

## PAYMENT BANKS AN OVERVIEW

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### **Abstract**

*Lack of awareness of the structured Financial System and an unregulated or disorganised Rural Banking System, prevented most rural population from depositing their savings in banks. The introduction of Payment banks in the rural, semi urban and interior pockets will change this scenario, usage of and access to the system will help people understand it's functioning and help in channelizing the saving of the people in these areas. It will also give government access to funds for development activities. The Reserve Bank of India 's initiative of introducing " Payment Banks" finds resonance with Economist Adam Smith's Theory of employing Division of labour to exponentially increase productivity. The new business model Adopted will create a revolutionary trend in the Indian Banking Industry and will accelerate Government's Mission of improving Financial Literacy and achieving Total Financial Inclusion (TFI), both vital for a country's Economic Development.*

### **Introduction**

India's domestic remittance market is estimated to be about Rs. 800-900 billion and growing. With money transfers made possible through mobile phones, a big chunk of it, especially that of the migrant labour, could shift to this new platform. Payment banks can also play a crucial role in implementing the government's direct benefit transfer scheme, where subsidies on healthcare, education and gas are paid directly to beneficiaries' accounts.

It's a step to redefine banking in India. The Reserve Bank expects payment banks to target India's migrant labourers, low-income households and small businesses, offering savings accounts and remittance services with a low transaction cost. It hopes payments banks will enable poorer citizens who transact only in cash to take their first step into formal banking. It could be uneconomical for traditional banks to open branches in every village but the mobile phones coverage is a promising low-cost platform for quickly taking basic banking services to every rural citizen. The innovation is also expected to accelerate India's journey into a cashless economy.

### **Payment Banks**

Payment banks are a new model of banks conceptualised by the reserve bank of India. These banks can accept a restricted deposit which is currently limited to 1 lakh per customer account. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. Payments banks can issue services like ATM cards, debit cards online banking and mobile banking.

The main idea behind the introduction of Payment banks was financial inclusion of all sections of the society and the people living in the remote and rural areas so that they can have access to the basic banking facilities. This idea was initiated to increase the

number of people in the banking system to include people like small business owners, low income groups including migrants and labourers in order to fulfil the vacuum created in the financial system.

Payment banks like any other commercial bank offers the core banking services such as cash remittances and demand deposits to its customers. Apart from that, the customers are also allowed to open both savings as well as current bank accounts with the payment banks. It also offers basic payment services to migrant's workers and lower-income groups by having a widespread network in the rural areas as well as remote locations of the country. The migrant's workers or the labourers working far away from their home land can easily transfer their money to their families in the remote and rural parts of the country with the help of payment banks.

#### **RBI's Guidelines**

- Eligibility criteria of Applicants - prepaid payment instruments issuers, Professionals, NBFCS, Telecom Companies, Supermarket Chains, Corporates etc.,
- The Payment banks would be required to use the word 'Payments' in its name to differentiate it from other banks.
- The minimum capital requirement is Rs.100 crores
- Payment banks can offer Deposits ( Current/ Savings accounts ), issue ATM/Debit Cards, payments and remittances services and can also act as Distributor of Third party products( can cross sell insurance, mutual funds etc., )
- They would initially be restricted to holding a maximum balance/ deposit of Rs.1,00,000 per customer. ( Based on performance , the RBI could enhance this limit )
- They cannot issue credit cards
- Payment bank cannot undertake Lending activities. They should not offer loans.
- A Payment banks will be required to invest 75% of its demand deposits balances in Government Securities ( G-Sec ) and Treasury Bills.
- They have to meet Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio requirements set by RBI.
- A maximum of 25% of its deposits will have to be held in current and fixed deposits with other scheduled commercial banks.

#### **History**

Reserve Bank of India gave 'in - principle' licences to eleven entities to launch Payment Banks based on the recommendations of the Nachiket Mor committee on 19<sup>th</sup> August , 2015. The eleven entities are as follows:

1. Adiya Birla Nuvo
2. Airtel M Commerce Services
3. Chalamandalam Distribution Services

4. Department of Posts
5. FINO PayTech
6. National Securities Depository
7. Reliance Industries
8. Dilip Shanghvi, Sun Pharmaceuticals
9. Vijay Shekhar Sharma, Paytm
10. Tech Mahindra
11. Vodafone M - Pesa

Out of these, three have surrendered their licences. First one being Cholamandalam Distribution Services, then Dilip Shanghvi, Sun Pharmaceuticals and the latest Tech Mahindra. The 'in - principle' licence is valid for 18 months within which the entities must fulfil the requirements. They are not allowed to engage in banking activities within the period. The RBI will consider grant full licences under Section 22 of the Banking Regulation Act, 1949, after it is satisfied that the conditions have been fulfilled.

The new payments banks will also make people less dependent on cash, even for small sums, and since a mobile wallet could be a bank account soon, this move could, over time, have a big impact on m- commerce.

#### **Importance of Payment Banks**

Payment banks can accept deposits restricted to Rs.1,00,000 per customer, and are allowed to pay customers interest on the money that is being deposited. They can be used for either current accounts or savings account. A Payment bank cannot loan money to people or issue credit cards, but they allow to invest money customers deposit into government securities. The Payment banks can issue ATM and Debit Cards, it helps close the loop and makes it easier to convert virtual mney into cash, vice versa. Payment banks can be integrated with our savings bank account via IMPS and NEFT transfers.

#### **Can and Can't Do:**

- They can't offer loans but can raise deposits upto Rs.1,00,000 and pay interest on these balances just like a savings bank account does.
- They can enable transfers and remittances through a mobile phone.
- They can offer services such as automatic payments of bills, and purchase in cashless, cheque less transactions through a phone.
- They can issue debit cards and ATM cards useable on ATM networks of all banks.
- They can transfer money directly to bank accounts at nearly no cost being a part of the gateway that connects banks.
- They can provide forex cards to travellers, usable again as a debit or ATM card all over India.
- They can offer forex services at charges lower than banks.

- They can also offer card acceptance mechanism to third parties such as the 'Apple Pay'.

### **Payment Banks make Banking Easy**

#### **Stop Looking for ATM**

Mobile will soon become your wallet. No need to worry about bringing cash around. Payments bank may reach to more rural and deeper parts of India. You may not have to look around for an ATM or credit card merchant, if you are not carrying cash.

#### **Easy to Open Account**

Opening an account in payments bank much easier than normal banks. Income level restrictions will not be there to open an account in these banks. A payment bank customer can use his account to make daily or monthly cash transactions through debit card or mobile. It will be a safer option as you will have only a smaller balance in the account.

#### **Transfer Money Faster**

Parents can easily transfer money to their children's account to meet their needs like fees and other expenses when they are living far away from home. Small firms can pay their salary to employees through payments bank. This can avoid risk of paying out in cash.

#### **Lower Fees**

Lower transaction fees as compared to normal banks will encourage small businesses to switch over their transactions from normal to payment banks.

#### **Every One Benefits**

In rural areas, where people do not have access to banks or other financial institutions, they keep their hard earned money in boxes or clay pots. This kept at home money does not earn them any interest. Payment banks will change this scenario in rural areas with more and more people opening up bank accounts.

#### **Easy to Deposit**

Any one can be able to deposit money to their savings account in payments bank through nearest petrol bunk, grocery shop or even super markets. It will be easy as a mobile phone recharge.

### **Conclusion**

Financial inclusion is the main reason to introduce payment banks in Indian banking industry by Reserve Bank of India. By the help of payment banks we can easily achieve complete financial inclusion and can help to all the citizens of India to contribute in the main stream of Indian economy.