

Payment Banks – A Step Towards Connecting Technology and Financial Access

Dr. Madhu¹, Ms Sakshi²

¹Associate Professor, Arya P G College, Panipat

²Assistant Professor, Arya P G College, Panipat

Abstract

Payment Banks are the part of digital revolution in Indian banking system. They present an exciting opportunity of financial inclusion. On the recommendation of Nachiket Mor committee (2013), RBI initiated to establish this differentiated bank variant to promote green banking and also to ensure the access of basic banking services to each and every Indian citizen. With the growing penetration of smart phones, mobiles and internet, Indian people are also becoming tech savvy in every field. Banks have also switched over from conventional banking practices to modern banking practices by making all transactions via mobile phones & ATM'S. So, Payment Banks is a disruptive innovation. This paper is all about what are Payment Banks?, RBI guidelines related to PB's, hurdles involved in their operation and suggestions to improve their performance required information has been collected from newspapers, RBI guidelines and previous published research articles. PB's are fully equipped with technology and are expected to fulfil the dream of Inclusive India.

Keywords: Digital Revolution, Financial Inclusion, Differentiated, Payment Banks, Challenges.

INTRODUCTION

We all are the part of the digital and inclusive India. Liberalization, digitalization and nationalisation have opened the doors for the users to access banking services like ATM, E-fund transfers, plastic money usage and daily account statements. Now we save, spend, invest and insure digitally. This advancement especially in the field of banking sector has made people's life easier and more safe. However despite this, the banking sector in rural and remote areas remained unregulated, where the number of commercial banks are very less and financial literacy rate is very low. Although, the digital India campaign, Electronic fund transfer scheme and payment tools like Airtel money and Paytm have reduced unbanked individuals in the country yet millions of people have not bank accounts, no access to financial products & services and consequently they are financially excluded. In order to bring such people under umbrella of financial inclusion by satisfying their needs of making transactions, payments and getting credit and insurance facility at lower cost and risk. RBI, took the initiative and brought payment banks into existence. Payment Banks are the novel form of banks, which is based on the theme of "LOW VALUE-HIGH VOLUME TRANSACTIONS" to make India financially inclusive. Payment Banks are those banks which welcome demand deposits & remittances but as per Reserve Bank of India, they are not suppose to indulge in lending activities. Here low value means a customer can deposit up to rupees two lakh only. And the word 'High Volume' means to cover the each and every unbanked people over there. Payment Banks are the

brainchild of RBI'S committee on comprehensive financial services. Payment Banks is a differentiated bank variant to contribute in the process of financial inclusion. These banks have revolutionised banking services and provided a platform for the linkage of migrant labourers, low income people, small business units and unorganized sector bodies with the banking system. They have taken the unbanked rural regions to the mainstream financial system and thus, promoted financial inclusivity. As physical penetration of banking system is very difficult in rural and remote areas, Payment banks will serve the purpose. Payment banks work in collaboration with Telecom companies. Mobile phone is the operational instrument of these banks. Transactions are carried out electronically just with a click by eliminating middlemen. Moreover Payment banks also promote digital and paperless banking i.e. GREEN BANKING. Also they will feed to every unbanked citizen of the country. In this way; Payment Banks will frastrack our journey of financial inclusion.

MILESTONES

Today, India (Specially rural Sector) is availing the services of PAYMENT BANKS by virtue of indispensable role performed by Nachiket Mor. As in year 2013 (September) RBI inaugurated "Comprehensive financial Services for small business and low income household" committee which is Captained by Nachiket Mor. Nachiket Mor is a member in Reserve Bank of India's Board. In January, 2014. The committee presented Six vision statements in their final report. And Out of these six visions one is to form a new Variant called "PAYMENT BANKS". RBI furnished draft guidelines in July, 2014; in order to get reviews from public and then on November 2014, RBI divulged final guidelines for the payment banks. In 2015, RBI issued a list which discloses the list of bodies who applied for the License for Payment Banks. The applicants were 41 in number. Then to examine the application received; RBI formed EAC (External advisory Committee). The EAC evaluated the applications on Financial grounds and some other and on 6th July, 2015 External Advisory Committee presented its findings. And then in the year 2015, RBI gave "IN – PRINCIPLE" Licence to 11 bodies; the following three of them Surrendered: 1. Cholomandalam Distribution Services. 2. Sun Pharmaceuticals 3. Tech Mahindra. RBI grants the full licenses to those entities who fulfil all the conditions of section 22 of Banking Regulation Act, 1949 and those who were successful in getting license were:

