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PAYMENT BANKS: BANKING IN DIVERSE FRAMEWORK

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Abstract
Banking has played a significant role in the development of any country and India is not an exception. In recent times banking sector has emerged as one of the most important and strongest factors of India's economic growth. The sector has undergone significant developments and with that commercial banks are playing vital role for financial Assistance in all sectors for economic growth. But from the point of digitization and advance technology, banks are still far behind to reach unorganized sector, rural areas and lower income households that became one of the major obstacles in the growth and development of India. To overcome this obstacle we need more effective and strong financial inclusion of all these segments. Payment banks are one of the steps taken by RBI in this direction to make possible financial inclusion of small and rural areas through mobile banking and by improving remittance services. Payment banks are non-full service banks, whose main objective is to accelerate financial inclusion, especially small businesses, migrated labour and low income households. This paper attempts to elaborate the role and possible impact of payment banks in the Indian banking system. This paper also explains the approach and working of the payment banks in the Indian banking system.

Key Words: Remittance Services, Mobile Banking, Financial Assistance, Financial Inclusion.

Introduction
In current scenario, banking operations and services are customer oriented but it needs to be more effective and within the reach of general public. Government and RBI have taken many steps for the improvement of banking system and it's functioning so that it can become not only hassle free but also fulfills the requirements of the economy. It should able to meet new challenges posed by the technology and interpret them in current system according to current needs. After independence, India had taken many steps for improvement and functioning of banking system. The Government of India, first come up with the banking regulation act 1949 in which RBI was nationalized and empowered to control, regulate and inspect the banks in India. After that 14 banks (deposit over 50 corers) on July 1969 and 06 banks (200 corers) on 1980 were nationalized with a view to extending credit to all segments of the economy and to mitigate regional imbalance. The second phase of nationalization, govt. of India control almost 90% of banking business of India. This period also witnessed the establishment of some rural development banks i.e. NABARAD. The main objective behind the nationalization was to spread banking infrastructure in rural India and make cheap finance available to Indian farmers.

Branch Expension Since 1969 To 1991

Year	Total No. of Branches	Rural Branches	Semi-Urban Branches
1969	8262	1833	3342
1980	32419	15105	8122
1991	60220	35206	11344
Source: Rbi (1998) Banking Statistics, 1992.95.			

So the reforms in 1991 aimed to create efficiency, competitive and stable financial growth including banking sector. RBI gave license to new private sectors banks as part of liberalization (under LPG Policy 1991). In the first round, the central bank issued licenses to 10 private sector banks in 1993-94, shortly after a round of economic liberalization under the **P.V. Narasimha Rao government**. They were Global Trust Bank Ltd, ICICI Bank Ltd, HDFC Bank Ltd, UTI Bank Ltd (renamed Axis Bank Ltd), Bank of Punjab, Indusind Bank Ltd, Centurion Bank Ltd, IDBI Bank Ltd, Times Bank and Development Credit Bank Ltd. In 2003-04, two more banks were given licences Kotak Mahindra Bank Ltd and Yes Bank Ltd.

Following table show the expansion of bank branches in last few years.

Bank Branches

Number of functioning branches of schedule commercial banks during last few years : as on	Rural	Semi - Urban	Urban	Metropolitan	Total
March 31,2009	31476	19126	15273	14325	80200
March 31,2010	32493	20855	16686	15446	85480
March 31, 2011	33905	23114	17599	16419	91037
March 31, 2012	36356	25797	18781	17396	98330
March 31, 2013	37953	27219	19327	17844	102343

Source: RBI, Handbook of statistics on the Indian economy

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From the last 2-3 decades, banking sector is playing a vital role in economic growth. The public and private sector banks have made significant progress from the year 1990-91 to 2012-13. Introduction of E-banking is one of the steps that change the functioning of banking system and public. As the Indian economy growing on a very fast track, some basic and structural changes are needed in our economy which comprise industrial and banking sector. Due to dynamic changes in economy, India faces many economic and social problems that can be cater by govt. through formulation of various policy and regulations. Payment banks are one of the steps by govt. for financial inclusion of small and low income group in economy. Payments banks are a type of bank which is a non-full service niche bank and created to achieve the target of financial inclusion of low sector and unorganized sector in economy.

