# PAYMENT BANKS- A NEW STEP TOWARDS DIGITALIZATION

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## ABSTRACT

Saving and investment has very important place in economic development of the country. Banks is an important component of the Indian financial system who acts as an intermediary in the saving investment process. Banks are the financial intermediary who accepts money in form of deposits and gives loans and advances to the individuals who are in need of finance. It encourages people to save and give good returns to them in form of interest. Remarkable changes have been seen in the Indian Financial system since 1991. Genesis of Payment Banks are viewed as a major innovative change in the Indian Banking Industry. Inclusion of these new banks in the Indian banking industry is a major step by the RBI for financial inclusion. This research is focused on providing a study of working and challenges of Payment Banks and their role in Financial Inclusion. Secondary data has been used to analyse their role in financial inclusion and as a result it was seen that all the three dimensions of financial inclusion shows increasing trend.

**Keywords:** Payment Banks, Financial Inclusion, Bank Penetration (BP), Credit Penetration (CP), Deposit Penetration (DP)

## INTRODUCTION

Saving and investment plays an important role in economic development of the country. Banks are an important part of the Indian financial system who acts as an intermediary in the saving investment process. Banks are the financial intermediary who accepts money in form of deposits and gives loans and advances to the individuals who are in need of finance. It encourages people to save and give good returns to them in form of interest. Remarkable changes have been seen in the Indian Financial system since 1991. Genesis of Payment Banks are viewed as a major innovative change in the Indian Banking Industry. Inclusion of these new banks in the Indian banking industry is a major step by the RBI for financial inclusion.

Payment Banks are the banks who can accept deposits up to Rs. 1 lac per customer. They can only accept deposits and cannot give loans and advances to their customer. Saving account and Current account both are the key instruments of Payment Banks and they also facilitates ATMs, Debit cards, Net Banking, Mobile banking. A committee named "Committee on Comprehensive Financial services for small businesses and low income households" was formed by the RBI and headed by Nachiket Mor on 23rd September (2013). Out of his various recommendations, the major recommendation was the formation of new banks called Payment Banks in India. Final report on this recommendation was submitted by Nachiket Mor on 7 January (2014). On 17 July 2014, RBI publicizes the draft guidelines for Payment Banks and invited the interested entities and the general public. RBI released its final guidelines for Payment Banks on 27 November 2014. There were 41 applicants in the list released by RBI in February 2015, who had applied for Payment Bank Licence. The licence applications were analysed by an External Advisory Committee (EAC), headed by Nachiket Mor and its findings was submitted on 6th July 2015. RBI gave "in-principle" licences to eleven entities (Aditya Birla Nuvo Ltd., Airtel M Commerce Services Ltd., Cholamandalam Distribution Services Ltd., Department of Posts, Fino PayTech Ltd., National Securities Depository Ltd., Reliance Industries Ltd., Paytm, Sun Pharmaceuticals, Tech Mahindra Ltd., Vodafone M-Pesa Ltd.) to launch Payment Banks on 19th august (2015).

## REVIEW OF LITERATURE

The purpose of this review is to identify the key concepts, characteristics and ideas explaining the concept of Payment Banks and Small Finance Banks in different countries, their experience with it. In depth study of previous studies would also be useful to understand the various approaches used by the researcher to identify the role of Payment Banks and Small Finance Banks in financial inclusion as well as its impact on Indian financial system. So this literature review will probe into the question of recent trends in Indian financial system and relevant emerging issues for taking the economy towards digitalisation.

- Payment Banks: A Revolutionary Step in Indian Banking System by Saba Abid (2016)
- Payment Banks In India: New Land Mark In Banking Sector By K. Lohithkumar (2016)
- Genesis of Payment Banks: It's Stimulus on the financial inclusion in India by Madhavi Damle, Pushpendra Thenuan(2016)
- Analysis Of In–Principle License Entities to act as Payments Banks: Financial Inclusion Perspectives by Vishal R. Sandanshive1, Dr. Vivek V. Katdare (2015)
- Comparative Study on Online Banking, Mobile Banking and Payment Banks Nidhi Chandarana (2015)
- Customer Awareness on Payment Banks, the latest IT-enabled Indian Banks connecting people – An Empirical Study by Varun Kesavan (2015)
- Role of Payment Banks in India: Opportunities and Challenges by Geetha. M. Iyer, Shrey Bhansali, Tanmayee Bhatt, Mohak Chhatwani, Animesh Deshpande (2018)
- Strengths And Limitations Of Payment Banks In India by Pramod Kamble (2015)
- "Payment Banks"- A newer form of Banks to foster financial inclusion in India by J.C. Pande (2015)

