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RESEARCH ARTICLE

PAYMENTS BANKS: AN INNOVATIONAL BANKING GAME CHANGER.

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Abstract

With the dawn of new era in banking, innovation has been a constant endeavor of the bankers as well as their central inspiration driving present day forms of banking and banking products. Foundation of payments bank is a creative stride towards accomplishing the much sought after goal of financial inclusion in the Indian economy. This paper aims at reflecting the fundamentals of payments banks, objectives of their establishment and challenges faced by them.

Statement of Problem:-

Absence of consciousness of the organized Financial System and an unregulated or complicated Rural Banking System, keeps most country populace from storing their savings in banks. The presentation of Payment Banks in the rural and semi urban areas is likely to change this situation, utilization of and access to the framework will enable individuals to comprehend its working and help in channelizing the savings of a larger proportion of the population. It will likewise give government access to funds for developmental and advancement exercises.

The point of convergence of the exchange on payments bank is whether the payments bank model can be actualized effectively in the Indian economy. This further accentuates the need to toss some light on the attainability and eventual fate of the payments banks in India. In light of this issue, it is important to comprehend the scope and the obstacles confronted by the payments banks.

Research methodology:-

This paper is essentially in light of concepts and thusly, theory and testing can't be connected. In that capacity, the assessments communicated in this paper are the author's own opinions and that of some reputed authors.

Objectives

The core objectives of this study can be listed as follows:
- To understand the meaning of Payments Banks.
- To highlight the salient features and rules governing the Payments Banks in India.
- To bring forth the opportunities as well as obstacles to Payments Banks in India.

Introduction to Payments Banks:-

Payments bank is a type of specialty bank endorsed by the Reserve Bank of India towards the satisfaction of their long haul target of Financial Inclusion. These banks would be restricted to the degree of financial services that they

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can offer, however in any case would be effective in entering these constrained services to the non-banked segment of the Indian Economy.

According to RBI directions, these banks have been conceded constrained powers, for example, providing small savings accounts and payments/settlement benefits for the most part to migrant workforce, low-salary family units, small businesses, and so on. These banks mean to accomplish high volume of low-value exchanges in deposits and payments/remittance benefits in a secured innovation driven environment (Kondala, 2015).

A Payments bank is permitted to work as a bank and perform every one of the operations of a typical bank with the exception of the administration of loaning. It might acknowledge deposits, acknowledge cheques and drafts, and pay utility bills yet can't extend credit in any shape. They can hold a balance of up to Rs. 1 lakh and can open and operate branches and ATM's.

The Payments Bank is required to enlist itself as a public limited company under the domain of the Companies Act, 2013. Further, these banks would be required to acquire a permit of operations under Section 22 of the Banking Regulation Act, 1949, with particular licensing conditions confining its exercises to the acknowledgment of demand deposits and provision of payments and remittance services.

It will be additionally administered by the arrangements of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, other pertinent Statutes and Directives, Prudential Regulations and different Guidelines/Instructions issued by RBI and different regulators occasionally, including the directions of SEBI with respect to public issues and other guidelines applicable to listed banking companies.

Salient features of Payments Bank:-
Objective: The foundation of payments bank has been allowed with the prime goal of accomplishing financial inclusion in India. To accomplish this payments bank have been allowed to offer small savings accounts as well as payments(remittance) benefit principally to migrant workforce, low-pay family units, small businesses, and so on.

Eligible promoters: The following entities are eligible to set up payment banks provided these are owned and controlled by residents:

a. Existing non-bank Pre-paid Payment Instrument (PPI) issuers
b. Non-Banking Finance Companies (NBFCs)
c. Corporate Business Correspondents(BCs),
d. Mobile telephone companies, super-market chains, companies, real sector cooperatives;

Public sector entities are also eligible as per RBI guidelines to set up payments bank. A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payments bank. However, Promoter/promoter groups should be ‘fit and proper’ with a sound track record of professional experience or running their businesses for at least a period of five years in order to be eligible to promote payments banks. (Notifications,Operating Guidelines for Payments Banks, 2016)

Scope of Activities: Payments bank have been allowed to offer a constrained scope of financial goods and services, for example,

a) Acceptance of demand deposits. Payments bank will at first be confined to holding a maximum Rs. 100,000 for every individual client.
b) Issuance of ATM/debit cards. Payments banks, be that as it may, can't issue credit cards.
c) Payments and settlement benefits through different channels.
d) BC of another bank, subject to the Reserve Bank rules on BCs.
e) Distribution of non-risk sharing simple financial products like mutual fund units and insurance products and so forth.

