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Payments Bank: A Tool for Financial Inclusion in India

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ABSTRACT

The RBI's goal with payments banks is to increase financial inclusion and to enhance the use of financial services in the most distant places to bring every section of the economy into the mainstream financial system. The main goal of this work is to comprehend the concept and features of payments banks, investigate the factors behind payments bank adoption, and learn about the challenges for payments banks within our country. The secondary data used in the study was gathered from corporate websites, academic institutions, and governmental entities. The significant factor for payments banks adoption by customers are zero balance account, convenience, attractive interest rates, security and privacy. Payments banks come across lots of challenges, including reliance on low ticket account balances for profitability, lack of awareness, customers' unwillingness to accept digital payments, restrictions on the use of funds, payments banks are prohibited from making loans.

Keywords: *Payments bank; Financial inclusion; RBI; Objectives; Challenges.*

1.0 Introduction

The digital revolution in India has changed the entire banking system and financial transactions owing to online payments (Sikdar & Kumar, 2017). Indian populace has been widely utilizing innovation in each fragment because of the expanded entrance of cell phones, mobiles and the web. This has had an impact on all businesses, including banking. People are turning to digitization to make their lives easier. Smartphone users are encouraged to engage in digital transactions through payments gateways, e-commerce applications, and other features (Mehta & Shah., 2020).

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The RBI along with the Indian Government has been taking lots of steps to improve financial inclusion in the nation, especially in the rural area (Bhansali *et al.*, 2018). The Indian government and RBI have started a lot of projects like the scheme Pradhan Mantri Jan Dhan Yojana (PMJDY). The Digital India campaign was also lunched for electronic transfer of funds such as NEFT, RTGS, etc. (Sarkar, 2020). Despite the government's efforts, India has hurdles in attaining financial inclusion with a population of 1.38 billion, 20% of whom are unbanked (Global finance, 2021). Even the large number of people having a bank account are not using it. Financial inclusion in rural India is now the most pressing issue confronting the Indian economy (Sarkar, 2020). The reason for the same is that accessing these facilities is too expensive for those who reside too far from the closest bank and other financial services providers (Gupta *et al.,* 2019).

To address the issue of financial inclusion, a committee was formed by the RBI for low-income persons and small businesses in 2013, chaired by Nachiket Mor. This committee proposed establishing a new type of bank dubbed 'Payments Banks, 'which would provide migratory workers, low-income people, and small companies modest savings accounts and payments facilities, and other unorganised sectors (Bhansali *et al.*, 2018). To boost financial inclusion, the Indian Government is encouraging MFS in the nation through PPIs, mobile banking and payments banks by expanding the ambit of financial and banking services. Even though people have been using mobile banking and PPIs for a long time, Payments banks are considered comparatively a new concept in India, which is said to be based on the M-Pesa payments system of Kenya. (Gupta *et al.*, 2019). RBI permitted 'in-principle' approval to eleven applicants for Payments Banks based on the recommendation including:

- Aditiya Birla Nova Ltd.
- Reliance Industries Ltd.
- Airtel m-Commerce Services Ltd.
- Shri Dilip Shanti Lal Shanghvi
- Shri Vijay Shekhar Sharma
- Cholamandalam Distribution Service Ltd.
- Department of Posts
- FinoPaytech Ltd.
- National Securities Depository Ltd.
- Tech Mahindra Ltd.
- Vodafone m-pesa Ltd.

RBI allowed these Applicants dependent on their experience, technology, popularity, infrastructure, banking penetration, and deposit penetration (Damle *et al.*, 2016). At present, only 6 payments banks are operating, that is Jio Payments Bank, Airtel Payments Bank, Paytm Payments Bank, NSDL Payments Bank, Fino Payments Bank and India Post Payments Bank are examples of payments banks.

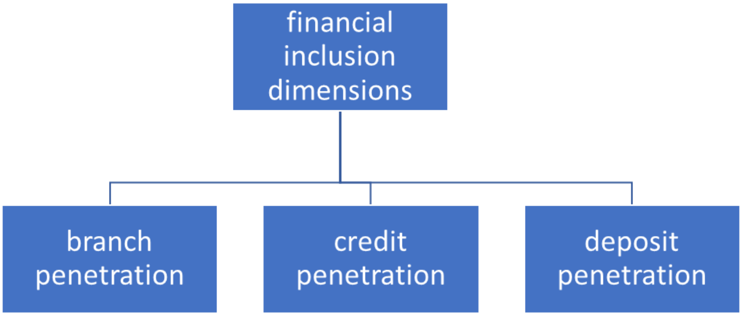
2.0 Financial Inclusion

According to the financial inclusion committee, "Financial inclusion may be described as the process of facilitating access to financial services and timely and enough credit when required by vulnerable people, such as weaker section and low-income people at a reasonable price." (Bhaskar, 2013). To achieve economic growth stability, every sector of the economy must contribute to the economy and be integrated into the mainstream. The government is pursuing a multifaceted strategy, but the rural population's lack of access to basic resources, knowledge, and financial literacy is a significant barrier to economic progress. (Damle *et al.*, 2016).

