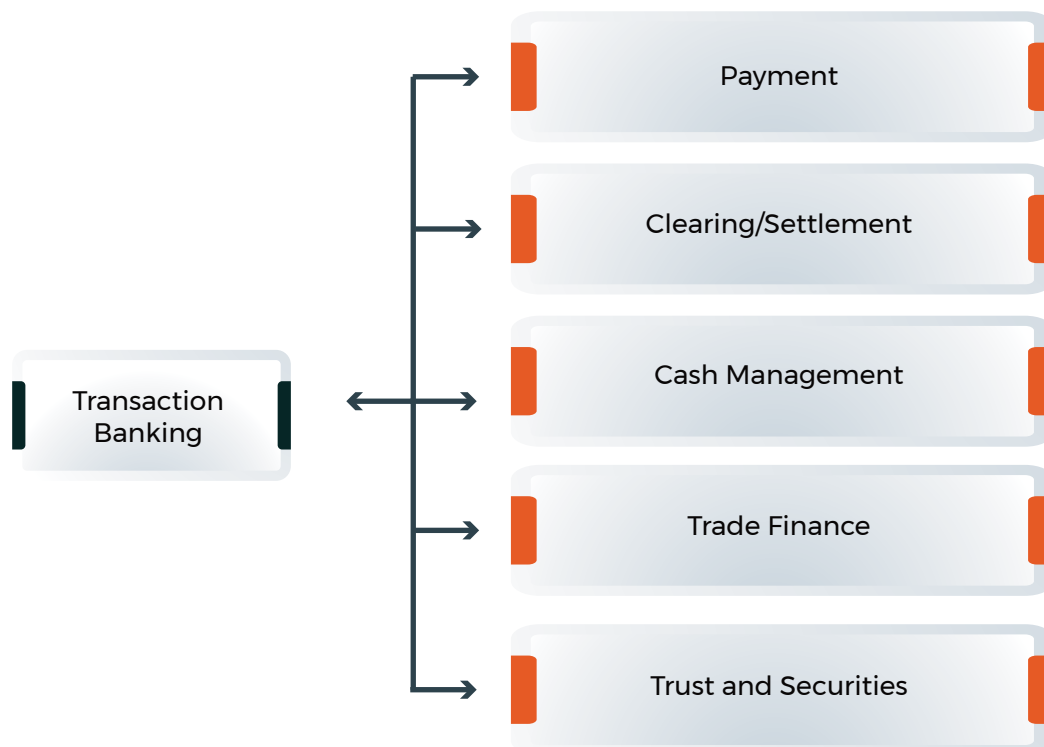
# Introduction

Transactional banking is a broad term that refers to the range of products and services banks offer businesses and other institutional clients to help them manage their daily financial transactions. These services include cash management, payment processing, and trade and supply chain finance.


Transactional banking is a critical part of the Indian economy, accounting for a significant portion of banks' revenues and profits. In recent years, the transactional banking market in India has multiplied, driven by factors such as the rise of digital payments, the growth of e-commerce, and the expansion of international trade.

Transactional banks play an essential role in the Indian economy by helping businesses to manage their cash flow and to process payments efficiently. It helps businesses to operate more effectively and to grow their businesses.

Figure 1: Scope of transaction banking



Source: Agpaytech



## Importance of transactional banking in India

### ■ Facilitating Daily Financial Transactions:

Transactional banking allows individuals and businesses to conduct daily financial activities seamlessly. It includes routine transactions such as deposits, withdrawals, transfers, bill payments, and electronic fund transfers, which are essential for managing day-to-day finances effectively.

### ■ Encouraging Financial Inclusion:

Transactional banking helps promote financial inclusion by providing access to banking services for all segments of society. It allows individuals, including those in rural areas, to open basic bank accounts and engage in basic financial activities, fostering economic development and poverty reduction.

### ■ Supporting Government Initiatives:

Government initiatives in India, such as Direct Benefit Transfer (DBT), Jan Dhan Yojana, and other subsidy disbursement programs, heavily rely on transactional banking. These programs aim to ensure efficient and direct delivery of benefits to beneficiaries, reducing leakages and enhancing transparency in financial transactions.

