PAYMENT BANKS: APPENDAGE OF INFINITESIMAL FINANCIAL EXPANSIONISM IN INDIA

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ABSTRACT

Payment Banks, the new entrants in the financial market in India set up with the object for financial inclusion of large majority are highly regulated offering services more than a digital wallet has grown enormously in terms of low value transactions and number of account holders. Differentiated Licensing by RBI of these Banks also curtails their earning sources and they essentially function as Platform Business Model. These banks can partner to commercial banks but cannot extend lending facilities or credit card. The paper provides insight to concept, conditions, features services offered, and the challenges faced by these payment banks in our financial system.

Key Terms: Financial Services, Credit Risk, Deposits, Business Correspondent

1. INTRODUCTION

In 2014, based on the recommendations Nachiket Mor Committee on Comprehensive Financial Services for Small Businesses and Low-income Households, RBI introduced two new categories of banks into the Indian financial system, namely Payment Banks and Small Banks for greater financial inclusion (D'souza 2018). Wherein Payment banks is a new kind of bank created almost virtually providing services more than a wallet but less than a regular commercial bank. The target segment for the payment banks were mostly customers, especially migrant workers and those from lower income households involved in small amount of regular transactions (Bilamge 2021). Virtual existence of these banks will allow operational cost minimization and in long run they could survive solely in the basis of transaction charges levied on the growing volume of transactions. This paper presents about the framework of the payment banks in our country.

Out of the 41 applicants for the Payment Banks, Reserve Bank of India approved “in-principle” licenses to 11 entities to launch payment banks on August 19, 2015. Out of these 11 entities, 3 have already surrendered their licenses. (Iyer et.al. 2018). Currently the following payment banks are operational :

1) Aditya Birla Idea Payments Bank
2) Airtel Payments Bank
3) India Post Payments Bank, Department of Posts
4) FINO Payments Bank, FINO PayTech Limited
5) National Securities Depository Limited Payments Bank
6) Jio Payments Bank, Reliance Industries Limited
7) Paytm Payments Bank Limited
8) Vodafone M-Pesa Payments Bank (GK Upgrade 2020)

2. DISTINCTIVE FEATURES OF PAYMENT BANKS IN INDIA

Payment banks are being set up to focus on high volume but low value transactions by low income households and small businesses. A payments bank is different from a mobile banking system. A payment bank is a full-fledged bank, which does not necessarily require a physical branch but it can partner with other Commercial Banks. It generally uses mobile as medium of operation. Essentially functioning as a digital wallet which accepts deposits from customers and customers can use the stored money in the wallet for payment of goods and services. The access to latest technology and mobile penetration in India will definitely be an added advantage to this banking format with not only financial inclusion but regular transactions. (Iyer et.al. 2018)

Payments Banks can be set up to operate on a smaller scale with minimal credit risk and are registered under the Companies Act 2013 but are governed by a host of legislations such as Banking Regulation Act, 1949; RBI Act, 1934; Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007 and the like. (Vishnava 2022). These banks are permitted by RBI under Differentiated Licensing banks and are not universal banks have to adhere to the following guidelines (Vishnava 2022)

- The leverage ratio of the payments banks should not be less than 3% i.e. it's external liabilities should not exceed 33.33 times its net worth (capital and reserves).
- The minimum equity capital for Payment Banks should be INR 100 Crores. (Iyer et.al. 2018)
- It needs to have a minimum paid-up capital of Rs. 100,00,00,000 (Vishnava 2022) and for the first 5 years, the owner or promoter's share should be at least 40%. The voting right of shareholder is capped to 10%, which can be further increased to 26% with the approval of RBI (D'souza 2018).
- Foreign share in the entity should follow the FDI rules for Banking institutes (D'souza 2018).
- 25% of the branches must be in Unbanked rural areas (D'souza 2018).
- The money received as deposits by these banks can be invested in secure government securities only in the form of Statutory Liquidity Ratio (SLR) (Damle 2016). This must amount to 75% of the demand deposit balance. The remaining 25% is to be placed as time deposits with other scheduled commercial banks (D'souza 2018) (Vishnava 2022).
- A Scheduled Payment Bank (PayTm and Fino Pay Tech) can participate (D'souza 2018) in government and other large corporations issued Request for Proposals (RFP), primary auctions, fixed-rate and variable rate repos, and reverse repos, along with participation in Marginal Standing Facility (Vishnava 2022)
- Payments licensees would be granted to mobile firms, supermarket chains and others to cater to individuals and small businesses.
- Payment banks can take deposits up to Rs. 2,00,000. It can accept demand deposits in the form of savings and current accounts. Payment bank can pay interest on the received deposits just like Scheduled Commercial Banks. The rate of interest provided by these banks is not more than 4% on deposits (Vishnava 2022).
- The payments bank will have to undertake its own KYC/AML/CFT exercise as any other bank