Objectives
This study has following objectives
1. To Study the issue and scope of working of payment banks in Indian banking system.
2. To Study the role and relevance of Payment banks in current Indian banking system.

1. Background of "Payments Banks" in India
In September 2013, a "Committee on Comprehensive Financial Services for Small Businesses and Low Income Households", headed by Nachiket Mor, was formed by the RBI. By January 2014, the Nachiket Mor committee submitted its final report and one of its recommendations was the formation of a new category of bank called payments banks.

It may be recalled that in the Union Budget 2014-2015 presented on July 10, 2014, the Hon'ble Finance Minister announced that: "After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force". Taking cues from the Budget, RBI issued the draft guidelines in July 2014 itself on payments banks and small banks as differentiated or restricted banks. Based on the feedback RBI came out with final guidelines for Payment Banks in November 2014, and called the applications from entities which are interested to start such banks. In response to RBI's call for applications for new Payment Bank licences, 41 applicants were in the race, out of them RBI gave "in principle" licences to following 11 entities.

1	Aditya Birla Nuvo
2	Airtel M Commerce Services
3	Cholamandalam Distribution Services
4	Department of Posts
5	FINO PayTech
6	National Securities Depository
7	Reliance Industries
8	Dilip Shanghvi, (founder of Sun Pharmaceuticals)
9	Vijay Shekhar Sharma, (CEO of Paytm)
10	Tech Mahindra
11	Vodafone M-Pesa

The "in principle" licence is valid for the 18 month with in which the above said entities must fulfill the requirements prescribed by RBI. The RBI will grant full licences after it fully satisfied that the condition have been fulfilled.

2. Meaning and Scope of activities of Payments Banks
This is for the first time in the history of India's banking sector that differentiated licences are being given out by the central bank for undertaking specific activities The move is seen as a major step in pushing financial inclusion in the country, Bringing more people into the formal banking system.

Payment Banks as a type of bank which is non-full service bank. Payment banks only receive deposits and provide financial remittance services. Thus, Payment Banks can issue ATM/debit cards, but cannot issue credit cards as they are not empowered to carry out lending activities. Payment banks serving basic remittance needs of small businesses, unorganized sector, and low income household and migrant work force.

The objectives of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users.

Payment bank will undertake the following activities;

1. Payments and remittance services through various channels i.e. mobile banking
2. Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.
3. Issuance of ATM/debit cards. However, payment banks cannot issue credit cards.
4. Acceptance of demand deposits. Payments bank will initially be restricted to holding a maximum balance of Rs.100, 000 per individual customer.
5. BC (bank correspondence) of another bank, subject to the Reserve Bank guidelines on BCs.

But Payment banks can't issue credit cards and provide the lending services and the banks must maintain CRR, minimum 75% of demand deposits in government bonds of up to one year and maximum 25% in current and fixed deposits with other scheduled commercial banks for operational purposes and liquidity management. Payment banks will theoretically be the safest of banks since they have only the government as borrower – and governments don't default. 25% of its branches must be in unbanked rural areas. So Under these situations payment banks have to perform and required to fulfill the objectives. RBI had chosen "in principle" licences to these specific 11 entities on the basis of their experience in different sectors and with different capabilities so that different models could be tried. These entities already have large public exposure in India like Aditya Birla Nuvo Ltd, Airtel M Commerce Services Ltd, a part of India's largest phone company. RIL is partnering State Bank of India (SBI) & SBI has proposed a 30% stake in the payments bank it will form with RIL and Airtel M Commerce Services Ltd with Kotak Mahindra Bank Ltd. NSDL (National securities depository ltd) which is having almost 14million Demat accounts and already involved in online payments and receipts services, can play a vital role as a payment bank. On the basis of such a vast public hold in India these entities will prove beneficiary and important aspect in Indian system. They will mostly be set up in rural areas to facilitate **financial inclusion** by taking banking to the unbanked areas.

