ABSTRACT

Financial inclusion and financial literacy have been important policy goals on the government’s and RBI’s agenda. Many steps have been taken in this regard, including opening of no frills accounts, relaxation of KYC norms, Pradhan Mantri Jan Dhan Yojna, and now, payment banks. The objective of introducing these new categories of banks is to increase the financial inclusion in India.

Payment banks can play a fundamental role in further growth of financial inclusion in India. Their distribution network and reliance on technology act as solutions to concerns regarding profitability and its success. Payment banks are the first steps to make India as a cash less economy.

While it seems very promising, the way forward is filled with challenges. With three companies returning their licenses, the viability of the business model has come into question. The report examines the business model of the payment bank, with their impact on the financial services background of nation.

Keywords: Financial inclusion, financial literacy, Payment banks

INTRODUCTION

Reserve Bank of India come with a special category of bank, named as Payment bank, to be set up for rising the spread of payment service and deposit product to micro level entrepreneurs & low income household since still after 70 years of independence, about 40% of population still do not have access to formal banking sector. Payment bank an expected to reach customer mainly through their mobile phone rather than traditional Bank Branches.

It’s for the first time in the history of India’s Banking Sector that Reserve Bank of India is giving out differential licenses for specific Payment services /activities. This move could be seen as a major step in pushing financial inclusion in India.

It’s a step to redefine Banking in India. Reserve Bank of India expects Payment bank to focus migrant labour Low level families & small – micro entrepreneurs in technical driven environment. This new Concept is based on the fact that it would be uneconomical for traditional Bank to open branches in

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every village but using mobile phone for banking activity/ Payment activity is a promissory lower cost platform for financial inclusion to even rural society in India. It also protects India’s way into a cashless economy as payment bank enable poor’s citizen who transact only in cash to be cash into a formal Banking sector and learn e-Payment mode shaping cashless economy.

Payment bank is like any other bank but operating on a narrow or micro level without investing leverage. In other words it can carry most of the banking service but can’t provide loan or issue credit cards. It can accept Demand Deposits (up to 1 lakh), offer remittances, service, mobile payment, Mobile transfer, ATM, Debit Card, Net Banking & third Party fund transfer. They can also distribute non cash sharing simple personal product like mutual fund & insurance.

India’s economy remittance market is around 800-1000 Billions and growing year after year. With mobile phone, large percentage of two remittances could be trapped into Banking Sector. Payment bank could be vital for governing Government’s benefit scheme like Subsidies, Pension directly to the beneficiaries Account.

OBJECTIVE OF STUDY

- To analyse the importance of the payment banks Indian economy.
- To analyse the current challenges upfront for the payment banks Indian economy.
- To analyse the opportunities for the payment banks in Indian economy.

Business Model - How are they different from traditional banks?

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<tr>
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<th>TRADITIONAL BANK</th>
<th>PAYMENT BANK</th>
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<tbody>
<tr>
<td>Target Group</td>
<td>The focus is on all customer groups</td>
<td>The focus is on migrant laborers, low income households and small businesses</td>
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<td>Distribution Model</td>
<td>Reliance on traditional brick and Mortar stores in the form of bank branches</td>
<td>High use of technology involved, with high focus on leveraging mobile phones as a platform</td>
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<td>Cost structure</td>
<td>Cost of acquiring an un-banked customer is high – contributing to high transaction costs</td>
<td>There is low cost of financial inclusion</td>
</tr>
<tr>
<td>Operational Activities</td>
<td>A range of activities are allowed with limited restrictions</td>
<td>Only certain functions have been allowed. Lending is not allowed, ensuring that the banks do not have credit risk</td>
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What they Can & Can't Do

1. They can’t offer Credit but raise deposit up to one lakh per customer,
2. Payment bank can required to pay interest on deposit.
3. Payment bank can enable remittance through Mobile phone.
4. Payment bank can enable automatic payment of bill through Mobile phone.
5. Payment bank can enable cashless purchase.
6. Payment bank can issue Debit card but can’t issue Credit card.
7. Payment bank can transfer money directly to Bank account.
8. Payment bank can provide forex card to traveler (Debit/ATM Card).
9. Payment bank can offer forex service at lower charge then bank at nearly no cost being a part of the gateway that connects banks.
10. They can also offer card acceptance mechanism to 3rd parties such as the “Apple Pay”.

11. Payment bank could be linked to government benefit scheme (like subsidies, pension, etc.).

12. Payment bank can set up their outlet such as Branches, ATM, Business Correspondents (BC’s) etc. which will be regulated by Regulation Act, 1949.

