PAYMENTS BANKS – ARE THEY FINANCIALLY SUSTAINABLE?

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Abstract: Payments Banks are introduced in India on the recommendations of the committee constituted by Reserve Bank of India in 2013, under the headship of Dr.Nachiket Mor. The main objective of introducing Payments Banks in India is to increase the access of primary financial services to the small businesses, lower income groups and people in the remote areas, and to those working in unorganised sector. These banks focus on innovative ways to increase the penetration level of financial services through m-banking enabling masses to gain access of basic financial services. This paper focuses on the conceptual and regulatory framework behind the introduction of payments banks, and their operational aspects. The financial statements of Payments Banks for the last two years are showing losses and the model is not looking profitable from bank's perspective. The objective of this paper is to assess the financial performance of these banks on the basis of selected financial parameters, and to suggest some measures for the improvement in the financial performance in the future.

Keywords: Payments Banks, Financial Inclusion, RBI, M-banking, ROE, e-Wallets

I. INTRODUCTION

In India, where about 60% of the country's total population (1.2 billion) lives in rural areas and about 40% of total population lacks formal banking services (RBI, Census of India, 2011), financial inclusion has always been one of the priorities of the government and the policy makers. Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost (RBI, Report on Rural Credit and Micro Finance, 2005). In the past, the focus of financial inclusion was to channelize more credit to weaker and vulnerable sections of the society through 'Priority Sector Lending (PSL)' mechanism by commercial banks. The RBI's policy on PSL requires bank to allocate a minimum of 40% of assets to priority sectors which includes agriculture; micro, small and medium enterprises; export credit, education, housing, social infrastructure and renewable energy (IMF, 2018). Apart from this, government also initiated many other such schemes for the welfare of the underserved sections of the society. However, these efforts had a limited success in achieving the desired outcome of financial inclusion.

Since 2006 few state governments (Andhra Pradesh) introduced electronic payments for cash transfers. The research showed that the percentage of funds lost through leakage fell from 30.70% in control areas to 18.50% in areas that shifted to digital transfer. The estimated total reduction in National Rural Employment Guarantee Scheme (NREGS) leakage across the treatment district was $38.7 million per annum, which is nine times the cost of implementing the digital payment scheme (CGAP, 2015). Further it is estimated that by digitising subsidies' flows the government could save 1% of its GDP annually, equivalent to about $20 billion (Bank, 2014). It is in this backdrop that the government took a holistic approach to financial inclusion focusing on three aspects– access to formal bank accounts by all[1], digitisation of financial services[2] and availability of credit to the vulnerable sectors[3].

The total number of bank accounts opened under the PMJDY expanded to 328 million, with Rs.851 billion deposits as on September 28, 2018. Of these accounts 59.1% were opened at branches located in rural and semi-urban centres (RBI, Report on Trend and Progress of Banking in India, 2017-18). In November, 2016 demonetization drive scrapped 86% of the country's currency notes and provided a significant boost to mobile wallets and digital payments (Young, October, 2017). Paytm's traffic increased by 435%, app downloads grew 200%, and there was a 250% rise in overall transactions and transactions value (Times, 2017).

In August 2015, to achieve the broader objective of financial inclusion, RBI approved conditional licences to 11 (out of which four dropped later) out of 41 applicants for setting up Payments Banks. The idea about Payments Banks in India was generated on the key recommendations of the "Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households" under the chairmanship of Dr. NachiketMor (RBI, 2014).

In India, where cash (in circulation) to GDP ratio is over 12% vis-à-vis 4% for Brazil, 5% for Mexico and 4% for South Africa ("India's love for cash costs $3.5Bn a year," Times of India website,, 2015) and where Micro, Small and Medium

[1]Pradhan Mantri Jan Dhan Yojana (PMJDY), the biggest financial inclusion initiative in the world, was launched by Hon'ble Prime Minister Shri Narender Modi on 28th August, 2014 across the country in which 18,096,130 bank accounts were opened in a week.

[2] The Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy.