3. Possible Impact of Payments Banks on the Indian System

As we know payment banks come in existence for the purpose financial inclusion of small and unbanked sector and put the banking services and facilities in wallets of the public. Due to vast disparities of India like geographical spread, regional disparities, reach and connectivity etc, large part of Indian population is still do not have basic banking facilities. Licence issue to such identity who indulge in public relation like mobile firm, super market chains and other big firms who can easily cater to individual and small business. It is expected that these types of banks can reach in deep areas and provide the basic bank facilities to each sector through mobile phones. This is basically an enhanced version of prepaid wallets. These payment banks can use the mobile platform to provide basic banking services, transactions in particular payment for services and subsidies through mobile phones. So this is the effort of Indian govt. to make India cashless economy and reduction of cash usage in economy. Cashless economy means minimum use of cash in monetary transaction through technology and mobile wallets. It's very uneconomical for traditional banks to open a branch in every village but these banks are likely to help expand banking services to the remotest corner of the country by mobile phone coverage and provide the remittance and payment services at very low transaction cost. According to the guidelines of RBI 25% of payment bank's branches must be in unbanked rural areas. So payment banks will widen the reach of banking services and push the financial inclusion goal of govt. these type of banks have the potential to change and encourage retail banking especially in remittance services. Indian Finance Minister, **Mr Arun Jaitley** said payment banks "will change the way people think, change the way they keep the money, where they keep their money, the way they pay.

These type of banks need to introduce new applications and products, so that instead of cash people start carrying out more and more transactions electronically through those application and products. Although the number of users of debit and credit cards have increased yet these are limited to some specific section. Mobile phone platforms still have lot of opportunity to penetrate rural India with alternate methods for transactions and payment banks may be the best option to explore that opportunity. So Payment banks may bring the revolutionary money movement in Indian system and try to establish the modernize payment system and giving banking services at doorsteps or in hand through mobile phone wallets.

3.1. Remittance Services

This is an area where payment banks can put large impact. The main aim of payment banks is financial inclusion of backward areas, migrant labour by providing remittance and payment services through ATM Branches and bank correspondence and also by mobile phone. As we know the cost of Money transfer services that is conducted by formal and informal channel, very high so these banks could be a threat to money transfer channel. Informal channel like " hawala" courier even charged 5% of remittance amount, even sending and receiving money through India post is expensive approximately 5% of total

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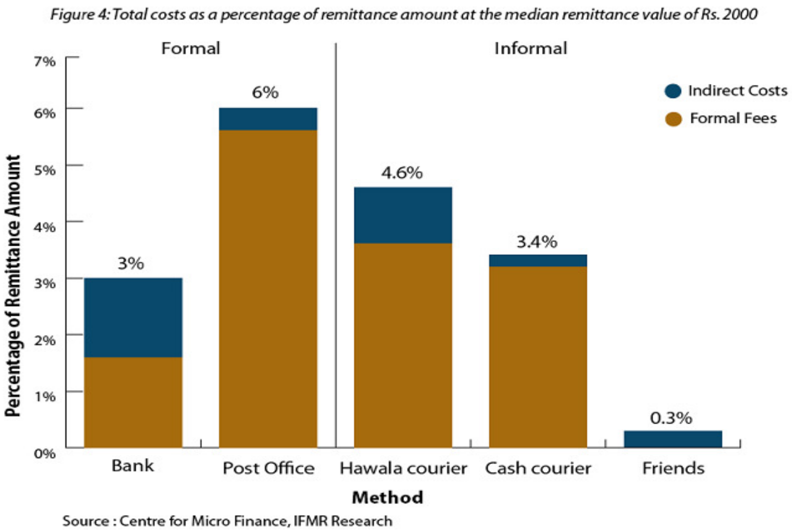
transfer amount in formal fees. In that case banks provide the cheapest method of sending money but very low % of population can avail the bank services mainly due to the difficulty of approachability to the nearest branch, obtaining the documents needed to open an account, and waiting in line to send or receive a payment etc. so banks not a convenient way of such services.

Following diagram show the average cost of remittance services



Based on above figure, we can say that almost 4-5% of remittance amount will be charged by formal and informal channel as a service fees. So it's a great volume opportunity in domestic remittance where more than half of the transaction is conducted at high cost by formal and informal channels. It's become the main source of income and well as base of payment banks. Payment banks can bring a revolutionary change in this segment by its approachability and mobile services at very nominal cost may be **.5% or 1%.** In Kenya, over $1 billion money transfers happen through M-Pesa every month with nearly 13 million customers. In Tanzania, 5 million people do transactions worth $1.5 billion. Both Safaricom and Vodacom, the mobile operators offering it in Kenya and Tanzania, earn about 20% of revenues from it. In India, Airtel and Vodafone granted a payments bank licence that prove to be a vital step for the financial inclusion of unbanked and lower income group.

