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A Study on Role of Payment Banks in India- Financial Inclusion

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ABSTRACT

In 2014, RBI introduced two new categories of banks into the Indian financial system, namely Payment Banks and Small Banks. The objective of introducing these new categories of banks is to provide a much needed rigour to the financial inclusion drive. Payment banks is a new kind of bank which is potential with the express purpose of extending the reach of banking to vast majority of the unbanked and under banked segments of the population. These banks can accept restricted deposit which is currently limited to INR 1 lakh per customer and may be increased in further. This paper presents about the framework of the payment banks, and the expected benefits from the payment banks. It also attempts to identify major bottlenecks in the development of such banks.Payment bankshas been announced by RBI as a possible of digital transaction only one kind. On 19 August 2015, The RBI of India gave " in-principle" licenses to11 entities to launch payment banks. This paper also focuses on role of payment banks in financial inclusion on M-Banking, The Department of Post, PradhanMantri Jan- DhanYojana and the Indian Post Payment Banks.

Key Words: **Payment Banks, RBI, Financial Inclusion, M- Banking, The Department Of Post, IPPB, PradhanMantri Jan- Dhan Yojana.**

INTRODUCTION

The Indian financial system has witnessed some remarkable changes since 1991.Banking sector is one sector which has been performing really well after liberalization, and success can truly be associated with major banking reforms taken by RBI some major technological changes that have take place over years.

Financial inclusion is the delivery of financial services at a minimum cost to the lower income segments of society in comparsion to financial exclusion where those services are not available. Around 2 billion of world's population have no access to various types of financial services which are provided by different financial institutions like Banks, Mutual funds, Life insurance companies. In India, this term financial inclusion was first mentioned in Annual policy of RBI in April 2005, which was presented by Y venugopalreddy, then governor of RBI.

The main purpose of setting up of payment banks is to enhance financial inclusion. Payment banks are new model of banks conceptualized by the RBI. These banks can accept a restricted deposit which is currently limited to INR 1 Lakh per customer and may be increased the further. These banks cannot issue loans and credit cards. Both current account and savings account can be operated by such banks. It can issue services like ATM cards, debit cards, online banking and mobile banking. Airtel has launched India's first payments bank. Paytm is the second such service to be launched.

DEFINITION OF PAYMENT BANKS

A payment bank is like any other bank, but operating on a smaller scale without involving any credit risk. In simple terms, it can carry out most banking operations but can't offer advance loans or issue credit cards. It can accept demand deposits, offer remittance services, mobile payments, transfer/ purchases and other banking services like ATMS, Net banking and third party fund transfer.

Objectives of the study:

1. To know about payment banks in India.
2. To study the difference between traditional banks and payment banks.
3. To Identify expected benefits from Payment banks.
4. To study the role of payment banks in financial inclusion.

RESEARCH METHODOLOGY

This paper is a conceptual paper. Here data is collected from national and international journals, published government reports ,News paper, websites.

What is payment banks?
New-stripped down type of banks, which are expected to reach customers mainly through mobile phones rather than traditional bank branches. payment banks has been announced by RBI as a possible of digital transaction only one kind. The RBI of India had asked nachiket MOR committee to explore and recommended options for creating special category of banks which would positively impact financial inclusion within India. As a part of the recommendations of the Nachiket committee a special category called 'payment Banks' has been proposed.

History of payment banks:

23 September 2013: The RBI formed a committee on comprehensive financial services for small business and low income households was formed by the RBI headed by Nachiket Mor.

7 January 2014: NachiketMor committee submitted its final report with the various recommendations it recommended for the formation of a new category of bank called the payment bank.

17 July 2014: The RBI issued the draft guidelines for the payment banks, inviting suggestions comments from interested entities and the general public.

27 November 2014: RBI released final guidelines for payment banks.
In February 2015, RBI released the list of entities which had applied for a payment banks license. There were 41 applicants. It also announced that an external advisory committee(EAC) headed by the NachiketMor would evaluate the license applications.

28 February 2015: During presentation of the budget it was announced that Indian post will use its large networks to run the payment banks.

6 July 2015: the external advisory committee submitted findings. The applicant entities were examined for their financial track record and government issues.

19 August 2015: The RBI of India gave "in-principle" licenses to 11 entities to launch payment banks out of these 3 were surrendered. The remaining **8 entities** are listed below:

- ✓ AdityaBiralNuvo
- ✓ Airtle M commerce services
- ✓ Department of posts
- ✓ FINO paytech
- ✓ National securities deposits
- ✓ Reliance Industries
- ✓ Patym
- ✓ Vodafone M-pesa

RBI will grant full licenses under section 22 of banking regulation act,1949,after it is satisfied that conditions have been fulfilled.

Payment banks guidelines by RBI:

RBI has spelled out clear guidelines for payment banks. While it is expected that these guidelines would evolve the coming years the following is what has been laid out as the initial set of guidelines.

