Payment Banks' Role in India: Understanding the New Era

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ABSTRACT: The Indian government along with Reserve Bank of India (RBI) have made a variety of measures to encourage rural people to become financially included. The scope of payment banks in India is the subject of this study paper, which is a recent effort undertaken by the Reserve Bank of India and the Government of India. One of the main problems facing the Indian economy today is the banking sector's non-inclusion in rural India. Payment banks are also being established to concentrate on low-income families and small companies with high volume but low-value transactions. The purpose of this review paper is to look at the feasibility of payment banks as well as the benefits and drawbacks of this new venture. In this review paper, we will discuss people's views of payment banks and make some conclusions. After complete review it may be concluded that payment banks could be a fantastic way to promote financial inclusion provided proper measures are taken to carry this endeavour forward.

KEYWORDS: Business Correspondence, Customer Penetration, Payment Bank, Paytm, Pradhan Mantri Jan Dhan Yojna.

1. INTRODUCTION

The Reserve Bank of India (RBI) and the Indian government have taken a number of steps to promote financial inclusion among rural residents, low-income groups, migratory workers, and small enterprises [1], [2]. The Pradhan Mantri Jan Dhan Yojna (PMJDY), the digital India campaign, the introduction of electronic money transfer methods like as NEFT and RTGS, and the promotion of mobile payment tools such as Airtel Money and Paytm are just a few of the efforts that have been implemented [3]–[5]. The RBI and the Indian government's most recent effort is the establishment of payments banks.

Fig. 1: List of Indian Payment Banks.

The Reserve Bank of India (RBI) has established the idea of Payment Banks as shown in Fig. 1, to promote financial inclusion in India, particularly in rural regions, with an emphasis on low-income people and small enterprises. These banks are primarily designed to handle low-value, high-volume transactions. The Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households issued a report on January 7, 2014, proposing the establishment of payment banks, a new kind of bank. On August 19, 2015, the Reserve Bank of India granted 11 companies "in-principle" licenses to start payment banks, out of 41 applications. Three of the eleven entities have already given up their licenses. Airtel is the first company in India to establish a payment bank, with Paytm planning to begin its services in February. The RBI has established rules in order to guarantee that Payments banks follow the specified agenda. Some of the features are not available to payment banks, but are available to other public and private banks:

- No credit cards will be provided.
- No deposits from non-resident Indians (NRIs) will be accepted.
- It is not permitted to establish subsidiary institutions.
- No non-banking financial operations are permitted.

The following requirements must be met in order to own a payment bank:

- Payments banks' leverage ratio should not be less than 3%, i.e. their external liabilities must not exceed 33.33 times their net value (capital and reserves).
- Payment banks shall have a minimum equity capital of INR 100 crores. The owner or promoter's stake should be at least 40% for the first five years.
- Foreign ownership of the company must adhere to the FDI regulations for financial institutions.
- Unbanked rural regions must account for 25% of the branches.

2. LITRATURE REVIEW

Many of the research papers discussed the Reserve Bank of India's goals for the creation of Payments Banks in India. The function of these banks in fostering financial inclusion in the nation received the most attention among these goals. According to CRISIL, financial inclusion is defined as the degree to which all members of society have access to formal financial services such as deposits, credit, insurance, and pensions. Branch Penetration, Credit Penetration, and Deposit Penetration are the three aspects of financial inclusion [6]. In 2014, just 50% of people in India held a bank account, with 40% (the most in the world) of those accounts being inactive. In addition, there were 18 ATMs per 100,000 people, compared to approximately 50 in Indonesia and 125 in Brazil.

Many efforts have been made by the RBI, the Government of India, and other stakeholders to promote financial inclusion, according to the document RBI Guidelines for Licensing of Payment Banks: Opportunities and Challenges, published by Deloitte Touche Tomatsu India Pvt. Ltd[7]. The absence of financially viable business models to service the ‘Bottom of the Pyramid' client group in a cost-effective way is the main cause for the country's low levels of financial inclusion, notwithstanding these efforts. Payments Banks are specialized banks established by the Reserve Bank of India to promote financial inclusion. These banks will provide modest savings accounts and payments/ remittance services to migratory workers, low-income families, small companies, and others by allowing high volume-low value transactions in deposits and payments/ remittances in a safe technology-driven environment.

