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Payment Banks: Emerging Challenges and Opportunities of Cash less Transactions in India

P.Elumalai, Dr. R. Panchalan
PhD Research Scholar, Department of Commerce, Institute of Distance Education, University of Madras, Chennai-5, Email.prabhaelumalai1972@gmail.com
Professor, Department of Commerce, Institute of Distance Education, University of Madras, Chennai-5, Email: Panchalan.r@gmail.com

1. INTRODUCTION

A payment bank is a new model of bank which is conceptualised by the Reserve Bank of India (RBI). Thepayment banks can accept a restricted deposit, which is currently limited as 1 Lakh per customer and may be increased further. These banks cannot issue loans and credit cards. Both current account and savings account can be operated by such banks. The payment banks can issue the services like ATM cards, debit cards, net-banking and mobile-banking. The payment banks have a multiplier impact on the banking system and financial inclusion as they provide doorstep banking to the people in remote areas at lower cost and compete with traditional banks in future. Thepayment banks have built a new model that focus on bringing the financial services to the hundreds of millions people of un-served or under-served. The pattern of the payment bank is being formed and the overhead cost is very less because the existing structure is being used. The payment banks play an important role in India as a mechanism for financial inclusion and a milestone of Indian Banking Sector. The main purpose of payment banksis not to conduct conventional business but also serve to the people with the intention of motivating cashless transactions. The new model of banking allows mobile firms, super market chains and others to cater the banking requirements of individuals and small business.This paper attempts to discuss the emerging opportunities and challenges of payment bank system in India.

A BRIEF PROFILE OF THE PAYMENT BANKS

On 23 September 2013, the committee on Comprehensive Financial Services for Small Businesses and Low Income Households headed by NachiketMor was formed by the RBI. On 7 January 2014, the NachiketMor committee submitted its final report. Among its various recommendations, it recommended the formation of a new category of bank called payments bank. On 17 July 2014, the RBI released the draft guidelines for the payment banks, seeking comments for interested entities and the general public. On 27 November, RBI released the final guidelines for the payment banks.

In February 2015, RBI released the list of entities which are applied for the payment banks' licence. There were 41 applicants. It was also announced that an external advisory committee (EAC) headed by NachiketMor would evaluate the applications of the licence. On 28 February 2015, during the presentation of the budget it was announced that India Post will use its large network to run payment bank. The external advisory committee headed by NachiketMor submitted its findings on 6 July 2015. The applicant entities were examined for their financial track record and governance issues. On 19 August 2015, the Reserve Bank of India gave "in-principle" licences to eleven entities to launch payment banks. The "in-principle" license was valid for 18 months which the entities must fulfil the requirements and they were not allowed to engage the banking activities within the period. The RBI will grant the full licenses under the Section 22 of the Banking Regulation Act, 1949, after the satisfaction and the fulfilment of the conditions.

LIST OF THE PAYMENT BANKS IN INDIA

Reserve Bank of India aims to set up 11 payment banks whichare expected to expand penetration of the banking sector in rural areas of the country. The decision by the RBI is to grant the principle approval for 11 entities to set up payment banks, which would be directed at small savers in underserved (largely rural) markets. It could help to transform the rural remittances' market. On 19 August 2015, the Reserve Bank of India gave "in principle" licences to eleven entities to launch payment banks:

1. Aditya Birla Nuvo Limited (IDEA)
2. Airtel M Commerce Services Limited
3. Cholamandalam Distribution Services Limited
4. Department of Post, Govt. of India
5. Fino Pay Tech Limited

6. National Securities Depository Limited (NSE)
7. Reliance Industries Limited
8. Shri. DilipShanthilalShanghvi (Sun Pharma)
9. Shri. Vijay Shekhar Sharma (Paytm)
10. Tech Mahindra Limited
11. Vodafone m-pesa Limited

Out of the 11 approved payment banks, 3 banks surrendered their licenses. The remaining 8 payment banks are listed below:

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2. OBJECTIVES OF THE STUDY

1. To know the features and advantages of Payment banks.
2. To understand the comparison between Traditional bank and Payment banks.
3. To be aware of the Opportunities and challenges of Payment banks.

3. METHODOLOGY OF THE STUDY

The present one is a conceptual study. The researcher has mainly used secondary data for this work.

4. FEATURES OF THE PAYMENT BANKS

The main objective of thepayment bank is catering to the unbanked and under-banked. Although the PradhanMantri Jan DhanYojana has brought down the number of unbanked individuals in the country and there are still millions who do not have bank accounts. According to the World Bank report, India is a home to 21% of the world's unbanked adults. Payment banks aim to serve these customers, especially migrant workers and those from lower income households, as well as bring them into the formal financial system. Compared to the conventional banks, opening the bank account in the payment bank is simple. Since customers in the payment banks operate the account using their mobile and less documentation is required in the payment banks for opening the account. For instance, all need to start using Airtel Payments Bank, the country's first payment bank which is used for e-KYC by your mobile number and Aadhar number.The key focus of the payment banks is the payment space. They facilitate domestic and international remittances, bill payments, wage payments, recharges, insurance premium payments and etc. While they provide deposit and withdrawal facilities, they cannot lend like traditional banks. Given that India still has a rural population of 67% which does not have easy access to basic banking facilities and payment banks can offer an effective alternative.

TRADITIONAL BANKS VSPAYMENT BANKS

In this section the features of traditional banks and payment banks are compared. The following table highlights the features of traditional and payment banks.