## RESEARCH METHODOLOGY

The following methodology is proposed to be adopted for the study:

Research Data and Sources:

**Quantitative Data (Secondary Data)**

Secondary data will be collected from –Published records of RBI and reports on Payment Banks and Small Finance Banks, Newspapers – Economic Times, Times of India, Hindustan Times, Standard text books on Indian Financial System, Magazines – India Today, Business Today etc, Related websites – www.rbi.org.in, Different researches, Published Research Papers, Journals, and Articles etc.

**Objectives of the Research**

The main objective behind the establishment of Payment Banks is financial inclusion. This study is an effort to analyse the role of Payment Banks and Small Finance Banks in financial. This study aims to contribute to the relevant literature by providing answers to research questions set above. In broader terms, this research is an attempts to add to the knowledge by adding a single country study to the growing literature on the role of Payment Banks in financial inclusion which will be relevant not only to academics but also to the government. . In more specific terms, the objectives of this study are to make a contribution to the relevant academic literature with regards to following:

- To know the working and challenges of the Payment Banks.
- To know how it is helpful in digitalisation of economy.
- To study the role of Payment Banks in Financial Inclusion.

## DATA ANALYSIS & INTERPRETATION

**Working of Payment Banks-**

**A.** **Aim:** The main aim behind origination of payments banks will be financial inclusion by promoting and opening of small saving accounts and also by providing payment services.

**B.** **Qualified Promoters:**

(i) Existing non-bank Pre-paid Payment Instrument (PPI) issuers; and other entities such as individuals / professionals; Non-Banking Finance Companies (NBFCs), corporate Business Correspondents(BCs), mobile telephone companies, super-market chains, companies, real sector cooperatives; that are owned and controlled by residents; and public sector entities may apply to set up payments banks.

(ii) A payment bank can be set up by the promoter/promoter as a joint venture with an existing scheduled commercial bank. As per section 19 (2) of the Banking Regulation Act 1949, the scheduled commercial bank can take equity stake in a payments bank to the extent permitted under the section.

(iii) Promoter/promoter groups should sound in every manner and must have professional experience of running their businesses for a period not less than five years.

**C. Ambit of Activities:**

(i) They can accept demand deposits the value of which cannot be more than Rs. 100,000 per individual customer.

(ii) They can issue ATM cards and debit cards but cannot issue credit cards.

(iii) Through various sources it also provides payment and remittance service.

(iv) BC of another bank as per the guidelines of Reserve Bank on BCs.

(v) It also provides other non risky products like mutual fund units and insurance products, etc.

**D. Disposition of Funds :**

(i) Payment banks cannot involve themselves in any kind of lending activities.

(ii) They need to maintain a part of demand and time liabilities as Cash Reserve Ratio (CRR) with the Reserve Bank. Besides this, they are required to invest minimum 75% of its demand deposits in Statutory Liquidity Ratio (SLR) eligible Government securities/treasury bills with maturity up to one year and it has to hold maximum 25 per cent in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

**E. Capital Requirement :**

Payment Banks must have minimum paid-up equity capital of Rs.100 crore and should have a leverage ratio which should not be less than 3%.

**F. Promoter's Contribution:**

Promoter's need to contribute 40% to the paid-up equity capital of payments banks for initial five years from the starting of its business.

**G. Foreign Shareholding:**

The FDI (Foreign Direct Investment) policy for private sector banks is applicable on the payment banks with regard to the provisions of foreign shareholding.

**H. Other Conditions :**

(i) The operations of the bank should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.

(ii) High powered Customer Grievances Cell must be there to handle customer complaints.

