

The Game Changer of Banking Services -Payment Banks

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Introduction:

Banks are the lifeline of the Indian financial systems. After nationalization of Imperial Bank in 1955 banks in India are under control of government. These Banks offer penetrated banking services, reaching to the length and breadth of the country. But the present condition of banks is something different. Many public sector banks are in bad shape and few of them are losing the track. There are people who are insisting government to merge few public sector banks as they are unable to give competition to private and foreign banks.

The present situation of banking system in India is very safe and sound. With lot of initiations of RBI and central government, India's economy is at increasing trend. Today entire world is looking at India for various healthy reasons. India's economy is increasing continuously with more than 7.3% growth rate, which is very higher side compared to other countries. There are about 27 National Banks and many private & foreign banks, rural banks, cooperative banks and few non banking corporations in India. The RBI has taken one more step ahead to improve the banking system with the introduction of Payment Bank. It is a bank licensed as a payments bank can only receive deposits and provide payments. It is not permitted to carry out loan and credit cards. The objective behind starting such bank is to reach unbanked area with banking facilities. This certainly helps migrant labours, low income households, small vendors and unorganized sector entities.

Payment Bank

Payments bank can only receive deposits and provide remittances. It is not permitted to go for lending activities. Payments banks are allowed to collect deposits up to Rs 1 lakh per customer. Customers are offered Internet banking, facilitate money transfers and sell insurance and mutual funds. Payment bank is new type of banks, which are expected to reach customers mainly through their mobile phones instead of traditional bank branches.

The new system of Payment bank will permit them to collect deposits up to Rs.1,00,000, offer e-banking, money transfer facility and selling insurance, mutual funds and other financial products and services. It also functions like, business correspondent of other banks. Initially, they are allowed to collect deposits up to Rs 1 lakh per individual. Besides, they can issue ATM/debit cards. They cannot set up subsidiaries to undertake non-banking financial services activities. More importantly, they are not allowed to undertake lending activities at all.

Payment banks will provide many facilities to their customers, few of them are listed below.

1. Payment banks will provide to migrant labours, small and middle class families, small vendors and other unorganized business people.
2. Payment banks are allowed to take deposits up to Rs.1 lakh per account holder and customers will be given ATM or debit cards.
3. Payment banks cannot give loans or issue credit cards.
4. No minimum balance is required to maintain as revenue will be earned through transaction charges and not on the difference between interest rates and deposit rates.
5. Payment banks can also sell financial products like mutual fund and insurance products.
6. The Deposit money will be invested in government securities and commercial banks.
7. Payment banks will be allowed all connectivity; they are required to make banking activities in unbanked and remote areas.

8. All Payment banks should have fully networked and technology driven from day one.
9. It will also have a high-powered customer care department to take care of customer grievances.
10. The minimum paid-up equity capital for Payment banks is Rs 100 crore.
11. They can't sanction loans but can take deposits of upto Rs. 1 lakh, with interest payment on these balances just like a savings bank account does.
12. It enables transfers and remittances through mobile phones.
13. It will help in automatic payment of bills, and cashless shopping, chequeless transactions through a phone.
14. Payment Banks will Issue debit and ATM cards usable on ATM networks of all banks.
15. It will help travelers to travel freely without carrying cash as they are given forex cards to use all over India and will offer forex services at charges lower than banks.

Importance of Payment Bank

It is interesting to know that, Payment Banks are allowed to accept deposits under Savings Bank or Current Account schemes up to Rs.1 lakh from each customer and will also pay interest on the amount of deposit. Payment Bank will invest the deposits of customers into government securities only. They are not allowed to issue credit cards, they can issue ATM and debit cards only. The IT companies who are given permission to start the activities, are already operating mobile wallets. The ability to issue an ATM card helps close the loop and makes it easier to convert virtual money into cash, and vice versa.

Payment Banking system is one of the new initiations taken by RBI and Central Government in 2015. This has become important with respect to financial inclusion. A person in any part of India or the world can transfer money through a m-Commerce bank account, and a relative in a any other part of the nation having a debit card can withdraw cash from any ATM, or with a "business correspondent". Even small convenience shops in a village that sells mobile recharges could be one of them who serve the purpose of bank branches.

Why Payment Bank ...

Financial inclusion is one of the major objectives behind this and to provide small savings accounts and payments/remittance services to migrant labours, low income households, small business vendors, and others.

The objectives behind setting up of payment banks is to further achieve the financial inclusion with provision of small savings banks and remittance of money from place to place. So that, time can be consumed and black money be avoided.

