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Payment Banks: A New Phase in Banking Sector

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ABSTRACT

India is facing challenges of achieving financial inclusion with 1.25 Billion of population where 64% of population is still unbaked or do not use any formal financial services where large number of people belong from rural India. To study aspect of financial inclusion in India Nachiket Mor Committee is established in 2013. The concept of Payment bank was first floated by RBI Committee led by Board member Nachiket Mor. The committee on comprehensive financial services for small businesses and low income formed in 2013 came out with its report in early-2014. RBI has given in-principle approval to 11 entities to set up as 'Payments Banks' in India. Payments banks are concentrated their activities at farmers, migrant labourers, low income households, vendors, small businesses and unorganized sector of the society. Payments bank can offer banking functions such as payments, deposits, remittance, internet banking but, they can't undertake lending activities. In this paper an attempt has been made to study the paradigm shift in Indian banking system with the inclusion of new age bank, i.e., Payments Bank.

Keywords: Payment banks, Banking sector, Financial Inclusion.

I. INTRODUCTION

Banking sector has become an emerging sector in India. Their services are affecting human life and their life style. No one can deny that now the banks are becoming a necessity to everyone. The needs and satisfaction levels of people have moved beyond the previous benchmarks. Banking sector is providing lot of services to the customer.

Nowadays India has emerging growing market for E-Commerce. Generally, public prefer to buy from online websites. In this online shopping, they mostly prefer savings coupon code. For all this shopping, a Cellphone is the first choice. The main roots of Payment banks are arise here.
People should adopt the option for payment bank to reduce the working burden of Commercial banks. Every person is doing financial transactions many times in a day in which 'Payment' is a main objective. For this, Payment banks are very useful.

II. REVIEW OF LITERATURE

Singh R (2003), in his paper Profitability management in banks under deregulate environment, IBA bulletin, No25, has analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer noninterest income sources.

Singla HK (2008), in his paper,‟ financial performance of banks in India,‟ in ICFAI Journal of Bank Management No 7, has examined that how financial management plays a crucial role in the growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place, Banks in better position to deal with and absorb the economic constant over a period of time.

(Banking Structure in India - The Way Forward, 2013) discussion paper has identified key issues for providing specialized services and deepening financial inclusion. In discussion paper one of the observations was that there is a need for niche banking in India and differentiating licensing could be a desirable step in this direction. This paper intends to stimulate informed discussions on making the banking system more dynamic, accessible and competitive to meet the emerging needs of a growing economy as well importantly more responsive from the perspective of financial inclusion.

(Mor, 2013) committee on Comprehensive Financial Services for Small Businesses and Low Income Households recommended that a set of banks may be licensed under the Banking regulation act, which may be referred to as 'Payments Bank'.

IV. OBJECTIVES

- To study the functioning of payment bank
- To know challenges faced by payment banks in India.

V. RESEARCH METHODOLOGY

It is a conceptual study so no further data are required and it is not included in the study. Therefore hypothesis and testing could not be applicable.
Type of Data- secondary data

VI. PAYMENT BANKS

A payments bank is a type of non-full service niche bank in India. A bank licensed as a payments bank can only receive deposits and provide remittances. It cannot carry out lending activities. This type of bank was created to help India reach its financial inclusion targets. This type of bank is targeted at migrant labourers, low income households, small businesses, and other unorganised sector entities. The customers can deposit and withdraw money, use cheque books, ATMs, transfer funds , buy mutual funds and insurance from payments banks.

The bank should be fully networked from the beginning. The bank can accept utility bills. It cannot form subsidiaries to undertake non-banking activities. Initially, the deposits will be capped at Rs 1,00,000 per customer, but it may be raised by the RBI based on the performance of the bank. The bank cannot undertake lending activities. 25% of its branches must be in the unbanked rural area. The bank must use the term "payments bank" to differentiate it from other types of bank. The banks will be licensed as payments banks under Section 22 of the Banking Regulation Act, 1949 and will be registered as public limited company under the Companies Act, 2013. The RBI had received 41 applications for payment banks; however, it offered licence to only 11 of them:

1. Aditya Birla Nuvo
2. Airtel M Commerce Services
3. Cholamandalam Distribution Services
4. Department of Posts
5. FINO PayTech
6. National Securities Depository
7. Reliance Industries
8. Sun Pharmaceuticals
9. Paytm
10. Tech Mahindra
11. Vodafone M-Pesa

VII. PAYMENT BANK GUIDELINES

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

- Minimum entry capital for payment banks is fixed at rs.100 crores. The committee had recommended an amount of rs.50 crores but it seems that RBI has chosen to play safe and doubled the amount. This high amount of initial capital would mean that innovation would be slow because the risk to the payment bank model is very limited.
- Payment banks can accept demand deposits. The restriction therein is that the maximum balance per customer can only be rs.1, 00,000. This can be for both current and savings accounts. All deposits have to be invested in Government bills and securities, thereby indicating that fee income for transactions is what would probably be the biggest revenue driver for payment banks.
- Payment banks would primarily provide remittance and payment services. The boundary condition here is that the total credits into an account should not exceed rs.1, 00,000. This means that the payment banks would only make sense to lower economic strata of the Indian banked and unbanked population.
- Payment banks must be a banking correspondent of a commercial bank where in they can offer services like marketing of bank's loan products etc.
- Commercial banks can also leverage this model by launching a payment bank subsidiary.

- Currently RBI has not talked about the pricing for the services of the payment banks. Given the tough regulatory framework for payment banks, a pricing flexibility would be essential.
- Payment banks can be "Internet only". It is a very interesting proposition and it remains to be seen if this is the path that India's first digital bank would take. With the increased usage of mobile, social media and internet, possible value has only increased in the last few years.