### ■ Empowering E-Commerce and Business Growth:

Transactional banking is crucial for the growth of e-commerce and businesses by enabling online transactions and payments. It supports businesses in accepting customer payments and managing their financial operations, facilitating commerce and economic growth.



*Transactional banking offers various financial products like insurance, fixed deposits, mutual funds, and retirement accounts, aiding individuals, and businesses in managing risks and securing their financial future.*

#### ■ **Facilitating International Trade and Transactions:**

Transactional banking plays a vital role in international trade in an increasingly globalized world. It enables businesses to engage in cross-border transactions, foreign currency exchanges, and trade financing, contributing to the country's economic growth and international trade relationships.

#### ■ **Enhancing Financial Literacy and Awareness:**

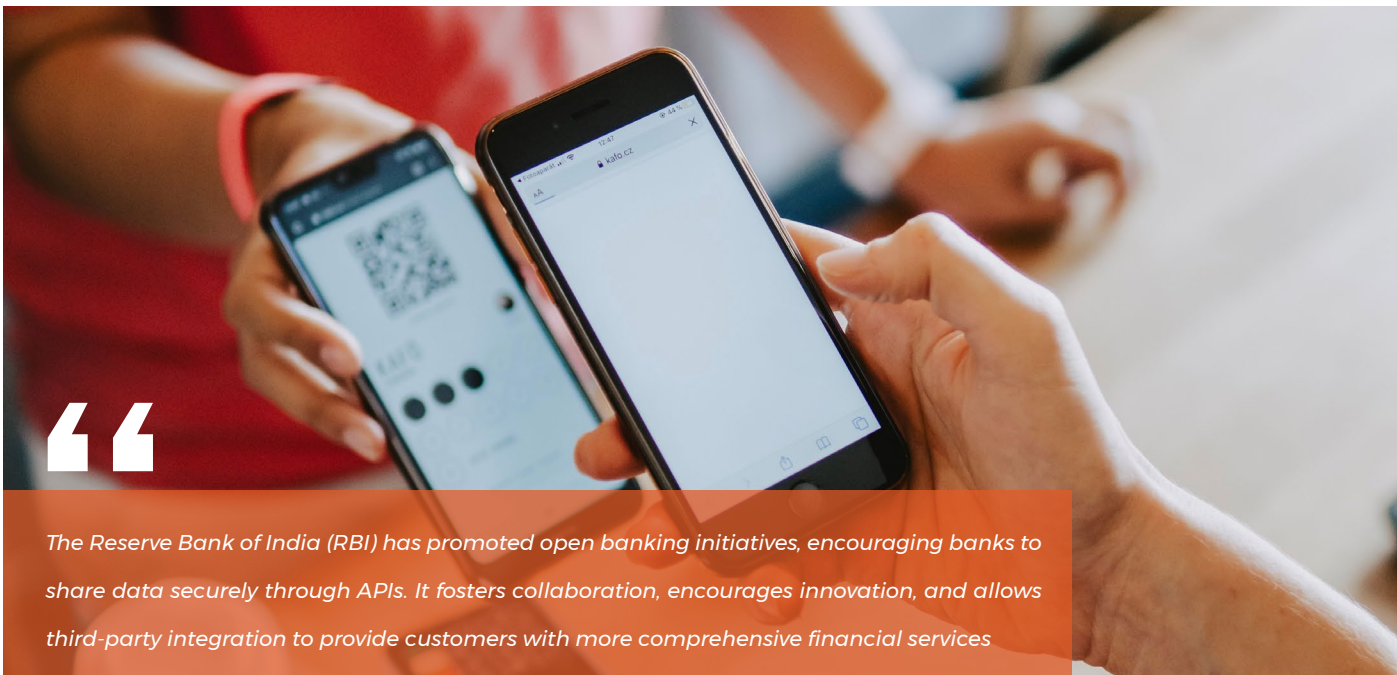
Transactional banking contributes to financial literacy by educating individuals about banking services, digital payment options, and financial planning. It helps create awareness about the benefits of savings, investments, and responsible financial behaviour.

#### ■ **Fostering Economic Growth and Stability:**

Transactional banking supports economic growth and stability by providing a robust and efficient financial infrastructure. It enables efficient allocation of resources, access to credit, investment opportunities, and overall financial management, which are crucial for a thriving economy.

