



THE EFFECTS OF PAYMENTS BANKS DURING COVID PERIOD

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Abstract

A payments bank is an Indian new model of banks conceptualised by the Reserve Bank of India without issuing credit. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. Payments banks can issue ATM cards or debit cards and provide online or mobile banking. The main objective is to advance financial inclusion by offering banking and financial services to the unbanked and under banked areas, helping the migrant labour force, low-income households, small entrepreneurs etc.

Bharti Airtel launched India's first payments bank named Airtel Payments Bank in March 2017. Paytm Payments Bank, India Post Payments Bank, Fino Payments Bank and Aditya Birla Payments Bank NSDL Payment Bank and Jio Payment Bank. Have also launched services.

Payments banks aim to service these customers, especially migrant workers and those from lower income households, as well as bring them into the formal financial system. It also has the added benefit of secured, technology-driven transactions which can easily be tracked without any loop hole for black money. The Reserve Bank expected payment banks to target India's target customers that cantered on low-income households and small businesses, providing low transaction cost savings accounts and remittance services. It hopes that payment banks will enable poorer people who only transact in cash to take their first step towards formal banking. Opening branches in every village may be inexpensive for conventional banks, but availability of mobile phones is a promising low-cost medium to quickly take basic banking services to every rural resident. This is also hoped the breakthrough will speed India's transition into a cashless economy. The domestic remittance market in India is estimated at about Rs.950-1000 billion, and is increasing. With money transfers made possible via cell phones, a large chunk of it might move to this new platform, particularly that of migrant labour. Payment banks will also play a key role in enforcing the government's direct benefit transfer program, where healthcare, education and gas subsidies are transferred directly to the accounts of the beneficiaries. This paper talks about the objectives of payments banks, effects and challenges of future Indian banking system.

Keywords: *Payment banks, banking services transfer of money, cashless economy, and unbanked area.*

1. Introduction

While India has made great strides in the journey towards financial inclusion, recently with the advent of digital payment systems, there are notable digital divide and financial literacy concerns in the country, especially using payment banks. In generally Payment means the transfer of money or goods and services in exchange for a product or service. Payments are typically made after the terms have been agreed upon by all parties involved. A payment can be made in the form of cash, check, wire transfer, credit card, or debit card.

Economic Development of any nation begins with Financial and banking structure, for individual as well as trade and commerce. Banking directly as well as indirectly forms part of the economic growth.



The Government's steps to channelize the savings and expenses are one of the major contributors for the development of any country. With the increase in number of people using smart phones and digital marketing, payment banks have become more popular with people from all walks of life due to many reasons like lack of time to visit to the bank branch in person, user friendly guidance, instant transfer, requirement of flexibility, easy to access and also increase in awareness through promotion. Payment Banks will definitely lead to the faster banking activities, which in turn paves the way for faster economic development. The trend of rising personal usage of cashless transactions it has been witnessed not only amongst the young population, but also the high-net-worth individuals, working and non-working including home makers who have been habituated to use these payment banks apps. Payments made easier, transfer of money within seconds of time and shopping at immediate effect.

Smart phones have brought revolutionaries in apps and more than 4.1 billion mobile phone users are using customer friendly mobile applications for personal and commercial purposes. These apps made our way of life easy. These are easy to download and quick and ready to use. This is one of the new instruments in the world of banking. Today, nearly 10 percent of Indians have no bank account and just around 30,000 of India's 5, 94 lakh villages have a branch of commercial banks. Much of this imbalance has to do with the inability of bigger banks to reach into the hinterland.

2. Significance of the Study

The payment banking offers mobile software to do the transaction easily in less period of time. Information Technology and Banking Apps of mobile phones offers drastic opportunities for personal as well as commercial purpose. The access of financial records anytime anywhere is the most advantage of mobile banking. Deposits, bank transfers & remittance, balance statement can be done through a small device without seeking any help from the bank. We are able to transfer funds between the same bank accounts or other account. We will be able to pay bills of (Credit card/school fee/electricity bill/water bill) etc. without spending time in the bank, only by your mobile applications. M-banking can truly help the customers to do the transactions fast without spending more time for it. This gives a good benefit for the banks as well since the customers can do their transactions in the mobile application in which results that customer can get bank service without appointing more employees in the bank. Customers will only come to banks if there are some serious issues in the bank account and to get suggestion from the representative of the bank. In this paper information about the most useful objectives of Payment Banks and perspectives are discussed and also about what can a mobile application do to all types of customers with multiple needs.