How Payment Banks are different from regular banks?

- These banks can only receive deposits and remittances but cannot carry out lending activities aiming at financial inclusion, these banks will provide banking services to migrant labours, low income houses etc.
- The Payment Banks required a minimum paid-up equity capital of rs.100 crores while normal commercial banks require rs.500 crores

VIII. PAYMENT BANK- PURPOSE (AS PER RBI)

- small savings accounts
- payments/remittance services tomigrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

IX. FUNCTIONS OF PAYMENT BANKS

The Payments Bank will be set up as a differentiated bank and shall confine its activities to further the objectives for which it is set up. Therefore, the Payments Bank would be permitted to undertake only certain restricted activities permitted to banks under the Banking Regulation Act, 1949, as given below:

- **Acceptance of demand deposits**, i.e., current deposits, and savings bank deposits. The eligible deposits mobilised by the Payments Bank would be covered under the deposit insurance scheme of the Deposit Insurance and Credit Guarantee Corporation of India (DICGC). Given that their primary role is to provide payments and remittance services and demand deposit products to small businesses and low-income households, Payments Banks will initially be restricted to holding a maximum balance of Rs. 100,000 per customer. After the performance of the Payments Bank is gauged by the RBI, the maximum balance can be raised. If the transactions in the accounts conform to the "small accounts"1 transactions, simplified KYC/AML/CFT norms will be applicable to such accounts as defined under the Rules framed under the Prevention of Money-laundering Act, 2002.
- **Payments and remittance services through various channels including branches**, BCs and mobile banking. The payments / remittance services would include acceptance of funds at one end through various channels including branches and BCs and payments of cash at the other end, through branches, BCs, and Automated Teller Machines (ATMs). Cash-out can also be permitted at Point-of-Sale terminal locations as per extant instructions issued under the PSS Act. In the case of walk-in customers, the bank should follow the extant KYC guidelines issued by the RBI.
- **Issuance of PPIs as per instructions issued from time to time under the PSS Act.**
- **Internet banking -** The RBI is also open to applicants transacting primarily using the Internet. The Payments Bank is expected to leverage technology to offer low cost banking solutions. Such a bank should ensure that it has all enabling systems in place including business partners, third party service providers and risk managements systems and controls to enable offering transactional services on the internet. While offering such services, the Payments Bank will be required to comply with RBI instructions on information security, electronic banking, technology risk management and cyber frauds.
- **Functioning as Business Correspondent (BC) of other banks** – A Payments Bank may choose to become a BC of another bank for credit and other services which it cannot offer.

  The Payments Bank cannot set up subsidiaries to undertake non-banking financial services activities. The other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not comingled with the banking and financial services business of the Payments Bank. The Payments Bank will be required to use the word "Payments" in its name in order to differentiate it from other banks.

X. CHALLENGES FOR PAYMENT BANKS

- **Long Term Capital Required-** Payments banks are allowed raise deposits but these funds will not be enough for expansion. So they will require wealthy risk taking investors who will stay there for long term. RBI has issued so many licenses and surely not all are here to stay, so investors must be patient with them at least till payment bank go for IPO.
- **Encompass Risk and Innovation -**In order to succeed payments bank have to break the traditional banking mentality particularly related to investing. Traditional banks especially that in public sector goes for investment in government securities and bonds which are perceived as safer than credit market investments. There might be

limited option for payments bank right now but they should for embrace a futuristic approach and should explore innovative payment options.

- **Abiding by the laws -**Like any other bank, payments bank have to comply with the rules and regulation by RBI, maintain the ratios- Statutory liquidity, Cash reserve and capital adequacy norms. One the reason for mobile money's struggle in India is complying with rules.
- **Dodging the government business trap -**G2P payments may be luring to payments bank but they should not make these services the core part of their business otherwise they will be facing the same problems as the businesses have encountered previously. The fact that G2P services are prone to frequent and unpredictable decreases and depending upon them largely, poses a great threat.
- **Enabling payments scheme partnerships-**For running digital payments effective partnerships are required at retail points. These relationships are provided by special intermediary like in Kenya pep intermedius which manages float and distribution points for Airtel, Mpesa etc. Similar system has to be adopted by India as well.
- **Looking for right leadership -**To succeed payments bank have to look for a right leadership with right mix of people since it is first of its kind the world. Leaders from across sectors have put in teams to lead payments bank in India.
- **Scheming the right product-**Payments bank need to create a differentiation between them and business correspondents by exploring a remittance plus model which essentially means investing largely in customer centric product that will include face to face and remote transactions. This can be done by being innovating and offering through mobile phones.
- **Changing the mentality-**For payments bank to succeed Indians will need to migrate to digital alternatives which will require behavioural changes rather than technological changes. For this they require a system and policy efforts. In India most of the customers owns adebit card and prefer ATM transactions rather than mobile banking. Payments bank have great potential to change these patterns.

CONCLUSION

The Indian banking system is going through a revolutionary phase with the introduction of payments bank in India. With the entry of payment banks, the process of shifting money from bank accounts to wallets will become truly seamless, and thus it is extremely possible that many customers may open payment bank accounts in addition to their regular bank accounts. They may segregate small-ticket payments from other bank payments by holding separate accounts. The inclusion of Payment Banks in India is a big positive disruption to the banking sector and would surely see the cost associated with transfer of money or settlements diminish dramatically for end users. Payment banks have been bounded in banking operations, as they will not be allowed to do a business of lending activities. Indeed there is a question about who will take care of the credit needs of the unbanked. This is a key value proposition and would be really a game change in Indian Banking System.

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