[3]Pradhan Mantri MUDRA Yojana (PMMY) is a scheme launched by the Hon'ble Prime Minister on April 8, 2015 for providing loans upto 10 lakh to the non-corporate, non-farm small/micro enterprises to be given by Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs.

Enterprises (MSMEs) contribute nearly 8% of GDP, 45% of manufacturing output and 40% of exports and yet largely rely upon high cost unorganised credit market due to limited access to the organised financial markets (“Recommendations of the inter-ministerial committee for Accelerating Manufacturing in Micro, Small & Medium Enterprises Sector,”, 2013), launching of Payments Banks by the government is a bold policy reform.

Payments Banks are the new model of banks which are expected to reach customers through mobile phones with an objective to provide facilities of small saving account and payment/remittance services to low income groups, migrant workers, small businesses and other unorganised sectors. The larger penetration of smartphones and mobile internet at affordable prices has led to the growth of Payments Banks industries at a phenomenal rate. Money transfer and payments as a sub-domain has the highest consumer adoption rate globally at 50%, with India leading the way at an impressive 72% (Young, FinTech Adoption in India, October, 2017). In February, 2017, Paytm announced an investment of INR6 billion over the next ten months to expand its QR-based payment network along with plans to add 10 million merchants enabled with these codes (Mint, 2017).

II. LITERATURE REVIEW

Airtel Payments Bank going to offer a 7.2% interest rate per annum on the saving account, Airtel will allow free money transfer from Airtel to Airtel number and customer can transfer money with the help of Airtel app and via USD (Unstructured Supplementary Service Data) code that is *400# (Airtel payments bank: All you need to know about the paper-less bank, 2016).

The payments bank model is potentially an important innovation, which will increase the scale and coverage under the financial inclusion process but this innovation can prove successful only if proportionate regulations are applied and entities core business interests are fully aligned with the inclusion objective (Goel, 2015).

Millions of Indians don’t have access to banking facilities and this initiative will reach the unbanked and underbanked across all cross sections of society and geographies. Opening up of new branches by traditional banking system to cover the market of more than Rs.900 Billion is uneconomical. But the low-cost transactions through mobile phones and nationwide reach can cover every rural and urban citizen (Srinivas, 2017).

Payments banks are bounded by RBI in banking operations, as they are not allowed to do lending activities. But these new type of niche banks are expected to be game changers for India by expanding the reach of banking services (Abid, 2016).

Payments banks have been restricted in banking operations and will face competition from the existing lenders and profitability will also remain a challenge as they are working on narrow margins. Because payments banks are also restricted in lending this also raises question that now who will serve the credit needs of unbanked (Pandey, 2015).

The new concept of payments banks will motivate the customers in future but it also has some demerits or limitations. As per the analysis founded that most of the people are aware about the working of payments bank but the percentage of people opened account in the respective bank (Airtel Payments Bank Ltd.) is very less i.e. 5.8%(Shivnani & Siwach, 2015).

RBI is providing very flexible and innovative financial services to the population by all modes of innovation but still performance can be enhanced by means of customer satisfaction and also by handling customer’s requirements in more effective manner. This innovation can be a success provided it must showcase an exemplary performance in gaining customer satisfaction and it is the only way of gaining success for the bank (Kesavan, 2015).

The greatest advantage of payments banks is to provide the last-mile connectivity, which existing regular banks can’t. According to the study at the end of 2015, $350 billion in payment and banking transactions could flow through mobile phone compared with about $235 billion of total credit and debit card transactions today. This data shows that how much people are comfortable with this new technology and payments bank has large scope to grow in the market (Sandanshive & Katdare, 2015).

Payments bank are likely to challenge the incumbents primarily on higher customer engagements, coupled with smooth transaction capabilities and volume driven metrics. The payments banks are likely to follow the new 6Cs (customers, channels, culture, costs, capital and collaborations) of banking, which can differentiate from their incumbents (KPMG, 2015).

Payments banks will significantly contribute to the objective of financial inclusion as they provide convenience at an affordable cost. The paper has recommended creating awareness among the people from rural areas and under-served sections of the economy. For the larger penetration, the existing customer base of Airtel may be used (Geetha Iyer, 2018).