Table 1(Appendix A) gives a brief overview of the difference in scope of activities of different banking systems.

Deployment of funds:-

i. The payments bank can't embrace lending exercises.

ii. Apart from sums kept up as Cash Reserve Ratio (CRR) with the Reserve Bank on its outside demand and time liabilities, it will be required to contribute least 75 paisa in a rupee of its "demand deposit balances" in Statutory Liquidity Ratio (SLR) qualified Government securities/treasury bills with maturity up to one year and hold a maximum of 25 paisa in a rupee in current and time/fixed deposits with other scheduled commercial business banks for operational purposes and liquidity administration.

Capital Requirement: The base edge with respect to paid up capital of a payments bank is Rs. 100 Crores. The payments bank ought to have a leverage ratio of not less than 3 per cent, i.e., its outside liabilities ought not to surpass 33.33 times its net worth (paid-up capital and stores).

Promoter's Contribution: For the initial five years from the beginning of its business, the base initial commitment by a promoter to the paid-up equity capital of a payments bank should be no less than 40 per cent.

Foreign shareholding: The foreign shareholding in the payments bank would be according to the extant Foreign Direct Investment (FDI) arrangement for private sector banks.

Other Conditions: There are two critical conditions forced in setting up a payments bank. The operations of the bank ought to be completely networked and technology driven from the beginning point, fitting in with for the most part acknowledged norms and standards. The bank ought to have a powerful Customer Grievances Cell to deal with client dissensions.

On 19^{th} August, 2015, the Reserve Bank of India ‘in principle’ cleared 11 entities to set-up ‘payment banks’. These are:

1. *Aditya Birla Nuvo;*
2. *Airtel M Commerce Services;*
3. *Cholamandalam Distribution Services;*
4. *Department of Posts;*
5. *Fino Pay Tech;*
6. *National Securities Depository;*
7. *Reliance Industries;*
8. *Dilip Shantilal Shanghvi, the Sun Pharma promoter;*
9. *Vijay Shekhar Sharma, One97 Communications(Paytm founder);*
10. *Tech Mahindra; and*
11. *Vodafone M- Pesa.*

Opportunities and Obstacles for Payments Bank:-

The Opportunities:-

Client availability by a long shot is the greatest trump card in the hands of payments banks. These banks will be fundamentally subject to technology as a device to achieve the clients and would empower utilization of cell phones and mobiles as the vehicles of banking. While physical bank offices will in any case be required for a few purposes likes opening an account, depositing cash and so forth. Mobile phone will turn into the virtual ATM for small payments cheque-book and everyday payments including shared payments.

India's unbanked populace remains at 233 million. Indeed, even the individuals who can be viewed as "included" through Pradhan Mantri Jan Dhan Yojana (PMJDY), are still new to banking items. According to the 2011 evaluation, 833 million individuals remain in rural areas and a huge piece of that populace has little familiarity with new-age banking administrations, regardless of the possibility that they have the bank accounts.

Another issue with a patriarchal society like India is the low cooperation of ladies (48% of the populace or 586 million) in financial management and decision making. These difficulties originate from complexity related with banking and financial exchanges.

This is decisively the open door a payments bank ought to encash upon. It requires keen segmentation, both topographical and demographic, to offer tailor-made items for base-of-pyramid (BOP), rural, the unbanked and women.

Imperatively, the sheer size of the market can oblige different players, offering their services and products to different fragments of the general public.

Payments banks can use the payments foundation of National Payments Corporation of India (NPCI), where the scheduled commercial banks may have some slack because of their outdated legacy frameworks. Biometrics is another open door where the payments banks can capitalize on. It is, thus, imperative for payments banks to move rapidly, offer improved arrangements and possess a particular niche before others. Payments banks, if work viably can bring us effortlessness of one-thumb banking.