3.2. Bridge between Banks and Customers of Remote Areas
Payment banks largely depend on technology to reach services to all customers, using mobile as main service provider device. Technology keeps their cost down; make their services efficient and fast. Yes, Physical bank branches will still be required for many functions like account opening specific documentations or money deposit etc but all day to day remittance and payment related services can be done through mobile phone. Mobile phone can be use as banking instrument by customers for many remittance services without physical presence of bank branches in specific areas. So mobile phone may become virtual cheque- book. By this the functional area of banks also increases and minimizes the gap between banks and customers. The mobile will perform the same role as credit and debit cards. Postal network also play a vital role, as 90% of its total branches (154000 app.) established in rural areas on an average, a Post Office serves an area of 21.22 Sq. Km and a population of 8221 people. It's a large coverage area in contest to Indian scenario. So by proper utilization of mobile and postal coverage the gap between customers and banks can be filled and provide the best possible services to public.

3.3. Hassle Free and Seamless Payments
As we know payment bank will not allow to lending money and giving loans so the main focus of these bank on numbers of transactions and volume .all entities that got the licence will give more emphasize to hassle free and seamless payment transaction options and this is possible by new technology like mobile phone and internet. Mobile phone is the core of all these electronic transaction such as utility bills, shopping bills, mobile bills and even payment of school and college fees etc. and mobile and internet became the means of all such electronic transaction in rural and unbanked areas. These new kinds of entities in the financial sector, we are seeing active collaborations between banks. Many incumbent banks have already announced tie-ups with the new payments banks like SBI has proposed a 30% stake in reliance and Airtel partner Kotak

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Mahindra bank. The increase in the growth of **internet** usage will definitely helpful for the growth and accessibility of online banking in India.

Following data show the growth of internet in India during the last decade,

India

Year (July 1)	Internet Users**	User Growth	New Users	Country Population	Population Change	Penetration (% of Pop. with Internet)	Country's Share of World Population	Country's Share of World Internet Users	Global Rank
2014*	**243,198,922**	14%	29,859,598	1,267,401,849	1.22%	**19.19%**	17.50%	8.33%	3
2013*	**213,339,324**	37%	57,763,380	1,252,139,596	1.25%	**17.04%**	17.48%	7.87%	3
2012	**155,575,944**	27%	32,605,503	1,236,686,732	1.27%	**12.58%**	17.47%	6.18%	3
2011	**122,970,441**	36%	32,548,593	1,221,156,319	1.29%	**10.07%**	17.45%	5.39%	3
2010	**90,421,849**	48%	29,486,779	1,205,624,648	1.30%	**7.50%**	17.43%	4.42%	4
2009	**60,935,069**	18%	9,484,859	1,190,138,069	1.32%	**5.12%**	17.41%	3.45%	6
2008	**51,450,210**	12%	5,665,948	1,174,662,334	1.34%	**4.38%**	17.39%	3.27%	6
2007	**45,784,262**	43%	13,709,281	1,159,095,250	1.38%	**3.95%**	17.37%	3.33%	6
2006	**32,074,981**	19%	5,157,948	1,143,289,350	1.43%	**2.81%**	17.34%	2.76%	7
2005	**26,917,033**	23%	4,969,545	1,127,143,548	1.49%	**2.39%**	17.30%	2.62%	7
2004	**21,947,488**	19%	3,500,884	1,110,626,108	1.54%	**1.98%**	17.26%	2.41%	8
2003	**18,446,604**	11%	1,888,210	1,093,786,762	1.59%	**1.69%**	17.20%	2.37%	9
2002	**16,558,394**	137%	9,564,138	1,076,705,723	1.62%	**1.54%**	17.14%	2.50%	8
2001	**6,994,257**	27%	1,495,988	1,059,500,888	1.65%	**0.66%**	17.08%	1.40%	12
2000	**5,498,269**	96%	2,697,680	1,042,261,758	1.68%	**0.53%**	17.01%	1.33%	9

* Estimate
** **Internet User** = individual who can access the Internet at home, via any device type and connection. More details.
Source: ***InternetLiveStats*** (www.InternetLiveStats.com)
Elaboration of data by *Internet & Mobile Association of India (IAMAI)*, *International Telecommunication Union (ITU)*, *World Bank, and United Nations Population Division.*

This data show the clear picture of potential growth and accessibility of internet in India. Such a large accessibility and growth of internet will helpful for the establishment of payments banks and delivery of banking services at an economical rate to the vast sections of lower income group.