The payment bank's greatest effect will be on how remittances are traded inside the nation, since transferring money between cities and villages will become more simpler. From 2007 to 2013, the domestic remittance market expanded at an average rate of 10.3% per year, reaching INR 366.11 billion, with foreign workers contributing 50% of the total. Around 10% of the population sends money to their relatives who live in other parts of the nation on a regular basis. By gaining market share and enabling simple remittances, Payment Banks may play a critical role [8].

Payment banks in India will guarantee that everyone with access to telecommunications and the internet will be able to use banking services without incurring any additional fees. They provide a simple, secure, and cashless transaction method. As a result, banking will be carried out via digital technologies. Furthermore, the government has emphasized the Digital India project, which will aid in the spread of payment banks in the nation.

Payment banks may assist the Indian Post in providing subsidies and other social programs to the underserved. Over 1.5 million post offices are available to act as a tangible medium for transmitting subsidies. Customers will be able to access banking services more easily thanks to telecom companies like Vodafone and Airtel. All transactions made via a payment bank are documented, which may help to reduce cash transactions and eliminate black money. Payment banks can help with programs such as the Jan Dhan Yojna.

This may even be a barrier for payment institutions, since the transaction mechanism is very visible, and individuals may be hesitant to use this form of transaction. The current mobile payment business model is doing transactions electronically through mobile phones rather than utilizing conventional means such as cheques, cash, debit cards, credit cards, NEFT, RTGS, and so on. To utilize this system, the client must have an existing phone account with any of the country's network operators and establish an account with any bank that is accessible. This bank account must then be registered with the mobile Payment Banking service by the client. The following are the main characteristics of this service:

- Accessible globally
- Any time any day availability
- Immediate payment service
- Inexpensive, fast and safe to use
- Instant fund transfer
- Simple and easy to use

In India, approximately 40% of the community is still unbanked; to reach these individuals, mobile payment was introduced, but after a year, we have discovered that they are still uneasy with the banking system [9]. Customers may send SMS, use an application, or use any other mobile communication technology to transmit money or pay for products and services. It was said that the issue was with transaction usability, cost, interoperability, and security, and that the RBI suggested the Payments Banks System to address these issues. The following are some of the most significant recommendations given by the RBI for the establishment of payment banks:

- At least a quarter of the access points should be located in rural areas.
- At least 75% of deposits must be invested in SLR-based assets, such as government bonds. The remaining 25% may be stored in other banks as deposits.
- Demand deposits of up to Rs.1,000,000 are accepted by payment banks.
- The payment banks must have a minimum leverage ratio of 3% and must have a minimum paid up capital of Rs.100 crore.
- The operations of payment banks should be driven by technology from the outset.
- They have the ability to issue ATM, debit, and prepaid cards.
- They may be able to provide online banking services.
- They may be able to assist with utility bill payment.
- They may be able to provide payment/remittance services.
- They are unable to engage in lending or the issuance of credit cards.

The market may be divided into two client segments: the banked and technology-savvy group, which has a high internet penetration rate, and the banked, unbanked, and under-banked segment, which has restricted internet access. Customers that are unbanked or under-banked will be the emphasis, with a strong presence in rural regions.

Customers' transactions, which are their main product, generate income for payment banks. Government securities provide a return of 7-7.5 percent, while savings accounts and one-year term deposits have yields of 4-6 percent and 8.5 percent, respectively. The interest rate provided on savings bank accounts should not exceed 4% in order to be sustainable. As a result, the first margin may be as tiny as 100 basis points.

Ineffective cash management and a lack of adequate infrastructure are two key causes for current banks' non-inclusion in India's rural areas. With this in mind, the RBI has advised payment institutions to ensure that infrastructure is shared across the banks. To keep costs under control, payment institutions should prioritize resource sharing and functional interoperability.

Infrastructure sharing has already started, with certain payments and small financing institutions seeking to partner with WLA participants. For specialized banks, the cost of putting up an ATM is between Rs. 3 and 5 lakh, while the cost of maintaining it is between Rs. 25,000 and 40,000 per month. Whenever the bank chooses to partner with the WLA operator, they will only be responsible for the interchange charge (the amount a bank must pay a white-label ATM operator if a client uses the latter's ATM).

