Role of Payment Banks in Financial inclusion

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Abstract: Banking sector is one sector which has been performing really well after liberalization, and success can truly be associated with major banking reforms taken by RBI some major technological changes that have take place over years. Around 2 billion of world's population has no access to various types of financial services which are provided by different financial institutions like Banks, Mutual funds etc. It is being generally discussed that as Banking services are good for common Man, the availability of Banking and payment services to the entire population without any discrimination is one of the important objective of financial inclusion. In the year of 2014, RBI introduced a new category of bank into the Indian financial system, namely Payment Banks. Payment banks are all about innovation. They use technology to provide you optimum and highly efficient banking services. The banks can accept restricted amount of deposits which is currently Rs.1 laks. per customers. This paper is focuses on the role of payment banks in financial inclusion.

Key words: Payment banks, financial inclusion, M-Banking, IPPB, PMJDY

I. INTRODUCTION

Payments banks are a new model of banks introduced by the Reserve Bank of India (RBI).It operating on small scale, without involving any credit risk. These banks can accept a restricted deposit which is currently limited to1 lakh per customer and may be increased further. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. They offers different kinds of banking facilities such as, remittance services, mobile payments/fund transfers/purchases and other banking services like ATM/Debit cards, Net banking and third party fund transfers except advance loans and issue of credit cards.

Financial inclusion is the delivery of financial services at a minimum cost to the lower income segments of society. In India, the term financial inclusion was first mentioned in Annual policy of RBI in April 2005, which was presented by Y Venugopal Reddy, then governor of RBI. A revolution is taking place Indian banking services with licenses being granted to number of companies to setup payment bank. The major purpose of setting up of payment banks is to enhance financial inclusion.

The payment banks are given the status of scheduled banks under section 42(6) a of the RBI act 1934.The primary objective of payment banks is to provide payment and remittance services to unorganized sector. Payments Banks will augment the potential of financial inclusion in the Indian economy. It will allow those citizens who have only transacted in cash, to head towards formal banking. Traditional banks may be reluctant to open branches in every village due to its uneconomic returns, but simple mobile phone coverage is all that is required now. India also serves as a big remittance market and with money transfers possible through mobile phones, workers and migrant labours could simply shift to Payments Bank and send their money home.

1. Payment Bank - History

23 September 2013:- Committee on Comprehensive Financial Services for Small Businesses and Low Income Households was formed by the RBI headed by Nachiket Mor.

7 January 2014:-Nachiket Mor committee submitted its final report with various recommendations including the formation of a new category of bank called payments bank.

17 July 2014:- The RBI issued the draft guidelines for the payment banks, inviting suggestions comments from interested entities and the general public.

27 November 2014:- RBI released final guidelines for payment banks.

In February 2015, RBI released the list of entities which had applied for a payment banks license. There were 41 applicants. It also announced that an external advisory committee (EAC) headed by the Nachiket Mor would evaluate the license applications.

28 February 2015:- During presentation of the budget it was announced that Indian post will use its large networks to run the payment banks.

6 July 2015: the external advisory committee submitted findings. The applicant entities were examined for their financial track record and government issues.

19 August 2015: The RBI of India gave "in-principle" licenses to 11 entities to launch payment banks out of these 3 were surrendered. The remaining 8 entities are given below:

1. Aditya Birla Nuvo
2. Airtel M Commerce Services
3. Department of Posts
4. FINO PayTech
5. National Securities Depository
6. Reliance Industries
7. Paytm
8. Vodafone M-Pesa

The RBI will consider grant full licenses under Section 22 of the Banking Regulation Act, 1949, after it is satisfied that the conditions have been fulfilled.

1.1 <u>Features of Payment Banks</u>

1. Payment banks can accept demand deposits, both current account and savings account with a ceiling limit of Rs.100000 per customer.
2. To pay interest at the rate notified by RBI.
3. They can issue only debit cards.
4. RBI prohibits the payment banks to engage in lending activities. They are not eligible to grant loans.
5. The deposit up to Rs.1 lakh is insured by the DICGC (Deposit Insurance and Credit Guarantee Corporation) same as in bank account.
6. It cannot involve any kind of credit risk.
7. Payment banks charge a fee as their commission.
8. It is compulsory to maintain CRR as like other commercial banks.

1.2 <u>Services offered by payment banks</u>

The payment banks can set up their small outlets like branches, ATM, Business correspondents etc**.** will be regulated by Banking Regulation Act 1949**.**

Small deposit account- RBI grant power to payment banks, to accept demand deposits and savings deposits from individuals and small firms.NRI deposits will not be acceptable. It means the people of Indian origin who have settled abroad cannot deposit their money in the payment banks. The amount of deposit is limited up to 100000 lakh per customer. And the customers must satisfy KYC norms.

ATM /Debit card – RBI allow them to issue debit card and ATM, except credit card because the payment banks are not engage in lending activities**.**

Payments and remittance services- They are allowed to transfer payment through any channels like branches, Automated Teller Machines (ATM), business correspondents etc. Mobile banking facilities also provided by the payment banks. Utility bills and other payment activities can be done through payments bank app.