3.4. To Restrain or Limit Unregulated Entities

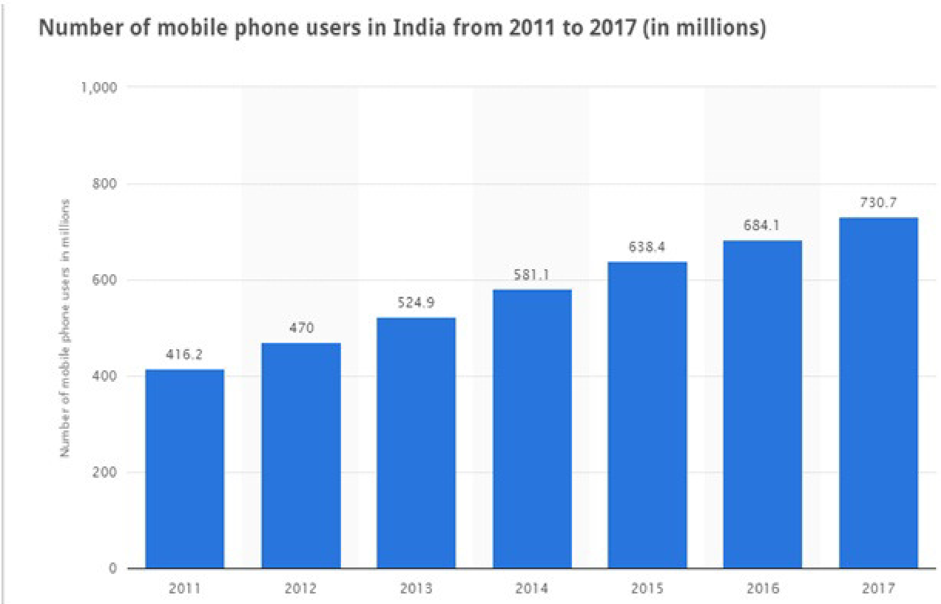
Indian banking mainly based in urban areas and so rural areas are neglected. Due to lack of access of banking facilities in many parts of country, the unbanked and remote area‘s population depend on unregulated entities for their financial needs but by payment banks this population of backward areas may enjoy and avail the formal financial services. According to RBI the main functional area of payment banks is rural and unbanked area where these banks provide the services through mobile wallets and advance technology. Due to transparency in financial transactions by payment banks, the financial exploitation of population by unregulated can be minimized. By selling different financial products and services, payment banks can bring the structural changes in rural and unbanked areas. SBI with the tie-up reliance (payment bank) plan to cover 2,50,000 village and 5000 town in coming 3 years. All this bring the financial and structural change in our system.

3.5. Working as a Sourcing Agents or Agency

Big mutual fund houses and insurance company can easily offer their product through these banks. Payment banks will become an important channel for offering and selling insurance, mutual funds and other financial product in remote areas of these banks. Advertising and offering such product and also point of payment, payment banks will mobilize funds and increase the financial transactions. By mobile phone wallet any type of investment, insurance and financial service will be within the range of general public. It will bring more money into the system and spread the reach of banking services in rural and unbanked areas. As we know RBI give "in principle licence to those entity which have already hold and large converge of public like RELIANCE, AIRTEL, BIRLA and NSDL so it's assumed that the spread of financial products and transaction will increase substantially.