#### ■ **Promoting Risk Management and Financial Security:**

Transactional banking offers various financial products like insurance, fixed deposits, mutual funds, and retirement accounts, aiding individuals, and businesses in managing risks and securing their financial future. It encourages savings and investments for long-term financial security.



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The Reserve Bank of India (RBI) has promoted open banking initiatives, encouraging banks to share data securely through APIs. It fosters collaboration, encourages innovation, and allows third-party integration to provide customers with more comprehensive financial services

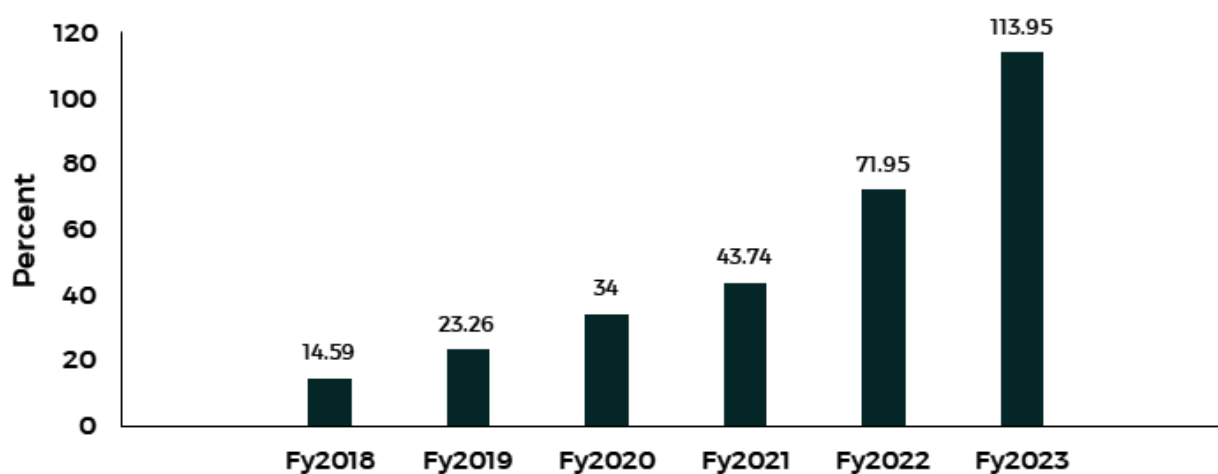
## Trends in Transactional Banking

Transactional banking has been pivotal in the banking industry after the Pandemic; the government has encouraged digitalization. However, the Pandemic forced them to examine their technology and strategies. Here are some trends in transactional banking.

### ■ Digital Payment Adoption:

India has been experiencing a significant shift towards digital payments. Mobile wallets, UPI (Unified Payments Interface), QR code-based payments, and contactless card transactions are increasingly popular. Government initiatives like Digital India and demonetization have accelerated this trend.