The Payments Banks provide higher customer engagement by providing 24X7 access to the different kinds of services for making their transactions at the minimum cost at doorsteps which are accessible anytime. The Payments Banks should blend their business with the traditional banks and gradually shift to the new systems to cater the resistance of change of the stakeholders (Nipun Aggarwal, 2016).

III. RESEARCH GAP

It is observed that most of the literature on payments banks has centred around the role of payments banks in achieving the goal of financial inclusion. The research papers also explained the conceptual & regulatory framework of payments banks and also, as to how these banks are different from traditional banks. However, no researcher has tried to evaluate the operational aspects and financial performance of these banks to judge their financial sustainability. This paper attempts to evaluate the financial performance of payments banks and suggest some measures to improve their financial performance.

IV. RESEARCH OBJECTIVES

- To have an insight into the operational aspects of payments banks.
- To assess the financial performance of all operational payments banks, i.e. the sector as a whole.
- To suggest the measures to improve the revenue and profitability of payments banks.

V. RESEARCH METHODOLOGY

This paper is based on secondary research using explanatory and analytical approach. Data is collected from the secondary sources such as national and international journals, reports, newspapers, and government and other websites. The technique of ratio analysis along with other financial parameters has been used to analyse the financial performance.

Payments Banks (PBs) RBI initiative to start the Payments Banks is a bold financial reform to address the problems of financial inclusion. The Reserve Bank issued payments banks licenses to seven entities out of which five Payments Banks were operational by end-March, 2018 and the remaining two were operational at end-November, 2018 (RBI, Trends and Progress of Banking in India , 2017-18).

As per the guidelines issued by RBI, payments banks are allowed to accept deposits up to Rs.1, 00,000 per individual and are required to invest 75% of such deposits in government securities. Further, not more than 25% of such deposits are to be held in current and fixed deposits with other scheduled commercial banks. RBI guidelines for issue of PBs license require a minimum capital infusion of Rs.100 crore of which at least 40% shall be the promoter's initial contribution subject to lock in period of five years. Payments banks are allowed to offer payment & remittance services, sell insurance and mutual funds, and issue ATM/debit cards but are not allowed to engage in the lending activities.

5.1 Airtel Payments Bank

Airtel Payments Bank was launched in January, 2017 by Bharti Telecom, India's largest telecom provider, to cater the needs of the under-served and unbanked population of the country. The bank with 4 lakh banking points provides solution to the problems posed by traditional banking such as long queues, endless documentation and inconvenient travelling. Using the Airtel Money Wallet (The digital wallet of Airtel payments Bank), one can make online/offline digital payments, recharge phone, pay utility bills and much more. The bank allows opening a savings account with an interest of 4% p.a. on deposits and provides personal free accidental insurance cover of Rs.1 lakh (Airtel, 2017).

5.2 Paytm Payments Bank

Paytm Payments Bank started its operations in December, 2017 and has been advising its wallet customers to shift to the payments bank. The bank allows opening a savings account with zero balance and gives an interest of 4% on saving deposit and provides personal free accidental insurance cover of Rs.2 lakhs. Bank also issues free Digital Rupay Debit card. The charge for Physical Rupay card is Rs.125 and additional Rs.100 per year as maintenance charges. The bank allows three transactions of cash withdrawal free of charge but charges Rs.20 per additional transaction. Further, the bank charges 1% per transaction for domestic money transfer (Paytm Payments Bank).

5.3 Fino Payments Bank

Fino Payments Bank was incorporated on 4th April, 2017. The bank started with 410 branches and 25,000 banking points on day one. Pratham savings account requires an average minimum account balance (AMB) of Rs.1,000. A penalty charge of Rs.50 is payable in case of non-maintenance of AMB. The bank allows two transactions of cash withdrawal free of charge and charges 0.5% of the transaction amount or Rs.5, whichever is higher, for every additional transaction. Further, the bank charges Rs.10-Rs.25 for money transfer depending upon the amount of transfer.(Fino Payments Bank).