Table 1: Comparison of Payment Banks with Traditional Banks

Features	Traditional banks	Payment Banks
Accept deposit	Yes	Yes
Pay interest on deposits	Yes	Yes
Withdrawal facility for customers	Yes	Yes
Provide loans or lending activities	Yes	No
Issue credit card	Yes	No
Investments products	Yes	Yes
Maximum deposit limit	No	YesRs.1 Lakh only per Individual customers

5. PAYMENT BANKS GUIDELINES BY RBI

RBI has spelled out clear guidelines for payment banks. While it is expected that these guidelines would evolve over the coming years, the followings are what have been laid out as the initial set of guidelines.

1. Minimum entry capital for payment banks is fixed at Rs.100Crores. The committee had recommended an amount of Rs.50Crores but it seems that RBI has chosen to play safe and doubled the amount. This high amount of initial capital would mean that innovation would be slow because the risk to the payment bank model is very limited.
2. Payment banks can accept demand deposits. The restriction therein is that the maximum balance per customer can only be Rs.1, 00,000. This can be for both current and savings accounts. All the deposits have to be invested in Government bills and securities, thereby indicating that fee income for transactions is what would probably be the biggest revenue driver for payment banks.

3. Payment banks would primarily provide remittance and payment services. The boundary condition here is that the total credits into an account should not exceed Rs.1, 00,000. This means that the payment banks would only make sense to lower economic strata of the Indian banked and unbanked population.
4. Payment banks must be a banking correspondent of a commercial bank where they can offer services like marketing of bank's loan products etc.
5. Commercial banks can also leverage this model by launching a payment bank subsidiary.
6. Currently RBI has not talked about the pricing for the services of the payment banks. Given the tough regulatory framework for payment banks, a pricing flexibility would be essential.
7. Payment banks can be "Internet only". It is a very interesting proposition and it remains to be seen if this is the path that India's first digital bank would take. With the increased usage of mobile, social media and internet, possible value has only increased in the last few years.

OPPORTUNITIES AND CHALLENGES OF THE PAYMENT BANKS

In a significant reform from the post 1991 era of Indian Banking, RBI has understandably taken a bold step by mooting the ideas of Payment Banking and Small Banking in 2015. As early as last two years ago RBI allowed 11 entities to start payment banks; the followingsare the important opportunities and challenges of payment banks in India

1. Payment Banks are aimed to be an important tool in the idea of Financial Inclusion by providing small saving accounts, payment and remittances by enabling high volume - low value transactions in deposits and payment / remittance services.
2. Payment Banks, the Newbie of the Town, have the burden of huge expectations on them. As a matter of fact, along with banking for the un-banked, they are expected to provide both insurance and mutual fund products. These banks however will not offer any loans and credit cards unlike the regular banks, what's often termed as universal banking.
3. Payment banks are allowed to invest their deposits in Government bonds. The operational limit of these banks is Rs 1 lakh per account which considering the target market is ideally balanced the total 41 applicants.RBI has approved the principle approval for 11 major players such as Airtel, Vodafone, NSDL , Tech Mahindra and etc.
4. Payment Banks are believed to be the safest of banks since they have only the government as the borrower who has Rs 100 Crores in the pocket and has the ability to pass the RBI's fit and proper norm, shall get into the Payment Bank business in the future. We could even see about 50 - 100 such banks being setup in the next couple of decades, revolutionizing the money flow. The mere geographical reach of the Payment Banks and the idea of their presence everywhere will impact the whole India.
5. Payment banks will essentially depend on technology to reach all the customers, using mobiles as the vehicle of banking. While physical bank branches will still be needed for some purposes like opening an account, depositing cash etc. The mobile phone will become the virtual ATM and small payments cheque-book, day-to-day payments including peer-to-peer payments.
6. The cost savings through paperless branch-less mode of banking, intense competition is anticipated in Payment Banking System. This should eventually drive down the charges for remittances, fund transfers and other banking transactions. The customers of the regular banks who do not have the means to maintain minimum balance can be welcomed to these banks as revenue is earned through transaction charges and not on the spread of interest between deposits and loans.
7. The Government will be the biggest beneficiary of the payment banking, as payment banks will expand its access to cheap funds. Currently, regular banks are the largest investors in government bonds. While this will remain so even with the entry of payment banks, the sheer impact of additional money coming into Payment Bank accounts 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.
8. Payment Banks to target migrant labourers and self- employed besides low income household by offering low cost savings accounts and remittance services, this new experiment comes with its own set of challenges. Since Payment Banks are stripped down i.e., they cannot offer loans or credit, the question of who will serve the credit needs of the un-banked still remains at large.
9. Payment Banks also pose a new regulatory challenge to the RBI and RBI will need to step up its game. However, in the background of the limited access to formal banking system, they move to introduce new forms of banking which must be the way to go forward.

6. CONCLUSION

The Payment banks can be conceptualized and understood the entity similar to the traditional banks but catering to a niche area. The main aim of the payments banks is to provide small savings accounts; payment services should ensure the delivery of subsides across all the sections of households and rural people. Today many people do not have a bank account that in includes millions of people in our country. We see that approximately 50 percent of the Indian population is unbanked and thus lacks banking accounts and its facilities. The payment bank has provided secure cashless transactions using the digital medium. Finally, this excellent platform to achieve financial inclusion and RBI has taken effective steps to formulate the policies and strategies for the implementation of the payment banks successfully; many players have a good reach to all section of the society.

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