However, due to the many limitations imposed on payment banks by the RBI's existing regulations, payment banks may be forced to place a greater emphasis on the use of technology in order to save money in the long term. A payment bank's business model has far too many limitations. Payment banks will have to find methods to save costs by relying heavily on technology as a result of the lending restrictions. To stay afloat, they'll have to labor in large quantities.

As a consequence of all of this, payback times will be lengthier (3-5 years as believed by experts). The profits potential is restricted due to the additional requirement of investing 75% in government securities. However, most organizations that have been granted the license will be able to use their current distribution networks and infrastructure, resulting in a better customer conversion rate, cross-selling, reduced client acquisition expenses, and a greater dependence on technology. This would save expenses while also boosting profits and shortening payback times.

Former RBI Governor Raghuram Rajan said that new payment banks would serve as a supplement to current commercial banks [10]. Payment banks may take deposits of up to Rs.1,000,000, but they cannot provide credit to their clients. Commercial banks may offer a broad range of services; nevertheless, the function of payment banks is still limited. After much deliberation, the board (the RBI board) decided that these new banks would be complementary to the current system by crossing the final mile. The reason for this is that payment banks can do everything universal banks can. However, there are certain things that universal banks can accomplish that payment banks can't. Payment banks will be beneficial since they may introduce new participants to the system. Payment banks will act as feeders to universal banks, lowering the cost of entry for those who already have a company.

