



Management

## **PAYMENT BANKS: FULCRUM FOR LESS CASHLESS ECONOMY AS WELL AS FOR FINANCIAL INCLUSION**

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### **Abstract**

The evolving economic landscape and fancies of the people have driven the government to plan seamlessly for inclusive banking for realising the opportunities that lie within. 21% chunk of Indian population are unbanked according to World Bank Report. Reckoning the long outstanding need for reaching out to the far-flung non-banked areas of the country, the central bank of India introduced more competition among banks by authorising, in principle, a kind of bank. On 19th Aug 2015, the RBI announced eleven approvals for payment banks. Payment bank concentrates their activities at farmers, migrants' labours, low income households, vendors, small businesses and unorganised sector of the society. These banks offer banking facilities such as payments, deposits, remittances, internet banking but cannot undertake lending activities. This paper attempts to investigate that how payment banks going to benefit the Indian economy for its cashless initiative and bank the unbanked chunk of Indian population.

**Keywords:** Payment Bank; Inclusive Banking; Niche Banking.

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### **1. Introduction**

Payment banks are a dint in the right direction to infuse and encourage financial inclusion in India and promoting India to be a less cashless economy. The central bank has given in-principle approval to 11 entities to be set up as 'payment bank' in India. The concept of payment bank was based on the recommendations imparted by Dr. Nachiket Mor Committee. According to the committee, for a meaningful and time bound financial inclusion, a new differentiated banking (niche banking) structure is required.

## Meaning of Payment Banks

It is a type of differentiated banking, which is projected to reach customers mainly through their cell phones rather than traditional bank branches. Payment banks have been announced by Reserve Bank of India (RBI) as a possible digital transactions only kind of an entity. The RBI has asked the Nachiket Mor Committee to explore the financial inclusion sources for unbanked population of India and the committee recommended options for creating special class of banks which would favourably impact financial inclusion within India.

As per the recommendations of the Nachiket Mor Committee, a special class called 'payment bank' has been introduced. It is step to redefine banking in India. This innovation is also projected to expedite India's journey into a less cashless economy. Payment banks can also play an important role in implementing the government's direct benefit transfer scheme, where subsidies on healthcare, education and gas are paid directly to beneficiaries' accounts.

This is the first time since the nationalization of banks in India, that private sector business groups are allowed for banking services by the RBI. Payment bank will play a complimentary role to the existing banking system.

## 2. Review of Literature

Here in this section we discussed about the past literatures regarding payment banks. The present study is conducted to find out the necessity of payment banks for less cashless economy and for financial inclusion in India.

**Goal (2015)** in her paper "*Payment Bank: A New Landscape for Indian Banking Sector*" suggested that payment banks present an exciting opportunity for digital financial inclusion in India.

**Kesavan (2015)** in his study "*To The Era of Payment Banks by Reserve Bank of India with Specific Reference to Indian Banking Sector*" has examined that innovation can give the better success to the banking sector in India. But it must showcase an exemplary performance in gaining customer satisfaction and fulfilling the requirements of customers by all means, it is the only way of gaining success for a bank.

**Pande (2015)** in his work "*Payment Banks – A Newer form of Banks to Foster Financial Inclusion in India*" suggested that payment banks is good mean to correct financial inclusion in Indian perspective and these will contribute to growth of cross sections of our society .

**Sandanshive & Katdare (2015)** in their paper "*Analysis of In-principle License Entities to Act as Payment Bank: Financial Inclusion Perspectives*" concluded as payment bank is the financial inclusion of the unbanked population of the rural areas and low income households , which are not included by the rural bank branches.

**Chandarana (2015)** in her paper "*Payment Banks- A Need of Digital India*" suggested that payment banks promises to be a game changer because of by using the mobile platform to provide basic banking transactions through mobile phones and the decision to license some of

the country's biggest corporate and mobile telecom firms to start payment banks promises to be similar game changer in India.

**Srinivasan & Subramanian (2015)** in their paper "*Payment Banks in India – Demystified*" concluded that with the entry of payment banks, the process of shifting money from bank accounts to wallets will become truly seamless, payment banks would be really a game changer in Indian banking system.

### **3. Study Gap and Relevance of the Study**

As far as a number of studies were conducted by the various research scholars, students and professors of various fields about the payment banks – as a mean for financial inclusion in India. Their study assisted me lot to think and present something different in this context. At this point what missed in review of literature is that there is nominal or no study about how payment banks going to impart a fulcrum for the less cash less economy in India. Here the study provides an insight in this context. After review of literature it is quite discernible that payment banks will certainly contribute in the financial inclusion in India by catering the financial needs of small unserved chunk of the Indian population (especially of rural areas). The functions of payment banks include; accepting deposits (up to Rs.1 lac), remittances, paying utility bills, payment of social security's, mutual funds, pension funds etc. Thus a common man needs not to carry cash to deal with these transactions. Payment banks will impart a media to deal through mobiles, wallets or through the PPI mode of payment. Hence payment banks will encourage the less cash less economy.