2.1 Dimensions of financial inclusion

Financial inclusion is dependent on 3 major and fundamental dimensions (Figure 1):

Figure 1: Dimensions of financial inclusion



Source: Damle et al.,2016

Branch penetration: Branch penetration is calculated as the ratio of bank branches to per one lakh people.

Credit penetration: Credit penetration is calculated as the ratio of advance records to per one lakh people, the number of little borrowers advances records per one lakh people and the number of farming advances per one lakh people.

Deposit penetration: Deposit penetration is calculated as the ratio of savings deposit accounts recorded to per one lakh people.

3.0 Payments Bank

A payments bank is a limited service bank that accepts deposits and facilitates remittances. It cannot perform lending functions, hence it can only provide debit card services and cannot issue credit cards (Khattar, 2018). The payments bank provides low-income workers, independent businesses, and the unorganised sector with modest deposits or savings accounts, instalments, and payments and remittance services.

Payments banks are registered as public limited companies under the Companies Act of 2013 and licenced under Sec 22, Banking Regulation Act, 1949. Under Sec 42(6)(a), RBI Act, 1934, Payments Banks would be accorded the status of scheduled banks. However, the words "Payments Bank" must be used in the company's name to distinguish it from other banks. (Pahwa, 2020)

3.1 Payments bank objectives

A Payments Bank is similar to any other bank, however it works on a smaller scale and does not include any risk on credit. It performs most of the banking functions, but cannot provide credit cards and loans. A Payments Bank can achieve the following goals using this business strategy:

- To widen the availability of payments and financial services.
- To offer financial services to small enterprises, less-earning families, migratory workers, and others.
- Increase the penetration of banking services in the country's outlying districts.
- To create a safe, technologically advanced environment for financial transactions.

3.2 Scope of activities of payments bank

What a payments bank can accomplish are:

- Take depositing (up to Rs. 2 lakh) and give interest on such deposits.
- Provides remittance services
- Facilitates mobile payments
- Inter or intra bank fund transfers
- Provision of debit card and ATM services
- Giving travellers access to currency cards
- Services for Net Banking
- Promote ancillary financial services like insurance and mutual funds.

However, these banks are prohibited from engaging in lending operations like:

- Advancement of loans

- Issuing credit cards, etc.
- It does not take time or NRI deposits.
- It cannot establish subsidiaries to engage in non-banking financial operations.

3.3 Reasons for customers' adoption of payments bank in India

As per the analyses done by various researchers for factors behind payments bank adoption in India (Sarkar, 2020; Kaur *et al.*, 2020; Mehta & Shah, 2020; Gupta *et al.*, 2019), these are some of the reasons for their usage of payments:

- Ease to use
- Zero balance account
- High-interest rate
- Customer support service
- Convenience of access
- Security and privavcy
- Immediate refund

3.4 Challenges faced by Payments bank in India

Many challenges faced by India's payments bank (Pandit, 2021) over the years:

- Payments banks are prohibited from lending money, preventing them from receiving interest revenue. Payments banks must rely on other sources of revenue to remain profitable.
- The general population is unaware of the existence of payments banks. The major aim is to attract a diverse range of clients living in rural and urban locations through advertising.
- These banks are entirely technologically powered. To operate in a market, foolproof secure software is required.
- Payments bank services are also provided by traditional commercial banks. They may present a difficult competition.
- The compensation Banks do not have a physical presence. Only internet connections are used for the transactions. Fast internet connectivity is a critical part of operations. To be successful, a proper band with internet access is necessary everywhere.
- A wide network is required to run payments institutions on a big scale. As a result, only telecommunications corporations have entered the battle. The Post Payments Bank has a large network, and the government has given it permission to use its resources for operations.

- Wallets provide comparable functions and pose a significant threat to payments institutions.
- Customer's acceptance of digital payments and transactions is a new problem. Many clients, especially in cities, are not ready to embrace digital purchases. To some extent, the influence of demonization has changed this thinking.

4.0 Conclusion

Payments bank is a revolutionary step taken by the RBI and the government. Payments banks seek to serve migratory workers, small enterprises and low-income people in order to integrate them into the formal financial system. Additionally, it offers the advantage of safe, technologically advanced transactions that are simple to track. Commercial banks can accomplish all that payments banks do, but owing to their architecture and business model, they may not be able to serve few groups and regions, since it is difficult for banks to start new branches in all villages throughout the nation, payments bank may bridge this gap by employing smartphones. In contrast to commercial banks, the Payments banks can only take deposits up to Rs 2 lakh. Payments banks generate money by selling third-party items because they cannot lend. Payments banks and commercial banks can work together to sell investment products and issue loans. The payments banks can be a grate way to boost financial inclusion in the country by creating awareness about it and its functioning. As the people living in the rural area do not have sufficient knowledge about how banking system works, so there is need for the advertisement campaign for the same. People must understand that payments banks are responsible and secure to use. Additionally, since remittances and ease of use are the primary factors in customers choosing payments banks, the banks should place greater emphasis on these areas.

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