3. Review of Literature

- PardhasaradhiMadasu (2015) in her article mentioned that India did not have a place in the top 16 non-cash markets of the world but China had. In comparison with the credit cards, there had been an increase in the usage of debit cards at ATMs. Non-cash services like Immediate Payment Services or M-Wallet had not made any significant impact.
- Pande (2015) in his work "Payment Banks – A Newer form of Banks to Foster Financial Inclusion in India" suggested that financial inclusion will be benefited.
- Sandanshive&Katdare (2015) in their paper "Analysis of In-principle License Entities to Act as Payment Bank: Financial Inclusion Perspectives" mentioned that the payment banks are a part and parcel of the financial inclusion which covers the unbanked population of rural India and low income group people, which is not possible with branches of banks in rural areas.



- Chandarana (2016) in her paper “Payment Banks- a Need of Digital India” analysed the game changing business of payment banks for the future of Indian banking using mobile as the best and easy platform.
- Goal (2017) in her paper “Payment Bank: A New Landscape for Indian Banking Sector” suggested that payment banks present an exciting opportunity for digital financial inclusion in India.
- Kesavan (2019) in his study “To the Era of Payment Banks by Reserve Bank of India with Specific Reference to Indian Banking Sector” has examined that innovation can give the better success to the banking sector in India. But it must showcase an exemplary performance in gaining customer satisfaction and fulfilling the requirements of customers by all means, it is the only way of gaining success for a bank.
- Shivathanu B. (2019) in his study adoption of digital payment system in the era of demonetization emphasised on how the digital payment system was used by the people or accepted by the people during demonetization. It was based on a conceptual framework where the sample size was 766. The data analysed suggested that behavioural intentions and innovation resistance had an impact on the actual usage. 3. Discussion

4. Objectives

- To find out the importance of payment banks.
- 2 To have an insight about the concept of payment bank.
- To find out the future opportunities of banking system about the digital or cash less economy.

5. Research Methodology

This study is conceptual and descriptive since the information is only the gathering from the literature, official websites, research papers, newspapers, private and government websites like rbi.org.in, business-standard.com, ndtv.com, economic times.com and journals also required during the study

6. RBI Guidelines Regarding Payments Bank

6.1 Eligible promoters:

a. Existing non-bank Pre-paid Payment Instrument (PPI) issuers; and other entities such as individuals / professionals; Non-Banking Finance Companies (NBFCs), corporate Business Correspondents (BCs), mobile telephone companies, super-market chains, companies, real sector cooperatives; that are owned and controlled by residents; and public sector entities may apply to set up payments banks.

b. A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payments bank. However, scheduled commercial bank can take equity stake in a payments bank to the extent permitted under Section 19 (2) of the Banking Regulation Act, 1949.

c. 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.

6.2. Scope of activities:

- Acceptance of demand deposits. Payment’s bank will initially be restricted to holding maximum balance of Rs. 100,000 per individual customer.



- Issuance of ATM/debit cards. Payments banks, however, cannot issue credit cards.
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- Payments and remittance services through various channels.
- BC of another bank, subject to the Reserve Bank guidelines on BCs.
- Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.

6.3. Deployment of funds:

- a. The payments bank cannot undertake lending activities.
- b. Apart from amounts maintained as Cash Reserve Ratio (CRR) with the Reserve Bank on its outside demand and time liabilities, it will be required to invest minimum 75 per cent of its "demand deposit balances" in Statutory Liquidity Ratio (SLR) eligible.

Government securities/treasury bills with maturity up to one year and hold maximum 25 per cent in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

6, 4 Capital requirement:

- a. The minimum paid-up equity capital for payments banks shall be Rs. 100 crore.
- b. The payments bank should have a leverage ratio of not less than 3 per cent, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).

6.5 Promoter's contribution:

The promoter's minimum initial contribution to the paid-up equity capital of such payments bank shall at least be 40 per cent for the first five years from the commencement of its business.