- Payments banks will be permitted to make personal payments and receive cross border remittances on the current accounts under Money Transfer Service Scheme (MTSS) (Vishnava 2022).
- It can issue ATM or debit cards and transactions through channels payment bank branches, on electronic platforms such as ECS, NEFT, and RTGS (Vishnava 2022).
- These banks can make payment of utility bills on behalf of general public (Vishnava 2022).
- These banks should have a high powered customer cell to handle customer complaints (RBI; Deloitte; 2014)
- RBI has further allowed these Payment banks to function as a Business Correspondent of other Banks wherein prior consent of their customers, payments banks will be allowed to transfer funds deposited by a customer into his/her account with another eligible bank in cases where the balance in the account with the payments bank does not exceed Rs 1 lakh or a lower amount as specified by the customer (RBI; Deloitte; 2014).

On the flip side, some of the functionalities not allowed for the payment banks like :

- Credit Cards cannot be issued by them
- Payment Banks are not authorised to take lending activity (Damle 2016), so their earnings are primarily from the transaction charges and interest on Government Securities.
- These banks are not allowed to open time deposit accounts like Recurring Deposit and Fixed Deposit Accounts
- NRI deposits cannot be accepted as these banks were essentially set up for banking services available to those segments of the population which were left out even by the spread of commercial and co-operative banking (D'souza 2018).
- These banks are not allowed to set up subsidiary institutions.
- Non-banking financial activities cannot be undertaken by payment banks
- Payments banks will not have rights to operate or have real-time access to funds available in the account of the customer at the other bank.

3. CHALLENGES FACED BY PAYMENT BANKS

Surviving between commercial banks and wallets (D'souza 2018), Payments Banks are niche banks, setup by the Reserve Bank of India to further the agenda of financial inclusion. Payment banks in India pre-empts that every person with telecom and internet services without any extra charges and prior registration of own bank account with the Payment Banking Service. The platform business model, whereby interaction of consumers and products generates the business value for the payment banks is constrained with many regulations. On the other Considerations of data privacy and the proper use of customer data, or more broadly, of customer protection, remain important matters for regulatory oversight. (Iyer et.al. 2018)

With the restriction on lending, payment banks will have to find ways to reduce costs by high use of technology. (Iyer et.al. 2018). At the same time with these banks, the new market entrants, not necessarily from financial backgrounds will need time and patience to get growth in a relatively low profit sector surviving on high volume of transactions as the commercial banks also put stiff competition to these banks. (Iyer et.al. 2018). Although the Payment Banks have an edge in technology and reach, but awareness about them through various communication channels is need of the hour. High speed internet connection is another essential condition for operational facilities in these banks. There is also no national-level lender with the risk appetite for the targeted thin-credit consumers. Payment Banks can evolve new micro-lending models through their Business Correspondent networks and mobile apps and create an alternate credit score for these consumers. (Iyer et.al. 2018)

4. CONCLUSIONS

Payment banks are becoming the most popular medium of digital transactions. India is moving towards a cashless and digital economy, which is more feasible and adaptable in relation to the recent technological and economic trends. Innovation and improvisation of the business could be the key elements of success of Payment banks.

Payment Banks success in India will largely depend upon how well they are able to break the traditional banking mentality and innovate consumer centric products thus capturing face-to-face and remote transactions. Payment Banks have a great potential to change the patterns of interactions between customers and banks by making banking transactions via ATMs and mobile phones self-assisted, seamless, convenient and fool proof over the payments-based architecture in India (D'souza 2018).

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