(Source- https:// rbi.org.in/ scripts/ BS_ PressRelease Display.aspx? prid=32615 )

**Challenges for Payment Banks**

**(i) Long term Capital Requirement**

Deposits can be raised by payment banks but these funds will not be enough for expansion. So they require high risk taking and long term investors. 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.

**(ii) 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.

**(iii) 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.

**(iv) 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.

**(v) 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.

**(vi) 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.

**(vii) 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.

**(viii) 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 a debit card and prefer ATM transactions rather than mobile banking. Payments bank has great potential to change these patterns.

### PAYMENT BANKS AND DIGITALIZATION

Banking sector were facing tough challenges, so to remain competitive they require proper planning related to cutting down of the cost of products and services. Thus opening of fully functional banking services may prove unviable in such a situtaion. However, alternative channels with extensive reach such as Telecom, Postal Department and Digital Wallets, promises to reach people more effectively at lower cost through technological advancements.

Banking Industry has played an important role during post economic liberalization in 1991. With the help of technology Reserve Bank of India (RBI) bids to extend its banking services in the remote and unbanked areas. Many reforms were taken in banking sector but the major reform was the introduction of Payment Banks which was a biggest step by the RBI for financial inclusion in India. These banks may accept savings deposits up to INR 1 lakh per Individual, the limit may be raised in the future, if the RBI considers it to be necessary, based on performance. These banks cannot issue loans or credit cards. The aim of payment banks is to promote digital, paperless and cashless banking in India. Payment Banks is pretty similar to traditional banks, offer interest on deposits in savings accounts opened with these Banks, but do not accept any other form of deposits.

## FINANCIAL INCLUSION

Financial inclusion is the pursuit of making financial services accessible at affordable costs to all individuals and businesses, irrespective of net worth and size, respectively. Financial inclusion strives to address and proffer solutions to the constraints that exclude people from participating in the financial sector.

As defined by RBI, “Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players”

## DIMENSIONS OF FINANCIAL INCLUSION

There are three dimensions of financial inclusion-

### Branch Penetration

Number of bank branches per lakh of population is called branch penetration. Larger the branch penetration provide larger opportunity to transition and circulation of money.

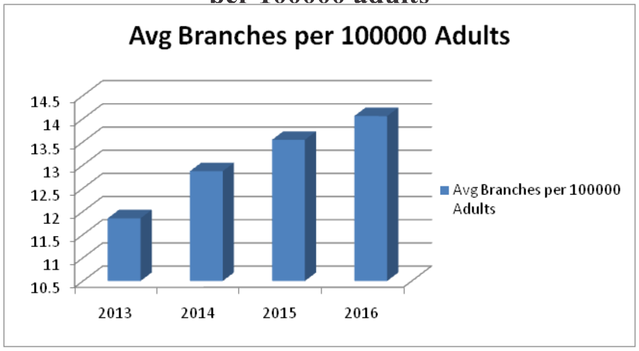
Table 1 shows the average of commercial bank branches per 100000 adults. In 2013 average branches were 11.851 which have been increased to 12.867 in 2014. It was further increased to 13.545 in 2015 and in 2016 the number reached to 14.056.

**Table 1: Commercial bank branches per 100000 adults**

| Year | No. of Branches |
|---|---|
| 2013 | 11.851 |
| 2014 | 12.867 |
| 2015 | 13.545 |
| 2016 | 14.056 |

Source:https://data.worldbank.org/indicator/FB.CBK.BRCH.P5?end=2016&locations=IN&start=2005 view=chart

**Chart 1: Commercial bank branches per 100000 adults**




1 https://en.wikipedia.org/wiki/Payments_bank
2 https://www.mapsofindia.com/my-india/business/payment-banks-an-evolution-in-the-banking-sector
3 https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=32615
4 http://www.iosrjournals.org/iosr-jef/papers/Vol7-Issue6/Version-1/J0706018183.pdf
5 http://publications.anveshanaindia.com/wp-content/uploads/2016/10/PAYMENT-BANKS-IN-INDIA-NEW-LAND-MARK-IN-BANKING-SECTOR.pdf
6 https://www.ijser.org/researchpaper/Genesis-of-Payment-Banks-It-s-Stimulus-on-the-financial-inclusion-in-India.pdf
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11 http:// primeresearchinstitute. com/images/ Pdf_Files/ 3.%20Strengths% 20and% 20Limitations% 20of% 20Payment% 20Banks% 20in% 20India.pdf