- ➢ Minimum entry capital for the payment banks is fixed at Rs.100 crores. The committee had be recommended an amount of Rs.50 crores but it seems to be that RBI has chosen to play safeand doubled the amount. This high amount of initial capital would remain that innovation would be slow because the risk to the payment banks model is very limited.
- ➢ Payment banks can accept the demand deposits. The restriction therein is that maximum balance per customer can only be Rs.1,00,000.This can be for the both current and savings accounts. All deposits have to be invested in government bills and securities, thereby indicating that the fee income for transaction is what would be probably be the biggest revenue driver for payment banks.

- Payment banks would be primarily provide the remittance and the payment services. The boundary condition here is that the total credits into an account should not be more than Rs.1,00,000. This means that payment banks would only make a sense to lower economic strata of the Indian banked and unbanked population.
- Payment banks must be the banking correspondent of commercial banks where they can offer a services like marketing of bank's loan products etc.
- Commercial banks can also the leverage. This model by the launching a payment bank subsidiary.
- Currently RBI has not talked about the pricing for the services of the payment banks. Given tough regulatory framework for payment banks, a pricing flexibility would be essential.
- Payment banks 'Internet only' it is a very interesting proposition and it can remains to be seen if this is the path that the India's first digital bank would take. With the increased usage of the mobile, social media and internet, possible value has increased in the last few years.

Features of payment banks:

1. Payment banks can also accept demand deposits (only current account & savings accounts) with a ceiling limit of Rs.1 lakh per customer.
2. Payment banks must pay interest at the rate notified by the RBI.
3. Payment banks can issue debit cards but not credit cards.
4. Payment banks cannot engage in lending services i.e. they cannot provide loans, thus by phasing out the fear of NPA.
5. The deposit up to Rs.1 lakh is insured by the DICGC (Deposit Insurance and Credit Guarantee Corporation) same as in bank account.
6. Payment banks cannot involve in any kind of credit risk and can only invest in less than one year G-Secs or treasury bills.
7. Payment bank will charge fee as a commission. This will be the sole earning for the banks.
8. Payment banks will also have to maintain CRR (cash reserve ratio) just like other scheduled commercial banks (SBI, PNB, BOB, Dena, ICICI etc).

Services offered by payment banks:

- A payment bank can accept deposits up to a maximum of Rs.1 lakh only per individual customer.
- Demand deposits and saving bank deposits can be accepted from individuals, small firms and other entities.
- You can open a savings bank account or a current account with these payment banks.
- Payment banks pay interest on the deposits just like normal banks.
- Payment banks are allowed to transfer payment through any channels like branches, Automated Teller Machines (ATM), business correspondents etc.
- Payment banks can issue debit cards/ ATM cards to its customers.
- Mobile banking can be accessed through these payment banks.
- Internet banking services can be provided by a payment bank that includes payment mechanism as approved by RBI such as RTGS/NEFT/IMPS.
- A payment bank app can be used to make utility bill payment as well.
- A payment bank can involve in the providing basic financial services be like access to mutual funds, the insurance products, the pension products and forex services subject to conditions set by the RBI.

Services Payment banks cannot offer:

- As per RBI guidelines, these payment banks cannot issue credit cards.
- Payment bank cannot deal any kind of lending business i.e. they are not allowed to issue any kinds of loans like personal loans or any other loans to their customers.
- Payment banks cannot accept deposits from Non Resident Indians or NRIs.
- They are not allowed to setup subsidiaries for undertaking non banking financial services.

Comparision between Traditional Banks and Payment Banks:

Features	**Traditional Banks**	**Payment Banks**
Accept deposit	yes	yes
pay interest on deposits	yes	yes

Withdrawal facility for customers	yes	yes
Provide loans or involve in lending activities	yes	No
Issue credit cards	yes	No
Investment Products	yes	Yes
Maximum Deposit limit	No limit	Rs.1 lakh only per individual customer.

Expected Benefits from payment banks:

A. The primary objective of introducing payment bank in India is to ensure and enhance financial inclusion of unbanked and underbanked population.
B. Small business, unorganized sector, low income households, farm and migrant workforce would largely benefit by introduction of payment banks.
C. These people usually require transactions of small amounts and payment bank address this needs.
D. Payment bank may also become a mechanism through which cash benefits from the government can reach the ultimate beneficiary.
E. They can be useful for transferring wages, subsidiaries or other social welfare schemes.
F. Operations of payment banks would not lead to microeconomics benefits to the recipients, but macroeconomics benefit to region also.
G. It will assist in growth and development of the area because of the access to basic banking services. It would also inspire the much needed saving habits through banking sector especially in the rural areas because of the ease of accessibility.
H. They will not bring more money into the banking system, but also increase the competition among banking institutions. The increased competition among banks would lead to further improvement in the efficiency.
I. Lower cost of operations would exert pressure on other full fledged commercial banks to refrain from costly payment structure involving physical locations and tangible assets.
J. The other commercial banks might be motivated to rely technology based low cost payment system bringing exponential growth in banking inclusion services. This would increase inclusion of both cash-addicted as well as cashless-preferring bank customers.
K. The competition for state owned banks will intensify as payment banks are backed by digital platforms, adequate capital, zero legacy issues and higher rate of interest on deposits in near future (bandyopadhyay, 2016).
L. Low cost, innovative and convenient services would compete heavily for business in rural and semi-urban areas where eventually the ultimate beneficiary would be the common people.
M. Since payment banks are allowed to invest in government securities only, the risks are minimized when compared to other financial institutions.