5.4 Aditya Birla Payments Bank

Aditya Birla Payments Bank was incorporated on 22nd February, 2018. The bank started with 410 branches and 25,000 banking points on day one. Pratham savings account requires an average minimum account balance (AMB) of Rs.1,000. A penalty charge of Rs.50 is payable in case of non-maintenance of AMB. The bank allows two transactions of cash withdrawal free of charge and charges 0.5% of the transaction amount or Rs.5, whichever is higher for every additional transaction. Further, the bank charges Rs.2.50 - Rs.25 for transfer of funds depending upon the amount of transfer (Aditya Birla Payments Bank).

5.5 NSDL Payments Bank

NSDL Payments bank was incorporated on 17th of August, 2016. The Reserve Bank of India granted the final licence to NSDL Payments Bank on the 30th of March, 2017. It is a digital bank with the vision to promote digital payments in India using superior technology and user experience. Company's authorised capital stands at Rs.200 crore and has 0.025% paid-up capital which is Rs.5 lakhs (NSDL, 2017-18)

5.6 India Post Payments Bank

Indian post payments bank was incorporated on 30th January, 2017. This bank is operating under the Department of Posts, Ministry of Communications. It aims to utilize all post offices of India as access points and 3,00,000 postal service workers to provide house to house banking services. The first phase of the IPPB with 650 branches and 3250 post offices as access points was inaugurated on 1st September, 2018(Indian Post Payment Banks, n.d.)

5.7 Jio Payments Bank

Jio Payments bank was incorporated in November, 2016. The payments bank initiative by the Reliance is seen as a significant opportunity to make a transformative impact on India's financial inclusion landscape. It is expected to provide simple and affordable banking solutions to the financially excluded, to digitise payments, and to act as a catalyst towards the cashless economy (Jio Payments Bank , n.d.).

VI. FINANCIAL PERFORMANCE OF PAYMENTS BANKS

6.1 Balance Sheet of Payments Banks

At the end of March2018, consolidated balance sheet of five operational Payments Banks shows that the share of deposits has increased from 5.73% to 8.95%. Amount of deposits and investments has also increased significantly.

Table 6.1: Consolidated Balance Sheet of Payments Banks

(Amount in Rs. Million)

Items	**March 2017**	**March 2018**
Total Capital & Reserves	7,936	18,479
Deposits	685	4,382
Other Liabilities & Provisions	3,318	26,055
Total Liabilities/Assets	11,939	48,916
Cash and Balance with RBI	191	3,583
Balances with Bank and Money Market	7,629	12,426
Investments	3,481	24,487
Fixed Assets	102	2,357
Other Assets	535	6,063

Note: Data for end-March 2017 and end-March 2018 pertain to two and five Payments Banks, respectively and are therefore not comparable (RBI, Trends and Progress of Banking in India, 2017-18)

6.2 Income Statement of Payments Banks

Payments banks are still in losses as at the end of year 2017-18. The main reason for the losses in year 2017-18 is the high operating expenses which include setting up and infrastructure cost incurred in the initial years. Other income has increased significantly. There is also some improvement in the net interest income.

Table6.2: Income Statement of Payments Banks

(Amount in Rs. Millions)

S.No	**Items**	**2016-17**	**2017-18**
1	Income (i + ii)		
	i. Interest income	314	1,756
	ii. Other income	1,086	10,036
2	Expenditure		
	i. Interest Expenses	7	245
	ii. Operating Expenses	3,800	16,768
	iii. Provisions and Contingencies	15	-56
	(Risk Provisions + Tax Provisions)		
3	Net Interest Income (1.i – 2.i)	307	1,511
4	Profit		
	i. Operating Profit (EBPT)	-2,407	-5,221
	ii. Net Profit/Loss	-2,422	-5,165

Note: Data for end-March 2017 and end-March 2018 pertain to two and five Payments Banks, respectively and are therefore not comparable (RBI, Trends and Progress of Banking in India, 2017-18)

6.3 Financial ratios of Payments Banks

The financial ratios of these banks have improved in terms of some performance metrics. NIM has improved from 2.8% to 4.5% and investment to total assets ratio has increased from 29.15% to 50.05% during 2017-18. The ROE and ROA are both negative but are showing signs of improvement over the last year. Cost-income ratio and operating profits to working capital ratio are also reflecting the improved operating performance.