### **4. Objectives of the Study**

- To have an insight about the concept of payment bank.
- To know the importance of payment banks for less cashless economy and for bringing financial inclusion in India.

### **5. Research Methodology**

This study is conceptual and descriptive in nature with a detailed review of literature, the official websites, research papers and journals were also required during the study.

### **6. Guidelines Issued by the RBI for Payment Banks**

The following guidelines are issued by the RBI;

- To open payment bank minimum entry capital is fixed at Rs. 100 crore.
- Payment bank can accept demand deposits up to Rs. 1, 00,000 per customer (both for current and saving accounts, this limit subject to change as per RBI directions).
- Three quarters of the deposits they get will have to be invested in government securities, while the rest they will need to deposit in a scheduled commercial bank.
- Payment banks are required to maintain a cash reserve ratio (CRR) with RBI on its outside demand and time liabilities.
- 25% of a payment bank's branches must be in the unbanked rural area.

- Payment banks would primarily impart remittance and payment services. The prime condition here is that the total credits into an account should not exceed Rs. 1, 00,000.
- Payment banks must be a banking correspondent of a commercial bank where they can offer services like marketing of bank's loan products etc.

## **7. Need for Payment Banks**

- There are approximately 233 million unbanked people in India. They need the banking system but what they do not get is the appropriate product which reaches to them.
- To inculcate the habit of using mobile banking rather than traditional banking among common man of India.
- Payment bank's main focus is on small savings account holders, low income households, small businesses, unorganised sector entities and migrant labour force.
- Payments can be at the centre of the relationship and payment banks can bring a non-banking financial company (NBFC) or a mutual fund company as a partner and create an offering that replicates a bank.
- NBFCs are good at lending, payment banks have expertise in doing payments and a mutual fund company manages money well. Thus we can create a seamless combination that is good for the customer and for the bank as well.
- Through these banks customers can make payments and manage their wealth.
- Customers can make payments of their utility bills through the payment bank.

## **8. Payment Banks are Quite Different from Regular Banks**

- Payment banks are based on Pre- paid Instrument (PPI) model: in which you can load your money into your mobile, use it for buy things, pay utility bills and so on, no need to carry cash, cashbook, credit cards, cheque book or visit at ATM booth.
- These banks can only receive deposits and remittances but cannot carry out lending activities.
- These banks are required a minimum paid – up capital of Rs. 100 crore while normal commercial banks require Rs. 500 crores.
- Payment banks will focus on all kinds of payments such as social security payments, utility bill payments, person to person remittances (both domestic and cross-border), current and savings accounts up to a balance of Rs. 1 lac, distribution of insurance, mutual fund, pension products and acting as business correspondent to other banks for credit products especially in rural areas and among the underserved segments of the society.

## **9. Current News about the Payment Banks in India**

- 11 out of 41 applicants get the license for payment banks (on 19 Aug 2015).
- These were Aditya Birla Nuvo Limited (Idea), Airtel M Commerce Services Limited, Cholamandalam Distribution Services Limited, Department of Post, Govt. Of India, Fino Pay Tech Limited, National Securities Depository Limited, Reliance Industries Limited, Sun Pharma, Patym, Tech Mahindra Limited, Vodafone m-pesa Limited.

- India Post Payment Bank (IPPB) launched in Raipur and Ranchi on 30<sup>th</sup> Jan 2017.
- There are plans to open 650 IPPB branches by September.

## 10. Findings and Conclusions of the Study

- Although through the channelization of payment banks Indian economy will certainly move towards the less cashless economy as well as promote the financial inclusion up to a certain perceptible extent.
- Less cashless economy will pave the way for universal availability of banking services to all.
- Payment banks will certainly bring the easiness to the lives of common man.
- Digital payments bring in greater efficiency and transparency in welfare programme as money is remitted directly into the accounts of the beneficiary.
- Payments can be easily traced and collected.
- In Indian economy, there persists the digital divide among the rural areas.
- E- Wallets and mobile payment systems need a smart phone and an internet connection, but less than a quarter of the population owns a smart phones.
- Fast and reliable internet connection is expensive and it is difficult to find Wi-Fi hotspots and mobile phone battery charging stations.

## 11. Conclusion

At the base of conclusion, the study state that undoubtedly payment banks will pave a smooth way for less cashless economy and encourage the financial inclusion too by appending the unbanked and under banked person to the banked media. And certainly payment banks will take strides in all walks of life. The payment bank initiative has certainly put the banking system on a rethink mode. But for a successful journey of payment banks a number of hurdles are need to be crossed with valour and enthusiasm. Here I would like to state certain suggestions in this regard;

- Government of India (GOI) should conduct certain awareness programme in this context.
- Internet literacy needs to be promoted among the rural as well as urban people due to existence of digital illiteracy.
- Imparting free internet access to the rural persons to fill the digital divide among urban and rural persons.
- Focus must be made to the persons residing in the rural areas, since in rural areas we witness dearth of both ignorance as well as digital illiteracy.
- Encouraging people to get appended with the banking system and using such innovative banking modes.

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