6.6. Foreign shareholding:

The foreign shareholding in the payments bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.

6.7. Other conditions:

- a. The operations of the bank should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.
- b. The bank should have a high-powered Customer Grievances Cell to handle customer complaints.

6.8. Procedure for application:

In terms of Rule 11 of the Banking Regulation (Companies) Rules, 1949, applications shall be submitted in the prescribed form (Form III) to the Chief General Manager, Department of Banking Regulation, Reserve Bank of India, 13th Floor, Central Office Building, Mumbai – 400 001. In addition, the applicants should furnish the business plan and other requisite information as indicated. Applications will be accepted till the close of business as on January 16, 2015. After experience gained in dealing with payments banks, applications will be received on a continuous basis. However, these guidelines are subject to periodic review and revision.



6.9. Procedure for RBI decisions:

- An External Advisory Committee (EAC) comprising eminent professionals like bankers, chartered accountants, finance professionals, etc., will evaluate the applications.
- The decision to issue an in-principle approval for setting up of a bank will be taken by the Reserve Bank. The Reserve Bank's decision in this regard will be final.
- The validity of the in-principle approval issued by the Reserve Bank will be eighteen months.
- The names of applicants for bank licences will be placed on the Reserve Bank website.

7. Opportunities

- As per the guidelines of RBI, 25% of all branches opened in a year should be in rural areas. For newer banks this quotation has been modified into untapped
- rural areas, that means there is an ample of opportunity to reach the target audience
- Network line Idea/Airtel – Large customer Base – Post office also – advantage to large physical distribution.
- Unbanked population is more than 233 million. Rural, bottom – of – pyramid (BOP), unbanked & women, which can be the potential area to be covered by payment banks.
- It can be a host of innovative services which can be easily penetrated.
- Cross selling water purifiers/LED bulbs/ clean water in rural areas or energy saving.
- Relationship beyond transactions – crop insurance, weather forecasting services for integrated electronic National Agriculture Market, social cards issue, etc.
- Guidelines are not closed ended regulations.
- RBI & Commercial Banks annually spend around Rs.21000 crore in currency operations cost. RBI spends approximately Rs.11300 crores in printing. Low-valuenotes must be replaced within less than a year.
- Service charges will be reduced in the case of payment banks and most consumers will be able to use them for small transactions.
- In comparison to commercial banks 'savings account, consumers do not need to maintain a minimum balance between 3.5 and 6 percent.
- These banks may make handling cash a lot easier.

As of now, Airtel payments bank is also giving the highest rate of 7.25% which may attract some of the customers and also on Fixed Deposits they offer up to 7%. Payments bank can offer credit products on behalf of partner banks and can earn transaction fees on the banking activity that the customer does and through cross-selling charges. Payment banks may also build alternative payment models for retailers and consumers, with low transaction costs.

While some banks have decided to charge a fee from customers on cash withdrawals from bank branch, others will charge Automated Teller Machine (ATM) cash withdrawals above a certain limit. In the years to come, data monetization can turn out to be another big source of revenue for these banks.

Such banks will produce a high volume of customer transaction-led data, including transactions such as mobile recharges, payment of utility bills, spending on e-commerce and offline merchant transaction. A significant value can be unlocked if this data is analyzed and consumer insights are monetized, which can help in very precise targeted marketing without compromising on data privacy.

8. Threats Of Payment Banks

- All the Payment Banks who got licenses are not in a good position except four who have a clear business with good network. Therefore, it's not a cake walk.

