PAYMENT BANKS: A JOURNEY TO INDIA’S CASHLESS ECONOMY

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ABSTRACT
Indian banking industry passes through tremendous changes and advancement from its origin onwards. But these developments are always failed to cover each and every people in India to banking services. But India just crossed 1 billion mobile subscribers which are more than that of having basic bank accounts. India can achieve growth in banking inclusion by utilizing the increased use of cell phones among population. This provides a greater opportunity to the introduction and development of Payment Banks in India. Payment Banks can be defined as “new model of banks that are permitted to receive cash deposits from customers, store them in a digital wallet and allow customers to pay for goods and services from their digital wallet, which is come under Banking Regulation Act 1949.” Payment Banks can be highly useful for migrant labour, low income households, farmers, small businesses and other users. Each of them can utilise the facilities provided by Payment Banks to manage their financial activities such as savings and remittances. It changes Indian economy to a cashless one by facilitating electronic payments and remittances.

Keywords: Payment Bank, Cashless economy.

INTRODUCTION
In India, about 151 Scheduled Commercial Banks, 2104 Urban Cooperative Banks, 38,347 NBFCs and numerous payment or technology operators. However, 50% of Indians don’t have a bank account and only about 30,000 of India’s 5.94 lakh villages have Commercial Bank branch. Many initiatives such as Self Help Groups(SHG)s bank linkages, banking correspondents, ultra small branches, electronic payment systems, etc., are undertaken by RBI and Government of India to attract this unbanked section to banking activities. Since, these attractive steps are almost failed to catch the section of India mainly rural and weaker people to banking activities thus it lower the growth of financial inclusion in India.

But India just crossed 1 billion mobile subscribers which is more than that of having basic bank accounts. There arises a need for payment banks. As per the recommendations of Nachiket Mor Committee RBI gave “in-principle” licences to 11 entities to launch Payment Banks (PBs) on 19th August 2015. Payment Banks are new stripped-down type of banks which are expected to reach customers mainly through their mobile phones rather than traditional bank branches.
OBJECTIVES

- To understand the concept of Payment Banks.
- To find out the need for Payment Bank in India.
- To analyze how Payment Bank make India a cashless economy.

Payment Banks

Payment Banks are differentiated banks which created on the recommendation of the Nachiket Mor Committee, to facilitate financial inclusion and remittances. It gives a digital space to each and every customer who can deposit up to Rs. 100,000 and use this deposit for availing the facilities like booking movie tickets, paying utility bills, do shopping, etc.

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Stepping stone to Payment Banks

Indian banking industry passes through tremendous changes and advancement from its origin onwards. Nationalization of 14 commercial banks in July 1969 was its first round of developments. Next step was the nationalization of 6 more commercial banks in 1980. Then in 1975 RRB are established in order to economically strengthen India rural people. Only 7 % India’s villages have a branch of rural or commercial bank. But these developments always failed to cover each and every people in India to banking services.

To boost financial inclusion in India RBI formed a committee on ‘Comprehensive Financial Services for Small Businesses a Low-Income Households’ headed by Nachiket Mor on 23rd September 2013. After the study the above committee comes out with its financial report on 7th January 2014. One of its recommendation was the formation of a specialised bank called payment bank. On 27th November 2014 RBI released the final guidelines for payment banks. On 19th August 2015 the RBI gave in principle licenses to 11 entities from 41 applicants launch payment banks.

1. Aditya Birla Nuvo Limited
2. Airtel M Commerce Services Limited
3. Cholamandalam Distribution Services Limited
4. Department of Posts
5. Fino PayTech Limited
6. National Securities Depository Limited
7. Reliance Industries Limited
8. Shri Dilip Shantilal Shanghvi
9. Shri Vijay Shekhar Sharma
10. Tech Mahindra Limited
11. Vodafone m-pesa Limited

Out of these three have surrendered their licenses, Cholamandalam Distribution Services, Dilip Shanghui Sun Pharmaceuticals and Tech Mahindra
Why Payment Banks

The objectives of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

Scope of activities

a. Acceptance of demand deposits. Payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.

b. Issuance of ATM/debit cards. Payments banks, however, cannot issue credit cards.

c. Payments and remittance services through various channels.

d. BC of another bank, subject to the Reserve Bank guidelines on BCs.

e. Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.