- Aditya Birla Nuvo
- Fino PayTech
- Airtel M Commerce Services
- Department of Post
- Paytm
- National Securities Depository
- Vodafone M-Pesa
- Reliance Industries limited

The foremost aim to bring payment banks into existence is to **MAKE INDIA FINANCIALLY INCLUSIVE**. In the union budget 2014-15, Hon'ble finance minister stated " After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in current financial year. RBI will create a framework for licensing banks and differentiated banks. Differentiated banks serving niche interest, local area banks, payment banks etc are

contemplated to meet credit and remittance needs of small business, unorganized sector, low income households, farmers and migrant workforce.” Not just payment banks but also some other invigorating steps were taken to boost financial access like =

- Digital India campaign
- NEFT
- PAYTM
- RTGS etc.

Statista research department, 2022 survey declared that, now 80 population above 15 years has bank account or linkage from any other financial institute where it was 35% in 2011 and 53% in 2014. Whereas number of automated teller machines (ATM) also increased as in 2021 there were over 238 thousand machines across India and it was 200 thousand in 2019 (Published by Statista research department).The biggest reason for non-inclusive India was lack of required services and not proper reach specifically to rural groups. This hurdle can be removed by making our country **FINANCIALLY AFFABLE COUNTRY**; which is possible through payment banks. As we all know our country is a developing one, so we need such sort (Payment Banks) of vigorous step. As it was expected from these banks that they will surely change the game; as India at that time was on a tipping point where there was need for such accelerating move. Payment banks serve the economy with affordable cost, as these banks are technologically rich. Not only this these technology driven banks also help us in removing corruption and other evils. Our Hon’ble PM said “ If all of us start transacting through online and mobile banking, it will be our great contribution towards eradicating corruption and black money from our country”. Thus we can say payment bank will complement with existing banking structure to bring India to next level. At present, the following are working as PAYMENT BANKS in India-

1. Airtel Payment Banks
2. Paytm Payments bank
3. Aditya Birla Payments Bank
4. India Post Payments Bank
5. Jio Payments Bank
6. Fino Payments Bank

«Objectives of Payment Banks»

Payment banks came into existence to redefine banking in India. As a large part of Indian population has no reach to basic banking services, establishment of payment banks is a revolutionising step towards financial inclusion in India. Main objectives of payment banks are as follows:

- **PROMOTION OF SAVING AMONG LOW INCOME GROUPS**: Payment banks provide a opportunity for the low earning group to encourage them for savings rather than over-spending’s. Customers can open accounts with zero balance and also can deposit their small amounts in these banks. Therefore, these banks encourage the saving habits of low income earners.
- **HIGHER RATE OF RETURN ON DEPOSITS**: Rate of interest on deposits in PB’s is higher than commercial banks. Generally interest rate on deposits is more than 7 percent which help people to increase their income.

- **MORE FINANCIAL SERVICES IN REMOTE AREAS:** Payment banks have connected those remote rural areas where traditional banks cannot reach. They have provided banking services to migrant workers, small business and low income households in rural areas and unorganized sector.
- **QUICK AND EASY TRANSFER OF FUNDS:** Payment bank shortens the delay between payment initiation, clearing and settlement; so they facilitate easy and quick movement of funds among the people of undeveloped and unbanked rural areas; just by using mobile banking.
- **TO REDUCE REGIONAL IMBALANCES:** Payment banks have contributed a lot in reducing regional disparities across the country. Where physical penetration of commercial banks is very difficult. Payment banks have brought a decline the cost of banking services in those areas, moreover better facilities at a minimum cost to the people has reduced the regional disparities.
- **TO INCREASE FINANCIAL LITERACY:** With the introduction of payment banks, the rate of financial literacy in increased. Payment banks in unbanked remote and rural areas have created financial awareness among the people.
- **OTHER OBJECTIVES:** Some other are as follows;
 - To know the extent of proportion of population covered by mobile banking.
 - To critically examine the upcoming challenges in the way of success of PB's.