Figure 2: Adoption of digital payments in India

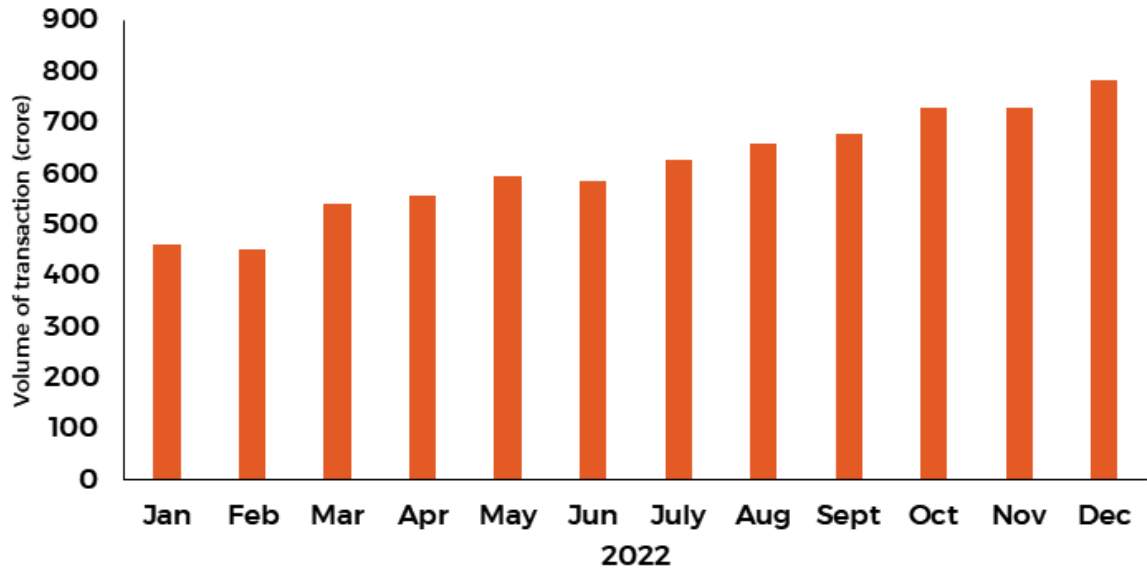


Source: Statista

## ■ UPI and Instant Payments:

UPI has become a dominant payment system in India, allowing users to make instant peer-to-peer and peer-to-merchant transactions. The ease of use, interoperability, and continuous updates to enhance functionality have contributed to its widespread adoption.

Figure 3: UPI transactions registered (2022)

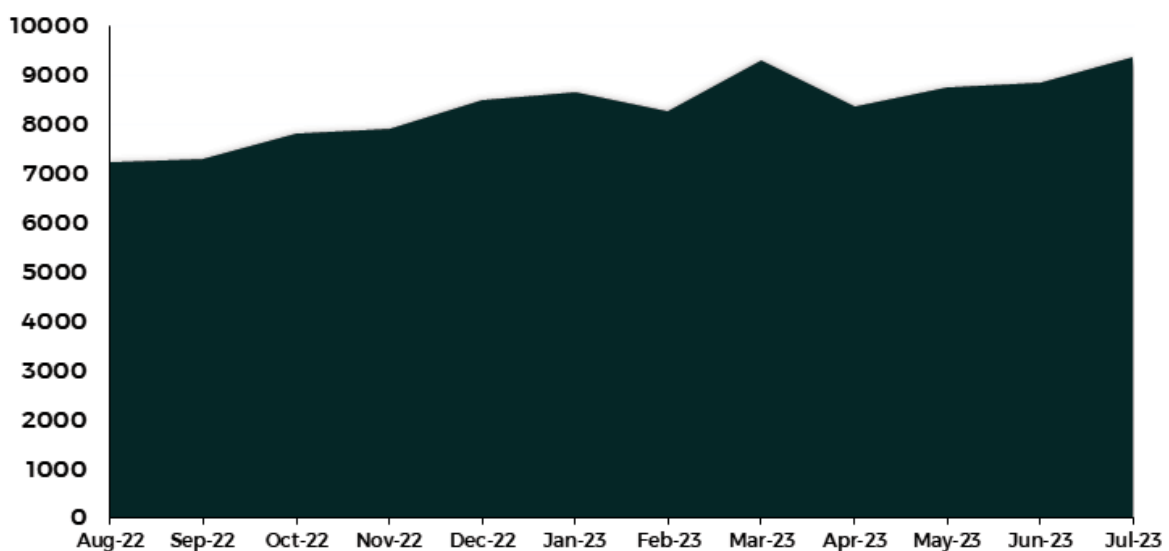


Source: National Payments Corporation of India

## ■ Mobile Banking and Apps:

Banks invest in user-friendly mobile banking applications, providing services from account management to bill payments. The convenience of accessing banking services on smartphones is a significant trend, especially among the tech-savvy population.