Need for Payment Banks

Table 1.1: Current scenario of financial services in India

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No.</th>
</tr>
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<tbody>
<tr>
<td>Number of people with bank accounts (per‘00)</td>
<td>58</td>
</tr>
<tr>
<td>Number of bank branches (per 1 Lakh)</td>
<td>11</td>
</tr>
<tr>
<td>Average population per branch</td>
<td>12.6</td>
</tr>
<tr>
<td>Number of ATMs (per 1 Lakh)</td>
<td>11.4</td>
</tr>
<tr>
<td>PoS Terminals (per million)</td>
<td>684</td>
</tr>
<tr>
<td>Total Cards (per ‘000)</td>
<td>283.6</td>
</tr>
</tbody>
</table>


Table 1.2: Indian Telecom Statistics

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No. (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone subscribers(Wireless and Landline)</td>
<td>1058.01</td>
</tr>
<tr>
<td>Cell phone users</td>
<td>1033.20</td>
</tr>
<tr>
<td>Landline</td>
<td>24.81</td>
</tr>
<tr>
<td>Monthly cell phone addition</td>
<td>1.1</td>
</tr>
<tr>
<td>Tele density</td>
<td>82.82%</td>
</tr>
</tbody>
</table>

Source: Highlights of telecom subscription data as on 31st May 2016

There are 1.25 billion people in India. While analysing table 1.1 only 58 percentage of the population have a bank account, that is .725 billion. While looking in to the statistic of bank branches and population per branch, it can be found that each branch need to deal with a huge customers (12600), thus lead to poor customer service and personal attention. This also may lead to banking exclusion. Apart from this PoS and cards also stands low.

While analyzing table 1.2, it can be seen that there are more than one billion cell phone users in India and 11 lakhs new users added to this statistics each month. India can achieve growth in banking inclusion by utilizing the increased use of cell phones among population. This provides a greater opportunity to the introduction and development of Payment Banks in India.
The need for Payment Bank can be analyzed through different sections:

**Low income households**

Half of the rural India is excluded from formal banking and financial services in last years. The initiatives such as no-frills accounts, relaxation of KYC norms, engaging business correspondents, use of technology, opening of branches in rural centres by RBI and Government of India are covered rural low income households to the circle of financial inclusion to some extent.

To speed up the growth level of banking inclusion the services of Payment Banks are helpful. From the statistics of telecom subscription data as on 30th November 2015 there are 436.2 million rural cell phone subscribers and 1.43% monthly growth rates. This situation provides a room for Payment Banks among low income households.

**Migrant labour**

There are large number of people migrated from one place to another places in India for labour purposes. So they need the facilities such as savings of their daily wages and remittance facility. Payment banks provide the needed facilities to them and also provide an access to the banking activities from anywhere in India.

**Farmers**

Indian economy consists of 38% of farmers out of total population. Majority of them are located in most rural areas that are unbanked. They needed to deposit their small savings and use their savings for their farming purposes such as buying seeds, pesticides, fertilizers etc. Payment bank meets their requirements to some extent through their cell phones.

**Small business**

The present business situation gives importance to electronic transactions. But the micro and small business are unaware about such requirements. So they need these electronic payment mechanisms to expand their business activities. The services of payment bank satisfy such needs by accepting their deposits and helps in joining cashless electronic transactions.

**Other users**

There are number of people in India who are interested in banking activities, but feel difficulty to approach bank due to various reasons such as transportation problem unawareness about banking facilities and other reasons. Payment bank can fill the gap and provide needy services like online purchases, online transfers, PoS services, utility bill payments, services to students etc...

**Payment Banks; A move towards India’s cashless economy**

Indian Finance Minister, Mr Arun Jaitley said payment banks “will change the way people think, change the way they keep the money, where they keep their money, the way they pay,” Payment Bank is a digital wallet which promotes cashless transactions.

- Payment banks may make handling cash a lot easier. For example, you can transfer money using your mobile phone to another bank or to another mobile phone holder and also receive amounts through your device. Or you can transfer the amount to point-of-sale terminals at large retailers and take out cash.
- The attractive feature of Payment Bank is ‘high quality – low cost of delivery.’
- People can book movie tickets, pay utility bills, insurance premium payments, recharge mobile phones and dish TVs, etc., electronically.
- We need not search for an ATM if we are not carrying cash, our mobile phone will become the virtual ATM.
Students living away from home would also be able to use facilities of payment banks to pay their fees.

Small businesses — that have five or six employees — can operate salary accounts in payment banks, instead of paying out cash.

Migrant labours can send money to their family members electronically.

People can make payment for major E-commerce portals like, Snapdeal, Flipkart, Amazon, etc.

CONCLUSION

Payment Bank in India is a type of bank which is non-full service niche bank. These banks receive deposit and provide remittances, cannot provide lending facilities. They issue ATM or Debit cards. Payment Bank is a digital wallet which promotes cashless transactions like electronic money transfers and payments. It provides an opportunity to people to avail banking facilities without visiting a bank and making payments without having much cash in hand, thus do all payments and remittances electronically.

Payment Banks can be highly useful for migrant labour, low income households, farmers, small businesses and other users. Each of them can utilise the facilities provided by Payment Banks to manage their financial activities such as savings and remittances. By way of these services Payment Banks provide support to meet the financial inclusion targets of Indian economy. India post is one among the 11 organisations, which has got the approval to start payments bank. They have 89% of their post offices in rural areas (1, 39,144 out of 1, 55,015). This will definitely offer its partner a wider reach to rural areas.

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