Cross-border remittance services- If prior approval is given by RBI, the banks can handle cross-border remittance transactions if they are in nature of personal payments/remittances on the current account.

Internet Banking- The RBI is also open to payments bank offering Internet banking services. The payments bank is expected to offer low-cost banking solutions. Such a bank should ensure that it has all systems enabled so that in the third party service providers, any kind of fraudulent activities if occurs, can be controlled to enable offering transactional services on the internet.

Financial Services- Payments banks can further deal with simple financial services activities, including Mutual fund units, insurance products, pension policies, etc adhering to terms and conditions imposed by RBI.

1.3 Services payment banks cannot offer

- Not permitted to issue credit cards.
- Payment banks are not engage in lending business.
- Cannot accept deposits from NRI's
- Not allowed to setup subsidiaries for undertaking non banking financial services.

2. Payment banks and financial inclusion

Financial inclusion is a method of offering both banking and financial services to individuals. It aims to include everybody in society by giving them basic financial services regardless of their income or savings. It mainly focuses on providing financial solutions to economically underprivileged. The term is broadly used to describe the provision of savings and loan services to the poor in an inexpensive and easy-to-use form. It aims to ensure that the poor and marginalized make the best use of their money and attain financial education. Financial inclusion strives to eliminate the barriers that exclude people from participating in the financial sector and using these services to improve their lives. It is also called inclusive finance.

Currently RBI has issued licenses to companies which are into super market chains(have a large distribution network)mobile operators (large customer base)or the postal services which tap in a large number of customers. The savings and remittance service of payment banks target people in rural areas, or have limited /no access to banks. Since these companies have a large distribution network or customer base, they help in financial penetration, making sure that financial and banking services reach everywhere in the country. This promotes financial savings among public.

2.1 Mobile Banking

Mobile banking is very convenient in today's digital era. At present many banks offers impressive apps. The ability to deposit a check, to pay for merchandise, to transfer money from one account to another account or to find an ATM instantly are reasons why people choose to use Mobile banking. Someone could deposit cash into an M-Commerce bank account in one place, and who holds the debit card could withdraw cash from any ATM frictionless from any other place. Even can withdraw or pay in a more rural location, through any point of sale terminal with a "business correspondent", essentially an authorized partner for the bank. It's these partners - and theoretically the small convenience shop in a village that sells mobile recharges, Kirana shops, fruit shop could be among them - that will serve the purpose of bank branches, though the payment banks can set up branches if they want.

2.2 Postal Department

The department of post has wide access to every village and connects rural people to bank. Large number of government subsidies and cash programs that are meant to encourage development in villages, and consider how, to access these payments, villagers would have to travel for hours to nearby cities in order to visit a bank branch , where the experience was frequently alienating. Instead, the postman you meet every day could be your banking relationship manager.

Indian post has about 155,015 post offices, of them 90% are in rural areas. India post also has 2,96,000 agents in the rural area. And many of the people from rural area already receive their National Rural Employment Guarantee Act (NREGA) payments by the post offices.

2.3 Pradhan Mantri Jan-DhanYojana (PMJDY):

Under the National Mission for Financial Inclusion was launched initially for a period of 4 years (in two phases) on 28th August 2014. It envisages universal access to banking facilities with at least one basic banking account for every household. The Government has decided to extend the comprehensive PMJDY program beyond 28.8.2018 with the change in focus on opening accounts from "every household" to "every adult". It runs by Department of Financial Services, Ministry of Finance. 1.5 Crore

(15 million) bank accounts were opened under this scheme on the day of inauguration. By 1 June 2016, over 22 crore (220 million) bank accounts were opened and Rs. 384.11 billion (US$5.7 billion) were deposited under the scheme. At present there are more than 40 crore accounts under PMJDY scheme.

2.4 India Post Payment Bank (IPPB) :

IPPB has been recently incorporated as a Public Limited Company under the Department Of Posts with 100% GOI equity. Opened in 2018, the bank had acquired about 3.5 Crore customers by September 2020. IPPB offers both savings and current deposits up to a balance of Rs. 1 laks. And also provide certain financial services like Mutual fund, Insurance, Pension , Forex etc..

CONCLUSION

Payment banks have been introduced with the primary objective of increasing the impact of financial inclusion drive. The payment banks plays a significance role in implementing government's direct benefit, transfer schemes, where subsidies on health care , education and gas are paid directly to beneficiaries account. The setting up of the payments banks not only increase the financial inclusion in the country but also strengthen the weaker sections of the country so that they can also give their contribution in the economic development of the country. However, the competition between other banks and payment banks will pave the way to widening and improvement in quality of banking services are reduced costs and which may finally leads in financial inclusion. There are millions of Indians don't have access to banking facilities. They cannot avail of government benefits, loans, insurance and even interest on savings. M-Banking, IPPB, PMJDY will reach the unbanked and the under banked across the all cross section of society and geographic.

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