Figure 4: India's mobile banking transactions

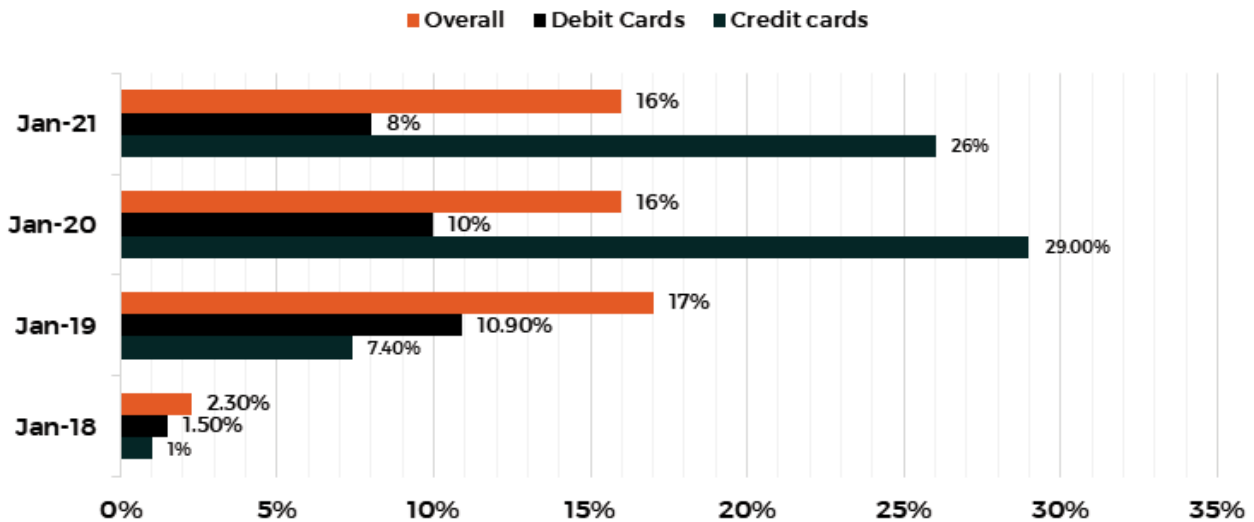


Source: [www.CEICDATA.Com](http://www.CEICDATA.Com)

## ■ Contactless Card Payments:

Contactless card payments using near-field communication (NFC) technology are gaining traction. Banks are issuing contactless cards to customers, promoting a faster and more convenient way to make payments, aligning with global trends.

Figure 5: Contactless transactions



Source: worldline.com

## ■ Open Banking and API Integration:

The Reserve Bank of India (RBI) has promoted open banking initiatives, encouraging banks to share data securely through APIs. It fosters collaboration, encourages innovation, and allows third-party integration to provide customers with more comprehensive financial services. Banks in India have opened their application programming interfaces (APIs), allowing third parties to build on them, innovate and offer new products and services. The move has transformed how financial products and services are created, distributed, and accessed. Fintech players have taken this opportunity to bring in automation to deliver a seamless customer experience constantly. It also allows them to carry out banking functions and access banking data for new innovative financial services. They can help customers make transactions, check account information or their balance, apply for loans, and obtain payment instruments like cards.