### Credit Penetration

Credit penetration includes number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

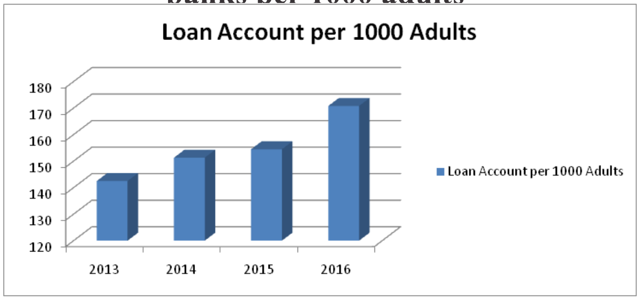
Table 2 shows the average number of loan accounts per 1000 adults. In 2013 the average number of loan accounts was 142.48 which have been increased to 151.27 in 2014. It was further increased to 154.45 in 2015 and in 2016 the average number of loan account reached to 170.77.

**Table 2: Loan account with commercial banks per 1000 adults**

| Year | No. of Loan Accounts |
|---|---|
| 2013 | 142.48 |
| 2014 | 151.27 |
| 2015 | 154.45 |
| 2016 | 170.77 |

Source: http://vikaspedia.in/social-welfare/financial-inclusion/financial-inclusion-in-india

**Chart 2: Loan account with commercial banks per 1000 adults**




### Deposit Penetration

Deposited penetration includes number of saving deposit accounts per one lakh population. Over a period of time branch, credit and deposit penetration increases.

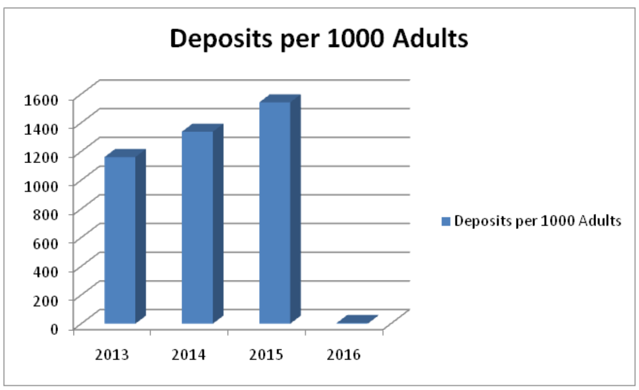
Table 3 shows the average number of deposit accounts per 1000 adults. In 2013 the average number of deposit accounts was 1160.72 which have been increased to 1337.41 in 2014. It was further increased to 1541.79 in 2015 and in 2016 the average number of deposit accounts reached to 1731.27.

Table 3 : Deposit account with commercial banks per 1000 adults

| Year | No. of Deposit Accounts |
|---|---|
| 2013 | 1160.72 |
| 2014 | 1337.41 |
| 2015 | 1541.79 |
| 2016 | 1731.27 |

Source: http://vikaspedia.in/social-welfare/financial-inclusion/financial-inclusion-in-india

Chart 3 : Deposit account with commercial banks per 1000 adults




## CONCLUSION

Saving and investment plays an important role in economic development of the country. Banks are an important part of the Indian financial system who acts as an intermediary in the saving investment process. Banks are the financial intermediary who accepts money in form of deposits and gives loans and advances to the individuals who are in need of finance. It encourages people to save and give good returns to them in form of interest. Remarkable changes have been seen in the Indian Financial system since 1991. Genesis of Payment Banks is viewed as a major innovative change in the Indian Banking Industry. Inclusion of these new banks in the Indian banking industry is a major step by the RBI for financial inclusion. This research is focused on providing a study of working and challenges of Payment Banks and their role in Financial Inclusion. Secondary data has been used to analyse their role in financial inclusion and as a result it was seen that all the three dimensions of financial inclusion shows increasing trend.

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