Payment banks in financial inclusion:

Payment banks role is also very important when considered from the perspective of financial inclusion

M-Banking: someone could fill cash into an m-commerce bank account in one place, and who holds the debit card could withdraw cash from any ATM frictionless from any other place. Even cash withdrawn or pay in a more rural location, through any point of sale terminal with a" business correspondent", essentially an authorized partner for the banks. It's these partners and theoretically the small convenience shop in a village that sells mobile recharges, kirana shops, fruit shop could be among them that will serve the purpose of bank branches, through the payment banks can set up branches if the want.

The Department Of Posts: The Department of post is also important for that same reason – the department of post can reach every village, and connect farmers to banks. Think of huge number of government subsidies and cash programs

that are meant to encourage development in villages, and consider how, to access these payments, villagers would have to travel for hours to nearby cities in order to visit a bank branch , where the experience was frequently alienating. Instead, the friendly postman you meet every day could be your banking relationship manager.
Indian post has about 1,54,000 post offices, of them 90% are in rural areas. There is one post office for every 7176 people in India. India post also has 2,96,000 agents in the rural area. About 2.2 crore people, already receive their National Rural Employment Guarantee Act (NREGA) payments by the post offices. After State Bank Of India, India post has the largest deposits valued at Rs.6 lakh crore.

Pradhan Mantri Jan-DhanYojana (PMJDY): The PMJDY is India's National Mission for the financial inclusion to ensure the access to the financial services, namely Banking Savings and Deposit Accounts, the Remittance, the Credit, Insurance, Pension in an affordable manner. It was launched by the Prime Minister Of India Narendra Modi on 28 August 2014. He had been announced this scheme on his first Independence Day speech on 15 August 2014.

It runs by the Department of financial services, Ministry of finance 1.5 Crore (15 million) bank accounts were opened under this scheme on the day of Inauguration. By 1 June 2016, Over 22 Crore (220 million) the bank accounts were opened and Rs.384.11 billion (US$5.7 billion) were deposited under the scheme.

The details of accounts open under PMJDY scheme:

S.No		**Number of Accounts**			**Number of Rupay Cards**	**Aadhaar seeded**	**Balance in Accounts**	**% of Zero Balance Accounts**
		Rural	**Urban**	**Total**	**-**	**-**		
1.	**Public Sector Banks**	11.74	9.43	21.17	16.75	12.54	54,507.02	25.08%
2.	**Regional Rural Banks**	3.86	0.61	4.47	3.36	2.26	12,976.71	20.53%
3.	**Private Banks**	0.52	0.35	0.35	0.82	0.39	2,587.07	33.92%
	Total	16.11	10.4	10.4	20.93	15.19	70,070.79 Crore (US$ 10 Billion)	24.61%

Source: "Statistical Tables Related To the Banks in India –The Reserve Bank of India"

The India Post Payment Bank (IPPB) : IPPB has been recently incorporated as a Public Limited Company under the Department Of Posts with 100% GOI equity.

The IPPB will offer demand deposit such as savings & current accounts up to a balance of Rs.1 lakh the digitally enabled payments and the remittance services of all kinds between entities and individuals. In partnership with the insurance companies, the mutual fund houses,the pension providers, banks, international money transfer organizations etc. It also provide to access to third party financial services such as Insurance, Mutual Funds, Pension, Credit Products and Forex and so on.

CONCLUSION

Payment banks have been introduced with the primary objective of increasing the impact of financial inclusion drive. The payment banks plays a significance role in implementing government's direct benefit, transfer schemes, where subsidies on health care , education and gas are paid directly to beneficiaries account. However, the competition between traditional and payment banks will lead to widening and improvement in quality of banking services are reduced costs and which may finally leads results in financial inclusion. There are numerous bottlenecks that need to be addressed before the real benefits of payment banks. There are millions of Indians don't have access to banking facilities. They cannot avail of government benefits, loans, insurance and even interest on savings. M-Banking, IPPB, PMJDY will reach the unbanked and the under banked across the all cross section of society and geographics.

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