PAYMENT BANKS GUIDELINES ISSUED BY RBI = All PB's in India will work according to the guidelines issued by RBI on 27 November,2017. RBI issued the follows

- **Registration and licensing:** The registration of payment banks will be under Companies Act,2013 as a public limited company. It will have to obtain license under Banking Regulation Act,1949 with particular restrictions regarding remittances and deposits up to limit prescribed by RBI. PB's are regulated by

- Foreign Exchange Management Act, 1999
- Payment and Settlement Systems Act, 2007
- Banking Regulation Act,1949
- Deposit insurance and credit Guarantee Corporation Act,1961
- Reserve Bank of India Act,1934.

- **Objectives=** The foremost aim of setting up payments banks is to make India financially inclusive by providing remittance & deposit facility. These banks enable small transactions with more volume in it's working in a safe digital set up. These banks aim to promote safe , paperless, digital banking in India.

- **Scope of Operations=** Here are the activities which are come under the purview of PB's:

i. **PAYMENT BANK PROVIDES THE FACILITY OF DEMAND DEPOSITS=** Individuals, small businesses & migrant labourers and others can deposit their money with payment banks. But according to Reserve Bank of India's new guidelines issued, there is a limit on this demand deposit i.e two lakh rupees per customer. One can open saving or current accounts with the payment banks.

ii. **FACILITATES UTILITY BILLS PAYMENT** = These banks (Payment Banks) gives the services of payment of some useful bills like

- Shopping Bill
- Hospital Bill
- Water Bill;

DTH (Direct to Home) Bill; which gives ease to customer in performing routine functions as this is fastest and safest way.

- iii. **PAYMENT BANKS AS BANKING CORRESPONDENT OF OTHERS** = To cover the people of unbanked areas, these banks (Payment Banks) can also play the role of banking correspondent of others. Here correspondent banks means the banks which facilitates services on the behalf of other financial institutions. This function is to achieve the aim of financial inclusion in our country.
- iv. **INTERNET BANKING FACILITY** = In today's era no work can be performed without the help of internet. So the facilities such as
ECS (Electronic Clearance Service)
IMPS (Immediate Payment Service)
RTGS (Real Time Gross Settlement)
NEFT (National Electronic Funds Transfer); etc are provided by the payment banks which is must to send or receive remittances.
- v. **PAYMENT OF INTEREST TO CUSTOMERS** = Payment banks like other banking institutions provides interest money to customers for their savings. These banks pay interest according to the Reserve Bank of India's notification. Interest money motivates the people to save more and more which is again good for our economy.
- vi. **PAYMENT BANKS PROVIDES DEBIT CARD FACILITY** = Debit cards facility is also provided by the PB's so that customers can withdraw their money anytime. Customers can easily use this debit card to any ATM of any bank. But these banks cannot issue credit cards.
- vii. **FUNDS TRANSFER TASKS** = According to Reserve Bank of India, Payment banks can Send Remittances, Receive Remittances; on the behalf of it's customers. The payment mechanism used by these banks are RTGS, NEFT, IMPS etc. which is secured to send or receive remittances.
- viii. **CROSS BORDER REMITTANCE** = PB's are allowed to manage **International remittance** transactions . But such remittances need the consent of RBI on an application thereafter they are suppose to carry those international payments.
- **Capital Requirement** = The paid up capital for the PB's are rupees 100 crore. A minimum capital adequacy ratio of 15% of it's risk weighted asset are required according to the provisions of central bank, only then they are allowed to working as Payment banks.
 - **Eligible Promoters**= Below is the list of promoters who can join the payment banks:
 - Non banking finance companies
 - Bank Correspondents
 - Pre-paid Payment Instrument issuers
 - Mobile phone companies
 - Super Market companies etc.
 - **Deployment of funds** = The PB's are not permitted to give loans to it's customers, so they do not have to face market risk. They are supposing to invest in government securities at least 75% of their "demand deposit balance". The remaining 25% can be invested by PB's to scheduled banks for liquidity management.
 - **Promoter's Contribution**= For the initial five years, minimum of forty percent of the equity capital is required to be hold by the promoters as their contribution. In case, it is a partnership with the

scheduled commercial banks then they have to follow the provisions laid down by the Banking Regulation Act, 1949.