Payments banks can attempt the undertaking of offering genuine counseling to rural and base-of-pyramid segments. This is a chance to take lost "trust" back to banking. While India Post Payment Bank, with its current deposits base, might be remarkably put, others can utilize this as an opportunity too.

Payments banks can be the financial services gateways to re-package a large group of innovative financial products and services. They may attempt to offer or make accessible services, for example, crop insurance, climate gauging services or integration with e-NAM (Electronic National Agriculture Market) or issuing Soil Cards.

The Obstacles:-

Initially, the payments – only model is the most unmistakable disadvantage and test that the payments banks need to confront. In the customary banking framework, the CASA (Current Account – Saving Account) is the best wellspring of gathering low-cost funds. In any case, akin to the business model of payments bank which rely on high volume low cost transactions and with the ensuing topping of the greatest possible deposits to Rs. 1 lakh, profitability gives off an impression of being an outlandish target.

A payments bank is viable just on the off chance that it can acquire sufficient deposits at low-cost and in the event that it offers competitive pricing on transaction charges. However, passing by the way that the Airtel Payments Bank has set out up on, it pays a 7.25% interest rate to get deposits and has high inter-bank transaction charges (which dishearten interoperability and high client whittling down). It appears that entities presently can't seem to make sense of how to work a payments-only model.

Secondly, Cross-offering is effective where the profound association with the client exists. On the off chance that payments banks depend on third party point-of-sale intermediaries like retail shops, where this is an inconsequential exercise, income from cross-selling is probably not going to make a noteworthy commitment to the primary concern.

Thirdly, payments banks are required to keep up 75% of their CASA adjusts in Statutory Liquidity Ratio (SLR) qualified government bonds or T-Bills. For the balance 25%, the choice is stores with other scheduled commercial banks. While this may be considered as a safety net for depositors, it confines their capacity to advance treasury operations.

Fourthly, Scheduled Commercial Banks (SCB) and Small Finance Banks (SFB) gain anyplace between 4 to 10% Net Interest Income from working capital advances and as high as 30% Internal Rate of profit for small business advances or credit cards. Indeed, even the Micro Finance Institutions (MFI) loan at a rate of 25%.

Be that as it may, the Payments banks are not allowed to lend. Their interest in stipulated government securities and bank FDs would yield 2-4% net of cost of assets (or negative on the off chance that they attempt to forcefully activate balances at higher rates like Airtel). Post the balancing for other working costs, the net return may tumble to sub % levels, again corroborating the high volume-low margin nature of this business.

Finally there might be over-rivalry in the business. While a portion of the players like Airtel or Vodafone, with the current dissemination system and vast client base, have preference, the nature of the relationship they are presently attempting to work with the client is not quite the same as a duopolistic showcase typically found in telecom sector where beat two players progress toward becoming business market creators. India Post might be an anomaly with particularly favorable circumstances of substantial physical presence; in any case, for others, it’s a long haul to acquire critical mass. Lastly there may be over-competition in the industry.

Conclusion:-

The payments banks have the capacity and the chance to wind up considerably more than banks. There is sufficient confirmation supporting the way that the regular banking would never again be pertinent later on. Technology and innovation is at the focal point of this interruption in the banking paradigm. Payments banks can deliberately utilize innovation and shrewd segmentation as interruption instruments and strategically use their current client base and circulation channels to rapidly obtain critical mass. Further, the enunciations surrounded by RBI are not close ended directions and might be evolved after some time, contingent upon the execution, development, and learning of the payments bank plan of action.

Along these lines, so as to be fruitful, payments banks ought to work as a deft startup and not offer into the allurements of turning into a market pioneer in the banking business.

***Appendix A* (*Tables*)**

System	Can give loans?	Can accept deposits?	Can make payments?	Can offer interest on deposits?
Commercial Banks(SBI, PNB)	Yes	Yes	Yes	Yes
Payment Banks	No	Yes	Yes	Yes
Pre-Paid Instruments	No	Yes	Yes	No
Payment Network Operator (Visa, MasterCard)	No	No	Yes	No

Table I:- Scope of Activities of various Banking systems (Payment Banks Meaning and Features, 2015)

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