13. Payment bank cannot accept NRI Deposit.

14. Payment bank need to comply with its own KYC Norms.

15. Payment bank can handle cross borders remittance if they are in nature of personal remittance on the Current A/C .Prior approval will be required by Reserve Bank of India (RBI) before providing such services.

16. Payment bank also enables internet banking service by RTGs/NEFT/IMPS etc.

17. Payment bank can deal with only non-risk sharing simple financial product e.g. Mutual Fund, Insurance Product, Pension funded.

<table>
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<tr>
<th>System</th>
<th>Can give loans?</th>
<th>Can accept deposits?</th>
<th>Can make payments?</th>
<th>Can offer interest on deposits?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks (SBI, PNB)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Payment banks</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Pre-Paid Instruments</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Payment Network Operator (Visa, MasterCard)</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
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</tbody>
</table>

Why payment bank so important?

Payment bank is a niche bank build up to enhance the potential of financial mechanism in Indian Economy.

It empowers the Indian citizens who have only transacted in cash, or not being head toward formal banking. The of spread banking through Payment banking in rural Area help making poor financially literate & help to fight against poverty.

Finance minister Arun Jaitley termed it a significant and important step from the RBI.

"Payment banks will reach out to people in rural areas. Payment bank will ensure more money comes into banking system. Various banks are looking at increasing their rural reach, including big banks like SBI, payment banks will help them realise this,” Jaitley said.

The underlying objective is to use these new banks to push for greater financial inclusion. Currently, almost 50% of Indians don't have a bank account and only about 30000 of Indian's 5.94 lakh villages have a commercial bank branch. Much of this imbalance has to do with the inability of bigger banks to reach into the hinterland.

Payment bank can give Indian Economy a new breath, a new life as traditional Banking is dying. Conventional Banking model has reach to an inflection point in term of technical point of view. Payment bank has given new technical paradigm (Model) to operate.

Payment bank cans easy one mobile tech &smart segmentation as a operating tools to leverage their existing customer base & quickly reach to mass and tap the potential market. Initially it seems to be a smaller step taken a head to becoming an upper crust bank.

Government will be the prime recipient of the payment banking, as payment banks will enlarge its access to cheap funds. Currently regular banks are the largest investors in government bonds .With
new opening of Payment bank accounts. Larger part of its capital which can only invest in short term government bills (up-to 1 year), will drive down short term interest rates, and the government can thus borrow more cheaply.

Benefits of Payment bank

Zero balance account

Zero balance account is advantageous for those people who have little savings and income. Firstly, there is no commitment from the account holder to maintain a minimum balance and there is no charge for non-maintenance of balance in payment bank account.

Higher interest rate

The cost savings due to operational efficiency is to be transfer to the customer by way of higher interest rate. Airtel is offering 7.25% interest for all the people who open an account in their Payment Bank which is even more than fixed deposit rate of many traditional banks.

Banking points for cash deposits/withdrawals

To give confidence in people to deposit money in Airtel Payment bank, Airtel has announced a new offer whereby the company is offering one minute of Airtel to Airtel free talk time on their number for every one rupee the user deposits/withdraws from his account. This will help Airtel to convert its mobile customer to prospect account holder.

Safe and secure

Payment bank is a safe and secure. Though in India online transactions are safer & secure compared to any other part of the world. The 2-factor authentication is mandatory for all cashless transactions.

Accidental insurance of one lakh

Another huge benefit in getting an Airtel Payment Bank account is it offers an accidental insurance of one lakh, which no other apps offer in the same segment.

Selected promoters for payment banks

RBI had received 41 applications for payment banks however, it offered license to only 11 of them:

1. Aditya Birla Nuvo Limited
2. Airtel M-Commerce Services Limited
3. Cholamandalam Distribution Services Limited
4. Department of Posts
5. FinoPayTech Limited
6. National Securities Depository Limited
7. Reliance Industries limited
8. Shri Dilip Shantilal Shanghi (Sun Pharma promoter)
9. Shri Vijay Shekhar Sharma (CEO of One Communications, which runs PayTM)
10. Tech Mahindra Limited
11. Vodafone m-pesa Limited

After 11 applicants received in-principle approvals from the Reserve Bank of India (RBI) in August 2015 to open payment banks, three backed out. First one being "Cholamandalam Distribution Services", then "Sun Pharmaceuticals" and the latest, "Tech Mahindra". With remaining eight players if they fail to open the payment bank with in the 18 month, they will have to surrender their approvals.
Challenges

The payment channel only module

Payment bank relies mainly on low Account Balance (max of 1 lakh) for its profitability. There must be a balance between cost of acquiring funds and revenue from operation. Since the margin is very less, it seem unattractive to most of the player to complete each other to attract customer.