- **Foreign shareholding**= According to latest FDI policy, the total foreign investment in the private sector bank from all sources will be approved up to a maximum of 74% of the paid up capital of Bank (automatic route up to 49% and approval route beyond 49% up to 74%). At all times, minimum of 26% of the paid up capital will have to be held by Indian residents.
- **Business plan**= All those who want to working as Payment bank, they have to give their project plan with the application. The business plan will have to make it clear as how they(applicants) are able to fulfil the payment bank's aim. The project plan furnished by the applicants should be feasible from all respect only then they will be able to get the license.
- **Other Conditions**=
 - The PB's will conduct its activities in rural areas through Bank correspondents, ATM, and other networks. As per the provisions they must have minimum 25% of it's office branches in these remote rural areas which is untouched till now from the banking products.
 - A Customers Grievances Cell should be there to admit all the complaints of customers and to resolve their issues as soon as possible.
 - It is must for all the PB's to follow the instructions of its all the regulators. Non following in the same will put these banks in the situation of cancelation of their license.
 - All the activities of payment banks should through the digital tools to ensure minimum cost and transparency in it's working.

CHALLENGES OF PAYMENT BANKS IN INDIA

In the Indian banking history, it is the first time that Reserve Bank of India has given permission to operate payment banks. Some of them are working with full swing but some are not because it is not easy for them to operate in the current environment. They are facing many challenges. The problems involved in their success route are as follows=

- ❖ **Restriction on lending activities:** There is a restriction to give any kind of loan to public. They can only accept the deposits according to RBI guidelines. They are unable to earn interest income so they have to depend on other sources for profitability.
- ❖ **Stiff competition with traditional commercial banks:** Our traditional commercial banks are also providing the payment banks services along with their conventional services. This may pose stiff competition for them.
- ❖ **No fool proof software:** Payment banks are fully technology driven. Mobile is the major instrument of operation. All operating activities are digital and no fool proof software is there to operate in the market.
- ❖ **Lack of awareness among people:** There is no awareness to public about payment banks specially in the remote and rural regions. In the absence of awareness about these banks, people have no faith and payment banks have no business.
- ❖ **Non-Availability of right leadership skills:** Payment bank is a mixture of banking and technological distribution of services. Till now, managerial executives have led consumer goods and technology industries. But now banking and payment are inseparable. To find the right set of skills, required by payment banks is a very difficult task.

- ❖ **No remittance plus model to compete:** Profits flow from remittances. Banks outsourced remittance services to business correspondents, but in order to differentiate themselves from existing business correspondents. Payment banks will need to investigate remittances plus model to compete with other banks which demands huge amount to be spent on innovative products.
- ❖ **Less E- cash transactions:** It is very difficult for the payment bank to position itself with its network of cash in/out along with digital cash. Simply cash in/out administration and irrelevant exchanges would lead to dormant computerized accounts which is detrimental to the growth and sustainability of payment banks.
- ❖ **Behavioral set up of cash obsessed Indians:** Moving towards e-payment presents other difficulty also. For the success of Payment banks, cash obsessed Indian people will require to shift to digital substitutes which is possible only by a big change in their behavioral set up . Only few e-wallet players like Paytm, food panda do have been very active and that too in urban areas only.
- ❖ **Shifting interactions to ATM'S and mobiles:** Only 39-40 percent of Indian stockholders have debit cards and ATM cards. Mobile banking has been slow to catch in particularly in rural area. So, change in interaction pattern between customers and banks is required urgently. To make payment banking successful both banks and customers will have to depend upon ATM's, mobile phones and other fool proof digital devices to make mutual transactions.
- ❖ **Establishment of effective merchant ecosystem:** Running a digital payment system will require strong network points. Special intermediary service like in Kenya and Uganda, are well managing all the functions for major players like Airtel, M-Pesa and Kopo-Kopo. So, it is a big challenges for India to set up such a merchant ecosystem.
- ❖ **Temptation of G2P payment practices:** In some past years business correspondents had faced challenges for sustainability because they made G2P services as a central component of their business. Many payment banks also made G2P services as the core point of their business and are running into the same sustainability issues as that G2P payments are easy pickups but at the same time unpredictable.
- ❖ **Too much regulations:** Adhere to RBI regulations and other banking norms relating to statutory liquidity ratio, cash reserve ratio & capital adequacy ratio and the regulations relating to financial fraud and anti money laundering etc. Therefore Vodafone and Airtel, money provider companies are forced to work with partner banks to provide payment services. So the future of payment Bank is now in Stake.
- ❖ **Conventional banking mind-set:** In India, the success of payment banks will largely depend upon their ability to disrupt the conventional banking mind-set and inability to innovate. But Indian public sector banks have frequently put a lot of money into government banks securities due to safety of funds in comparison to investment in credit market.
- ❖ **No risk taking investors, No long term funds:** Payment banks may not be able to expand, even if their limit to raise deposit is increased. In this era of stiff competition it is very difficult to acquire the customers and maximize the revenue per customer. In payment banks industry, it is very difficult to obtain long term risk taking investors with substantial funds.
- ❖ **Others:** There are some more challenges also like payment banks are non-lucrative for non-Telecom firms. Small payment banks are small players which are affected by price wars. In terms of profitability payment banks also face competition from the existing lenders.