3. DISCUSSION

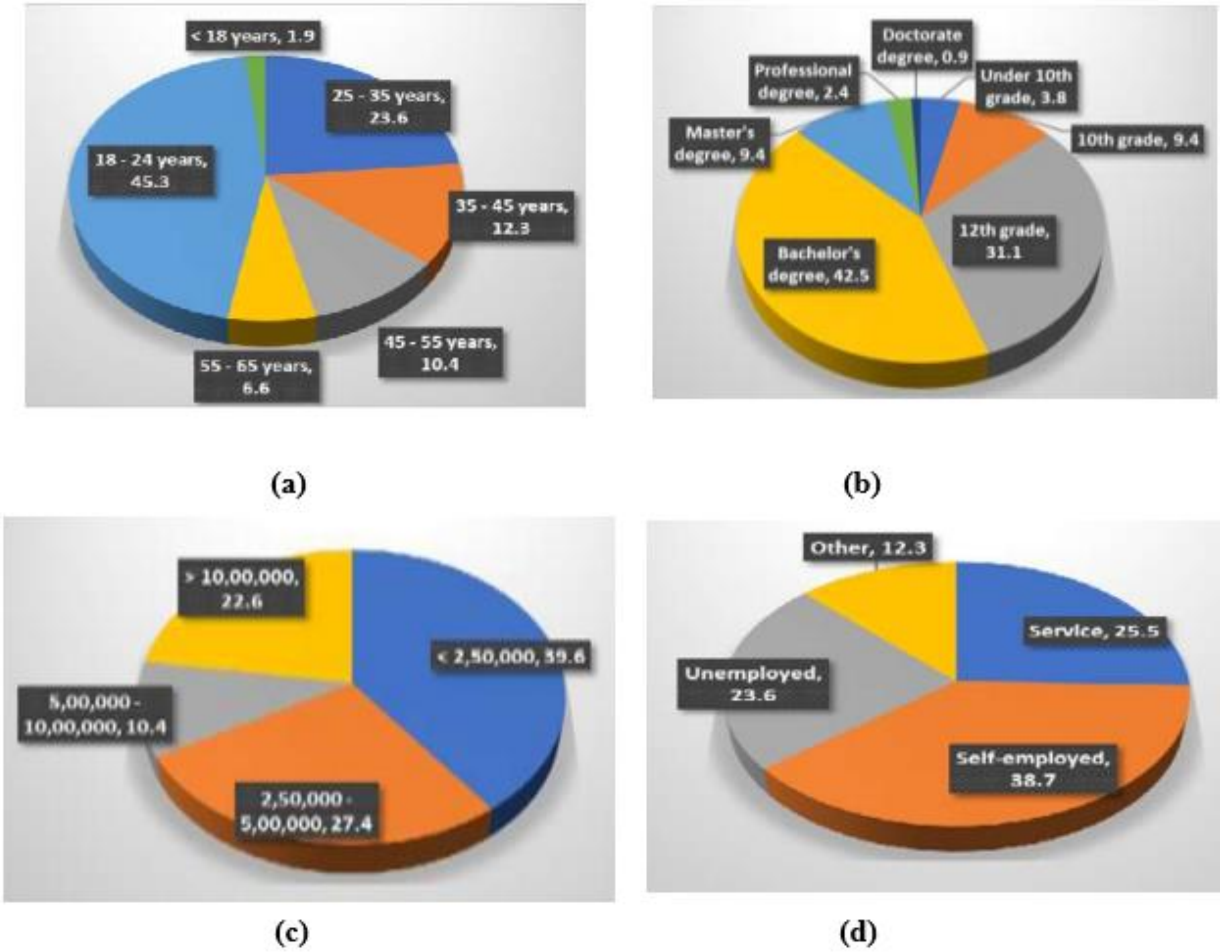

Fig. 2: Illustrates the data prepared by Bhansali et al. to review the usage of payment bank [11]**.**

Payment banks are a relatively new idea in India, and the goal of this study is to determine the extent of payment banks in India. The feasibility and future success of a venture are heavily influenced by the target market segment's and current rivals' perspectives. As a result, an experimental approach was adopted by the authors to get a better understanding of the target market, namely low-income individuals and small enterprises. The review was conducted with main data collected and demographic characteristics analysed by several authors to evaluate the hypotheses.

Fig. 2 illustrates the charts and figures depicting the survey answers of surveys done by various researchers [11]. Because the data was gathered from individuals by the researchers, from various walks of life, the total percentages of people can be utilized to accurately forecast how the general public feels about payment banks. People are aware that the RBI has established payment banks in our nation, but the operating rules, advantages, and convenience of access have yet to be pushed in the mainstream media. It is essential for the government or private parties to offer promotion and assistance centres or help desks for this effort to be effective and accomplish the goals of financial inclusion in Rural India. People in our nation are confident in the security and safety of transactions made via payment banks since payment wallets are extensively utilized.

Payment banks' excellent interest rates make them a fantastic financial tool for individuals with less than Rs.1,00,000 to invest. In comparison to equities and mutual funds, it is also risk-free. People are eager to establish payment bank accounts, which is encouraging news for payment bank owners and the government. This is primarily because they are almost risk-free and handy. Payment banks' two most significant benefits are ease of transfer to rural regions and convenience, therefore all payment banks should concentrate at least on these two aspects to attract 77.2 percent of clients.

With an increase in the country's total yearly family income, the probability of individuals utilizing payment banks drops. It is limited to those with an annual income of less than Rs.2,50,000. People's willingness to use payment banks is unaffected by their age. People who understand how payment banks work are more inclined to utilize them.

3.1. Impact on Commercial Banks:

A historical analysis of India's commercial banking history reveals that the vast majority of banks began operations in a single state or area before expanding throughout the nation. However, the reality remains that rural and semi-urban regions account for the majority of banking activity. Because the average interest given on these deposits is less than 4%, the majority of current players benefit from a large margin on low-cost deposits (Current Account & Savings Account (CASA)).

The new set of banks is anticipated to rely heavily on technology in order to provide cost-effective banking services. These banks are not just interested in the Gen-U generation, but also the Gen-Y generation, which is strongly linked to technology-enabled goods. Existing clients of public and private sector banks, as well as untapped, unbanked, and under-banked demographic groups, will be the target consumers.

4. CONCLUSION

According to the review, payment banks' target market, namely small company owners, migrant workers, and other individuals from low-income categories, are ready to utilize payment banks if they are aware of them. However, since there is a lack of knowledge among the public, appropriate awareness campaigns must be organized by either the government or payment banks as part of their marketing plan so that consumers may make educated choices. People need to understand that payment banks are just as safe and trustworthy as, if not more so, than traditional commercial banks, as well as the advantages that come with them. Also, payment banks should place a greater emphasis on remittances and simplicity of use, since these are the two primary reasons why consumers use payment banks.

As a result, we can infer that, if appropriate steps are made to move this effort ahead, payment banks may be a wonderful method to increase financial inclusion for small company owners, migrant workers, individuals living in rural regions, and other low-income people. As a result, this may have a significant impact on India's economic development.

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