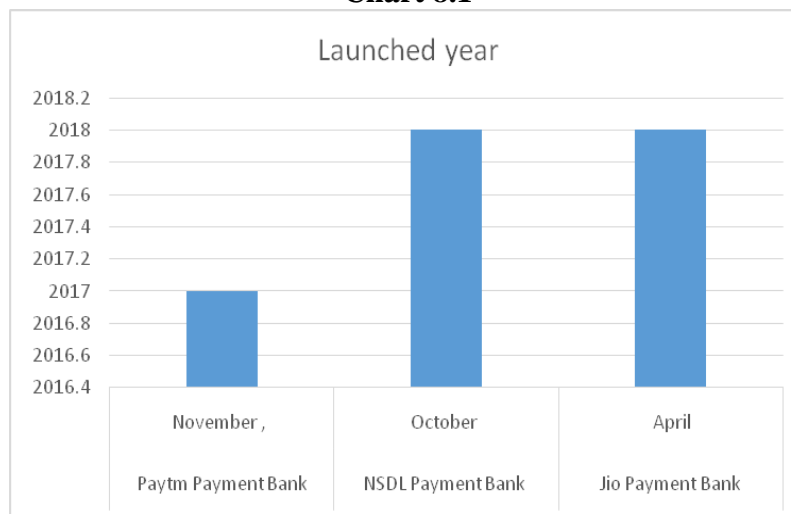


- Some of these like Cholamandalam, Sun Pharma and Tech Mahindra surrendered their approvals. Another four are in line according to the recent information and survey.
- The environment, in which people are so much habituated to the commercial banks with huge amounts of transactions, cannot easily shift to these banks.
- Every payment bank is bound to have lower and middle income customers who will take some more time to enter into this digital platform. More number of services to deepen financial services may take some time around five to 7 years. These banks viability is also a threat once the customers of Public Sector Banks move to UPI interface.
- E- Wallets and mobile payment systems need a smart phone and an internet connection, but less than a quarter of the population owns a smart phone.
- When all the banks launch its own app and provide you the same facilities, customers may not go for these Payment Banks. Then it's a survival threat to Payment Banks.
- Payment Banks offer limited services, but still they can easily provide more and more innovative and creative services which may not be within the reach of traditional banks.
- Payment Banks resulting in financial deepening with innovative and strategic services, it increases the market share of low cost deposits and it will create further threats or challenges to the existing Commercial Banks in the coming days.
- Survey proves that there is decline in the Savings rate even in top performing Public Sector Banks in the year 2017.

Table 8.1. Leading payment banks

S.No	Leading payment	Launched Month	Launched year
1.	Airtel Payment Bank,	January	2017
2.	India Post Payment Bank,	September	2018
3.	Fino, Payment Bank	April	2017
4.	Paytm Payment Bank	November ,	2017.
5.	NSDL Payment Bank	October	2018
6.	Jio Payment Bank	April	2018

Chart 8.1





9. Suggestions To the Users

- Identification code must never be shared just like PIN of ATM, since these codes protect your money.
- When you have digital wallets in your mobile, you need to always maintain screen lock.
- One should never use public WiFi Networks in public places like restaurants, railway stations, airports, etc.,
- Checking bank statement with Digital wallet pass book is necessary to ensure or spot any incorrect debits.
- One should not open promo emails, which may ask your security details to login.
- If daily limit is set, you can easily manage if anyone tries to get money from your wallet.
- Logging out from the app is important after the transaction.
- Telephone icon can be used to call for any queries.
- Easy to trace and collect the payments, therefore, Government needs to encourage.
- Government of India (GOI) should conduct certain awareness programme in this context of Internet and digital literacy.
- Imparting free internet access to the rural persons to fill the digital gap in rural areas.
- Encouraging people to get appended with the banking system and using such innovative banking modes.

10. Conclusion

With the entry of payment banks, the process of shifting money from bank accounts to wallets will become truly seamless, and thus it is extremely possible that many customers may open payment bank accounts in addition to their regular bank accounts. They may segregate small-ticket payments from other bank payments by holding separate accounts. This is a key value proposition and would be really a game change in Indian Banking System. But as it is a new in still in India, many people are not aware about Payment Banks, its services, benefits and security norms. Hence, the holders of Payment Banks have to create awareness among people.

The story for the Payment Banks is not over, at least not yet. It has got the potential to achieve the objectives with which it was set up. The requirement of the day is swift action by the RBI to draw its attention towards the downfall of these banks and take corrective measures without much delay.

Traditional banks have not yet included the vast unbanked population and also could not offer easy way of transactions with less cost. Therefore, the payment Banks will definitely try to occupy this vacant position and fill this gap. Public Sector Banks have launched its own UPI apps. The idea is to keep money with them and retaining the customers in small transactions also. The payment banks will definitely bridge the gap between traditional banks and the untapped rural customers.

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