Table6.3: Select Financial Ratios of Payments Banks (At end-March'18)

Items	2017	2018
Deposits to Total Liabilities	5.73	8.95
Net Interest Margin (NIM)	2.8	4.5
Return on Assets	-25.2	-10.6
Return on Equity	-36.4	-22.4
Investments to Total Assets	29.2	50.1
Efficiency (Cost-Income Ratio)	272.7	142.2
Operating Profit to Working Funds	-25.1	-10.7

Note: Data for end-March 2017 and end-March 2018 pertain to two and five Payments Banks, respectively and are therefore not comparable (RBI, Trends and Progress of Banking in India, 2017-18)

6.4 Inward and Outward Remittances

The proportion of remittances through e-wallets in terms of value as well as volume is highest, in the remittances through payments banks during 2017-18. Data shows that more than 81% inward remittances were made through e-wallets.

Table 6.4: Remittances through Payments Banks during 2017-18

(Numbers in million and amounts in Rs million)

SI No.	Items	Inward Remittances		Outward Remittances	
		Number	Amount	Number	Amount
1	NEFT	1 (0.1%)	9,645 (3.2%)	2 (0.2%)	90,613 (18.2%)
2	RTGS	-	20,098 (6.7%)	-	31,737 (6.4%)
3	IMPS	6 (0.4%)	96,221 (3.2%)	29 (3.6%)	77,032 (15.5%)
4	UPI	200 (13.9%)	16,484 (5.5%)	213 (26.4%)	23,432 (4.7%)
5	E-Wallets	1,232 (85.6%)	243,368 (81%)	559 (69.3%)	2,65,479 (53.4%)
6	Others	0.4 -	1,134 (0.4%)	4 (0.5%)	9,223 (1.9%)
Total		1,439 (100%)	300,352 (100%)	807 (100%)	497,516 (100%0

Note: Data for end-March 2017 and end-March 2018 pertain to two and five Payments Banks, respectively and are therefore not comparable (RBI, Trends and Progress of Banking in India, 2017-18)

VII. OBSERVATIONS AND SUGGESTIONS

Payments banks, aiming to provide financial services to masses at a reduced operational cost using the technological innovations, are going to be a game changer in the industry. Undoubtedly, they will contribute significantly in achieving the objective of financial inclusion; however, the question remains as to their financial sustainability. As reflected in the financial statements, their performance in the current year has significantly improved as compared to last year, but still all the payments banks are in the losses. Unlike traditional banking where the business model is to generate revenues from the lending activities, payments banks need to create alternate revenue models as they are not allowed to engage in the lending activities. Based on the analysis of business model of payments banks, the following suggestions are made - (1) Payments banks should focus on increasing the public deposits by increasing the customers base. These deposits when invested in government securities normally generate a return of 6-8% p.a. After paying an interest of 4% p.a. (as mentioned by payments banks on their website) to the depositor, it will improve overall NIM of the business. Deposits will increase if customers are convinced about the relevance of micro and regular savings to achieve their set goals. (2) Banks should attract more traffic to their platform for transfer of money to increase their fee based income which is part of 'other income' in the Income Statement. Customers do not mind in paying a nominal fee for the safe and secured transfer of money using e-wallets. It is possible through technology updating and convenience banking at lower cost. (3) Payments Banks should try to generate fee based income through cross selling of insurance, mutual funds and other related products to their existing customer base. (4) Payments Banks should also try to reduce their operating costs and pass on the benefits to the customers, making them more lucrative as compared to the traditional banks. (5) RBI also needs to frame simplified yet suitable regulations for the payments Banks. Since payments banks do not suffer from the legacy of NPAs, unlike traditional banks, a more liberal and flexible approach may be adopted to promote the Payments Banks, thereby helping financial services industry to grow.

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