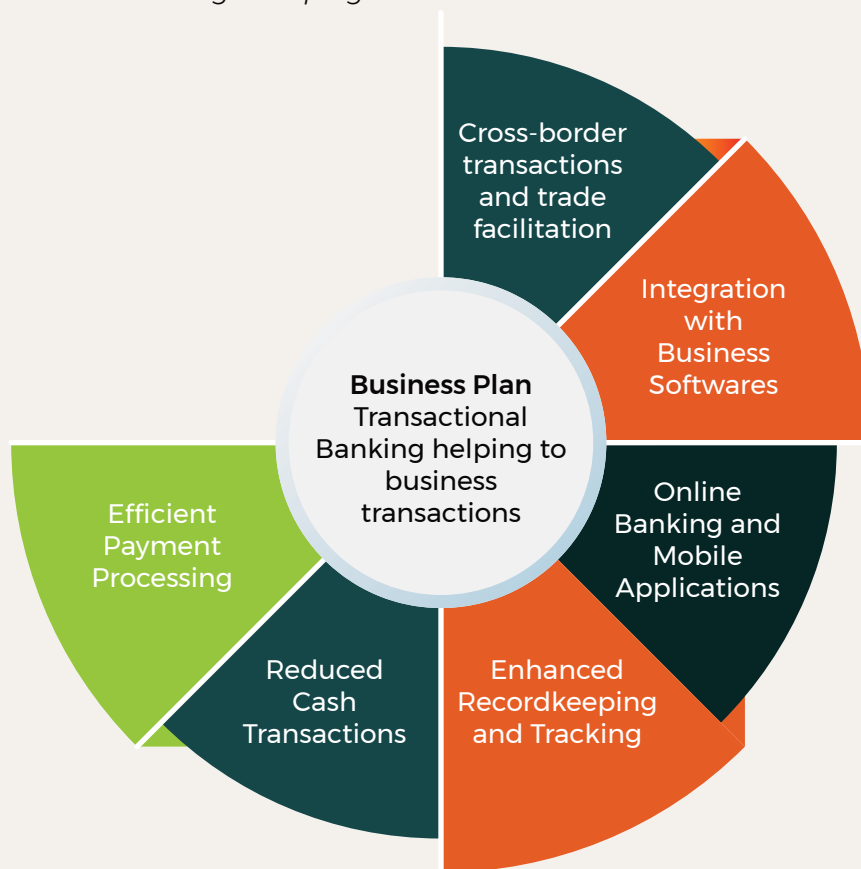


# Is transactional banking helping to smooth business transactions in India?

Transactional banking is a pivotal force in streamlining business transactions within India. According to Nandan Nilekani's Report, a staggering 100 million Indians engage in digital payments at least once a month, and this figure is projected to soar by 300% by 2021. This anticipated surge is attributed to the transformative impact of technology, rendering retail and wholesale banking more efficient, economical, and reasonable in recent years. One prevalent notion is that technological innovations such as UPI have compressed digital transformation timelines by nearly five years. With numerous similar advancements on the horizon, transactional banking systems must prepare and adopt these contemporary banking mechanisms. The transition entails a shift from a high-value, low-volume, high-cost transaction model to a low-value, high-volume, low-cost transaction scenario.

Banks proactively develop specialized applications for their clientele to facilitate seamless online business transactions. These applications mitigate the risks associated with cash transactions, such as fraud and erroneous payments, by offering instantaneous, real-time, and foolproof online payments that are entirely secure. However, there is a pressing need for an enhanced regulatory framework that transcends the current system, which features varying norms for entities like NBFCs, institutions, banks, and fintech companies. Establishing a level playing field for all stakeholders and minimizing process overlaps is crucial.

Figure 6: How transactional banking is helping business



Source: Agpaytech Research



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However, the lack of infrastructure awareness is helping to decline the usages of the digital divide. In addition, digital transactions make the banking sector susceptible to cyber threats and fraud.

## Challenges of transactional banking in India

Transactional banking in India faces several challenges that impact its seamless functioning and adoption. The challenges are digital divide and accessibility in rural areas. However, the lack of infrastructure awareness is helping to decline the usages of the digital divide. In addition, digital transactions make the banking sector susceptible to cyber threats and fraud. The lack of standardization in transactional processes and technologies across different banks and financial institutions can lead to interoperability issues, hindering seamless transactions between various platforms.

Figure 7: Challenges of the transactional banking



Source: Agpaytech Research



## Conclusion

Transactional banking is a crucial part of the Indian financial system, enabling businesses and individuals to make and receive payments efficiently and securely. The sector is rapidly transforming, driven by digitalization, fintech innovation, and regulatory changes. While this transformation presents several challenges for banks, it also offers significant opportunities. By investing in new technologies, partnering with fintech companies, and focusing on compliance and fraud prevention, banks can position themselves to capitalize on the growth of the Indian economy and the increasing demand for transactional banking services. Banks can also play a vital role in promoting financial inclusion in India by expanding their reach into rural areas and educating customers about basic financial concepts. By doing so, banks can help to create a more inclusive and prosperous Indian economy. In conclusion, the future of transactional banking in India is bright. The sector is well-positioned to benefit from the country's strong economic growth and the increasing adoption of digital technologies. Banks that can adapt to the changing landscape and embrace new technologies will be well-positioned to succeed.



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# ABOUT AGPAYTECH LTD.

Agpaytech Ltd. is a company pioneering in the Fintech Space with a focused approach to building robust technologies for e-commerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service (RaaS), Banking-as-a-service (BaaS), Foreign Exchange, Cross Border Payments, and digital currency technology.

We also provide practical white paper research support to central banks, government and private institutions, economic organizations, and NGOs in Africa. Our services expand from research projects, state-of-industry reports, project assessment, data collection, and consulting services in the financial market industry.

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