Payment Bank Regulations

Payment Banks are licenced under the Banking Regulation Act 1949 under section 22 and should be register it under companies Act 2013. The Reserve Bank of India has made it mandatory that, The minimum capital requirement is 100 crore for each payment bank to start. The promoters' contribution for the first five years is not less than 40%. As per the FDI rules, even Foreign investment is also allowed. The voting rights and other formalities including acquisition and appointment of board of directors will be regulated by the act of RBI 1949. Though the initial deposit from individual customer is restricted up to Rs.1 lakh, it may further be increased by RBI based on performance of the bank. It is also mentioned that, 25% of its branches should be in the unbanked rural areas. In order to differentiate from regular banks, they have to mention the name as 'Payment Bank' only.

Historical Background:

The RBI on 23rd September, 2013 formed a committee headed by

Mr. Nachiket Mor to study the financial services and banking activities in India. Accordingly the committee has submitted a report on 7th January, 2014. And Payment Bank is one of the recommendations among others in the report. RBI released in July, 2014 the draft guidelines for payment banks, seeking comments from interested entities and the general public. There were 41 applicants who applied for payment bank permission, but RBI on February 2015, released the list of 11 entities based on their track record and governance issues to function their activities as payment banking in India. And On 19 August 2015, it has given "in-principle" licences to eleven entities out of 41 applied to launch payments banks. Following are entities that are given payment bank license in India which is valid for the next 18 months to fulfill the requirements.

#	Name of Banks	#	Name of Banks
1	Aditya Birla Nuvo	7	Reliance Industries
2	Airtel M Commerce Services	8	Delip hangavi (Founder of Sun Pharmaceuticals)
3	Cholamandalam Distribution Services	9	Vijay shekhar Sharma (CEO of Paytm)
4	Department of Posts	10	Tech Mahindra
5	FINO PayTech	11	National Securities Depository
6	Vodafone M-Pesa		

Impact of Payment Bank

1. Payment bank will enable to reach the unbanked area. Payment banks will certainly rely on technology like mobile phones with internet facility to reach payment services to all customers. So the mobile phone will become the virtual bank and ATM. It is expected that, within 10 years, every Indian will have a bank account. Payment banks will play very important role in this connection.
2. Payments banks aim at reaching out to people in all areas including rural areas. It ensure more money comes into banking system. Various banks are looking at increasing their rural reach, including big banks like SBI.
3. The present banking is little expensive for the normal person. The payment bank will reduce the burden of bank transactions. Payment banking costs will come down due to huge competition driven by the payment banks. Currently, customers are paying for every transaction of bank they do. It may be ATM transactions, additional cheque-books, money transfers, maintenance of minimum balances, or demand draft issuance fees. standing orders etc. such costs will come down as payment banks start offering zero-balance accounts and low-cost services.
4. Few of the PSU banks are not performing well and they are still following traditional methods. Efficient payment and private sector banks will take away their profitable businesses and help customers. It is suggested by many people to go for privatization of weaker banks or merging them with other banks.
5. The eleven payment banks who are already given licence, are having their presence in almost all parts of India. India post and telecommunication companies have already reached to every nook and corner of India. The government subsidy and all other facilities can be clubbed with it.
6. The payment banks will actually make use of commercial banks. Few commercial banks have already started functioning as business correspondents and some of them have already tied up with existing license holders of payment banks. For example, SBI will take 30 percent in RIL's proposed payment bank, Bharti Airtel plans to give 19.9 percent stake to Kotak Mahindra Bank Ltd. And Aditya Birla Nuvo Limited is in touch with Idea Cellular which will have 49 percent stake in the joint venture.

7. The payment bank will provide the cashless services which help majority of people. So, the mobile will perform the same role as credit card and debit cards.
8. The Indian government is having certain plans to avoid black money by introducing many new products and schemes. Payment banking is one among them. It is expected to cover all households in years to come under JanDhan Yojana. The Payment bank will serve the purpose.
9. Though the government will be one of the biggest beneficiaries of the system, customers will get the banking services quickly and at cheaper rate. Government will get more money through payment banks as it is made mandatory that, payment banks should keep certain percentage of money into government securities at low interest.
10. The commercial banks are offering interest on SB account is very low. The payments are expected to offer more interest rate which certainly reduce the amount of deposits in SB Account with commercial banks.

Conclusion

India is becoming hub of opportunities. Looking at the present scenario, entire world is looking at India with different perspective. Foreign investors are keen to invest in India. There are many changes and innovations are taken place in financial sector. RBI and Central Government is licencing payment banks, Mudra Banking, Small Finance banks and many more. The Reserve Bank expects Payment Banks to aim India's migrant labourers, poor background families and small business vendors. Since it is difficult to open the bank branch in every village, payment bank enable to provide such services to every corner. The RBI's new innovation is expected to accelerate India's journey into a cashless economy. The present domestic market transaction in India has crossed around 1000 billion which transform into cashless transaction if implemented properly. Payment technologies have given positive results in other countries like Kenya where every more than 50% of people are already using it. Vodafone's M-Pesa is one of the best examples in it. The Payment bank will surely helps person in transferring money from one place to other place and purchases using this system. However, government should take care of cyber crimes.

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