For e.g. Airtel offer 7.25% interest rate to acquire deposit from customer. It seems very doubtful to gain at such a high cost of borrowing.

Migrate to digital from last alternative

Indian are very cash obsessed and will need to migrate to digital options such as Payment bank which require in depth learning as well as behavioral changes for way from technical stoppage. May e-Wallet Player like Paytm, Foodpanda, Jio Money, Shop clues etc. has been there in market but main focusing in urban area only. Payment bank can be crucial to locate the missing market.

Working with regulations

Payment bank has to comply with RBI’s rules and regulation. In future if SLR, CRR, increase, it could make trouble for Payment bank to operate for maintain healthy profit. The success of Payment bank depend on the fact that what would be the more level of relaxation to the Payment bank in such regulatory norms. Currently Payment bank are required to invest 75% of the Balance in SLR eligible government bond. For remaining 25%, Payment bank can invest in other source of investment. Such restrictions are made especially for the safety to customer, but it reduces the ability of Payment bank to expand.

No lending

Payment bank are not allowed to lend and restricted mostly to invest in Government Sector & bank. Payment bank which gives only 2-4% net return on investment such a low margin may lead Payment bank to loss making limit.

Over competition

Some of the players like Vodafone, Airtel has large customer base in telecom industry. This could help to grow faster in term of mobile banking. Indian post also has distinct advantage of large physical capital all over India especially in rural area. While some player has advantage, it feels other to have over competition since Payment bank has narrow margin & fewer opponents to invest to earn profit.

Opportunities

Unbanked market

Even after Pradhan Mantri Jan Dhan Yojana (PMJDY), millions of people lack banking facilities. As per the 2011 census, 833 million people of rural area which do not have awareness or little bit knowledge of Banking System (Fund). Payment bank should encash this unbanked market to put into formal banking main stream. It required smart segmentation in both geographic and demographic in order to focus both rural & specially women.

The payments banks will help reach out to the people in rural areas where banking system is not very effective. This way they will bring the unbanked masses under the sphere of banking sector. They will also ensure that more money comes into the banking system and hence will expedite financial inclusion. They will also be helpful in making the poor more financially literate.

Offer financial advisory

Payment bank can offer real advisory service to rural & urban sector. It helps the Indian Economy to educate more into financial sector as well as bring lost “Trust” back to Banking. Indian people have
very little access to any form of financial advisory. Most important task for payment bank is to provide real advisory service to rural sector of India.

**Growth of mobile phones**

Payment banks will rely on mobile phones and other technology as a way to reach its consumer. With more than 1 billion mobile subscriptions, India ranks 2 in the world. Of this, the numbers of smart phone users are forecasted to increase to 520 million by 2020 from the current 240 million. This will lead to the way forward for a massive growth in digital transactions and cashless economy.

**CONCLUSION**

While credit is a vital need of all sectors, payments and savings are also act as a helping hand efficient system. One of the big concerns over the last few years has been the fall in financial savings as well as financial inclusion. There is a need to increase it and bring more people to save in the formal banking and financial system. Importantly, increasing banking access will increase the productivity in the economy, which will start reflecting in the GDP growth and wealth of the country. Overall, payment banks have potential to bring about another revolution in the banking sector and economy as a whole

There is also enough evidence that conventional banking is not able to fulfill its need for which they are set up. Payment bank have a strong prospective to take the much needed changes in the financial background of the nation. However, the road ahead is fraught with challenges and payment banks will need proper planning and execution, with high usage of technological innovations and their distribution networks to be sustainable and profitable. Once that is achieved, there is no going back

Payment banks in India have been introduced with the primary objective of growing financial inclusion in India. It acts as a tool that has been developed so that transfer of funds and other basic financial services can be made available to the under-banked population of the country which our country lacks till so far. To achieve this objective, payment banks will have to make huge investments into technology, product innovation, diversification of portfolios and fine pricing policy to maintain their market share and profitability (Kohli and Patel, 2016). However, the competition between traditional and payment banks will lead to widening and improvement in quality of banking sector at lower costs and which lead to more financial inclusion. However, there still exist many challenges in the successful implementation of this project.

**BIBLIOGRAPHY**