Suggestions to overcome the hurdles in the growth of payment banks

As discussed above that there are so many hurdles in the growth of payment banks in India. But these can be removed with the right vision and by taking right decision in the right time. These are some suggestions to accelerate the growth of payment banks:

- Individuals enriched with distribution point management skills must lead these banks to protect them from failures.
- Payment Bank must introduce Remittance Plus Model and Customer Focused Innovative Digital Products to compete in the market.
- These banks should be Pro-active in its working.
- Digital infrastructure must be created by these banks in collaboration with online and offline merchants in rural areas where most people do not have connectivity to participate in the growth of E-payments.
- Payment Bank must require a concentrated eco-system effort and more regulatory banking to encourage the expansion of interlink -ages and untapped markets.
- If we desire payment banks to be successful, all bank transactions must be performed digitally in order to change traditional behavioural pattern.
- Temptation to make G2P services must be resisted by the payment banks.
- Indian payment Bank also need to have partnership with the service providers as are prevalent in Kenya and Uganda to ensure the success of payment Bank partnerships.

CONCLUSION: Payment Bank is the new model of banks in Indian banking sector which is conceptualised by RBI to broaden the scope of banking services and to achieve the goal of financial inclusion. PB's have provided services at a low cost through mobile phones and made banking faster and flexible for the common man. They have contributed a lot in converting conventional economy into digital economy. Although the PB's need more regulatory framework to encourage its expansion and these regulations won't slow down its momentum to cover the whole population under formal banking system rather it will accelerate the growth rate of payment banks in India which will definitely fruitful to our nation.

REFERENCES:

1. Leeladhar, V. (2006). Taking banking services to the common man- Financial inclusion. Reserve Bank of India Bulletin Retrieved 17 February 2017, from <http://www.bis.org/review/r051214e.pdf>
2. Mor, N. (2013). Committee on comprehensive financial services for small business and low-income households. Mumbai. Retrieved 17 February 2017, from <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CFS070114RFL.pdf>
3. Thorat, U. (2007). Financial inclusion-The Indian Experience. Reserve Bank of India Bulletin. Retrieved 17 February 2017, from <http://www.bis.org/review/r070626.pdf>
4. Pande JC (2015) "Payments Banks"- A newer form of Banks to Foster Financial Inclusion in India. Global Journal for Research Analysis,4(11).
5. Kohli D, Patel k (2016) Payment Banks- Changing Indian Payments Landscape. Available on India Nivesh Research.
6. Desai R (2016) how will 'Payment Banks' change the financial services landscape in India.

7. <http://www.rbi.org.in>
8. <http://wikipedia>
9. Newspaper: Business Line, The times of India.
10. <http://economictimes.indiatimes.com>
11. Reserve Bank of India. (2014, July 17). Press release: RBI Website. Retrieved from RBI on 29 April 2015:https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=31646
12. Kesavan, V. (2015).the diversification of banks to the era of payment banks by Reserve Bank of India with specific reference to Indian Banking sector. International journal of world Research,1,20.
13. Chandarana, N. (2015). Payment Bank- A need of digital India. Abhinav National Monthly Refereed Journal of Research in Commerce and Management, 4(11).
14. Lyer, G.M., Bhansali, S., Bhatt, T., Chhatwani, M., & Deshpande, A. (2018). Role of payment banks in India: opportunities and Challenges. IJAME.
15. <http://www.statista.com>
16. <http://www.moneycontrol.com>
17. Alvares, C., (2009). The problem regarding fake currency in India. Business Today. 18(5). 24-24.
18. Khattar, K. (2018). All You Need to Know About Payment Banks.
19. Payment Banks: Digital Revolution in Indian Banking System”, International Journal of Management and Humanities, 2020
20. testbook.com
21. www.managementjournal.info
22. www.researchgate.net
23. nextbillion.net