3.6. Eliminate Black Money of the Financial System

Black Money is one of the biggest problems that India has face from the last few decades. RBI and Government taken may step time to time to control and expose Black Money Like announcement regarding withdraw currency notes issued before 2005 including those having higher dominations of Rs 500 and 1000 by exchanging into schedule commercial banks till June end . Now it can be extend by six months till December 31, 2015. The Indian government has also enacted the black money and imposition of tax act 2015 , this act has been made to deal with black money and declaration of undisclosed foreign asset and black money under **amnesty voluntary disclosure schemes**. Such undisclosed asset and money shall be chargeable to the tax at the rate of 30%. The main motive of all these schemes is to eliminate black money which the Modi Government says it wants to, this can be also done If maximum financial transactions done through online banking and mobile banking and minimize cash transactions. As we know India is close to reaching a mobile user base near to one billion, so such a large coverage of mobile phone, payment banks become a vital tool of govt. and RBI to eliminate Black money. That can be reason to issuing Payment bank licence to Airtel , Vodafone M-paisa and Paytm etc Following statistic shows the numbers of mobile phone users in India from 2013 to 2018 . For 2015 the number of mobile phone users in India is forecast to reach 638.4 million.



statista2015

Above diagram clearly show that coverage of mobile phone in India is increasing at rapid pace and on the bases of such growth in coming years it can become an effective tool for all types of financial services and operations but for this purpose mobile banking should be featured with user friendly, privacy and low cost.

4. Survival of Payments Banks

As we know, payment banks are not permitted to lending and commercial banks have main income source is lending money (loans, limits, credit cards). So if Payment banks not lending than how they will survive or what are their income resources? These New entities who got "in principle" licence may be new in banking sector but most of them already have large customer base and are established in their fields. The main source of income is transaction fees and these banks are expected to play on volumes and numbers of transactions and they can play or enjoy the millions of customers who are currently attaché with these entities but not within the fold of formal financial services. Postal department, reliance company, NSDL, Vodafone , Airtel all these type of entities can effectively explore their large client base in rural and unbanked areas. This would lead to large volumes of transactions fetching the payments banks fees - a charge of even 1 or 2 % on a large volume can be profitable on normal cash transfers, which will also include government's direct benefits transfer programs like transfer payments and subsidies. Payment banks also bound to invest minimum 75% of demand deposits in government bonds of up to one year by that payment banks can also earn 7.0% or so their investments in government securities. No need of any provisions for losses on NPAs. Selected payment entities like Airtel, Vodafone etc will have not any addition cost so they can easily afford to pay high saving rate (4%P.A) as on deposit as compare to existing banks. By giving 4 to5% rate of interest they can earn 7% from government bonds and securities. So payment banks can play on numbers and volume. With no risk of losses of NPAs etc these types of banks may become fitter banks than existing banks in Indian system.

Conclusion

The paper discusses the importance of payment banks and role in current banking system. It will be very interesting to see how new type of banks (Payment Banks) will operate and impact the existing private and public sector banks. But payment banks definitely contain the aspect of improving the banking service and cost reducing financial transaction. These types of banks compete as well as complement the existing banks. Payment banks defiantly a challenge for traditional banking. Already enough private and public sector banks are prevailing in Indian banking system and compete each other. Upcoming types of banks mainly targeting on retail and small sector so these types of banks not affect the business of industrial and corporate sector of existing banks but the retail and rural business is definitely going to be affected. With efficient and speedy banking services at economic rate, Payments banks bring new waves of competition and improve banking services. Banking costs will come down due to intense competition driven by the expected expansion of payment banks. Currently, we pay different type of charges for banking services, whether it is above-limit ATM transactions, big money transfers, maintenance of minimum balances, additional cheque-books, or Demand Draft issuance fees. These costs will come down as payment banks start offering zero-balance accounts and low-cost services. Thus existing public and private sector banks have to bring some changes in technology and facilities. No doubt competition increase and new types of bank catering the needs of small sector and migrated labours meanwhile PSU and other big private banks with its resources can focus more on high net worth clients. Payment banks also complement to existing banks in term of providing basic facilities of banking to small sector and household that will bring awareness and financial inclusion in different banks products and services like insurance, mutual funds etc. payment banks can reduce the cost of access in reference to existing banks In such healthy competition the customers will be the ultimate winner or beneficiaries as they will enjoy better and economical services. All in all we can say that payments banks will bring more efficient and effective financial service at low cost. In such a complementary and competitive environment the customer will finally be king

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