

PAYMENT BANKS: A FULCRUM FOR A CASH-LITE ECONOMY

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ABSTRACT

Indian financial market is changing rapidly and emerging on the global platform. India is gradually transitioning from a cash-centric to a cashless economy. The entire country is undergoing the phase of modernization in monetary transactions with e-payment services gaining unparalleled momentum. The boundaries of electronic transactions are no longer confined to the big business houses as the small street vendors, hawkers are now accepting electronic payments for their transactions. It prompts the people of the country to learn transacting through electronic means rather than using cash for every transaction. According to World Bank Report a large section of Indian population is still unbanked. Realizing the need to bring the people residing in far rural areas of the country in the ambit of banking umbrella, the Reserve Bank of India authorized the private players to enter in the banking industry. On Aug19, 2015, the RBI has given approvals for eleven payment banks. Payment Banks activities are concentrated on farmers, migrant labourers, low income households and small businesses which are still not financially inclusive. These banks offer banking facilities such as payments, deposits, remittances, internet banking but cannot undertake lending activities. This paper attempts to study the pros and cons of a cashless economy along with the various initiatives undertaken by the govt of India to promote cashless economy. The paper also attempts to study the contribution of Payment Banks in move towards a cashless economy as well as their role in banking the unbanked section of Indian population.

KEYWORDS: *Payment Banks, Financial Inclusion, UPI, BHIM, RBI VISION 2021.*

Introduction

The Government of India together with RBI initiated the Digital India programme with a vision to transform India into a digitally empowered and knowledge economy. The main thrust of the campaign is on "Faceless, Paperless, Cashless" India. Indian consumers were in dire need of the personalized digital exchange of financial transactions. Spread of mobile phones and internet services at affordable prices contributed significantly in increasing the digital transactions from 10,000 million transactions in 2016-17 to 20,540 million in 2017-18. The RBI's Payment And Settlement Systems In India: Vision – 2019-2021, released on May 15,2019 aims to transform India into a cash-lite economy and ensure that the country has a 'state-of-the-art' payment and settlement systems that are safe and secure. The emphasis of this vision is on innovation, cyber security as well as customer protection. These three pillars forms the basis to form a robust financial ecosystem.

During the said period, digital transaction in the country is likely to increase by four times from Rs. 2069 crore in December 2018 to Rs. 8707 crore in December 2021. The RBI also stated that by 2021, India will see a 100 per cent annual growth rate for payment systems like UPI and IMPS, while 40 per cent for NEFT.

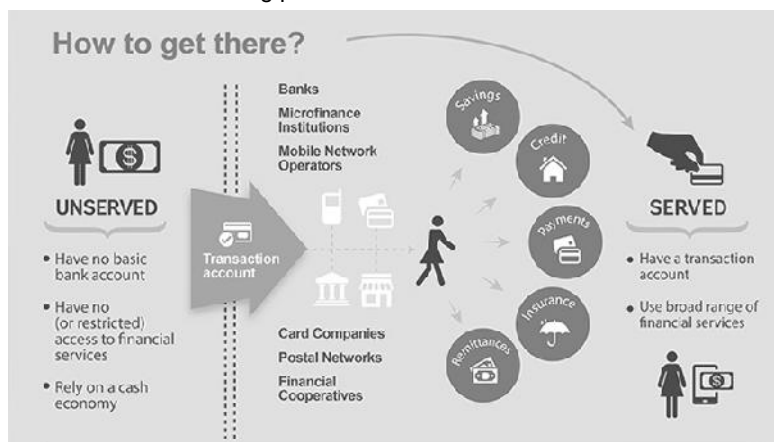
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UFA 2020: Universal Financial Access by 2020

The growth of an economy can be said to financially inclusive only when the people of the country have access to the financial services at affordable prices. The concept of the Financial Inclusion has been recognized worldwide because there are still estimated 1.7 billions adults worldwide (31% of the adults) who don't have basic bank account.

- The world bank together with IFC (International Finance Corporation) has set up UFA 2020 which committed to enable 1 billion people across the globe to have access to a digital transaction account.
- The main thrust of the goal is on the adults of the world who are still not the part of the banking systems and can contribute significantly in economy growth.
- More than 30 members have taken pledge to fulfill their commitments towards achieving UFA goals. India is one of the among partners.



Around 50 per cent of India's bank branches are in cities and 70 per cent of India's population lives in rural areas, thus indicating a clear mismatch in achieving the targets of a financially inclusive and digitally empowered economy. Although there are several public banks, private banks, MFIs, Cooperative Banks existing in the country yet the people of the country residing in the far rural areas donot have a basic bank account. Therefore with the objective to reach those masses as well as to bring competition among the existing players the RBI allowed the private players to enter into the banking sector by forming new forms of banks known as Payment Banks eg. Airtel Payment Banks, Paytm Payment Banks, Postal Payment Banks etc. On 19th Aug 2015, the RBI has given approval for eleven payment banks.

The concept of payment bank was based on the recommendations of Dr. Nachiket Mor Committee. It is a type of differentiated banking, which is expected to reach customers mainly through their mobile phones rather than traditional bank branches. Payment banks expects to take advantage of the reach of telecoms networks. It is a simplified banking model wherein the entire banking services are provided to the masses without opening a bank branch. Thus these banks can prove to be cost effective and can provide access to the services conveniently. This is the first time since the nationalization of banks in India, that private sector business groups are allowed for banking services by the RBI. The role of the Payment Banks will be complimentary to the existing financial ecosystem.

Objectives of the Study

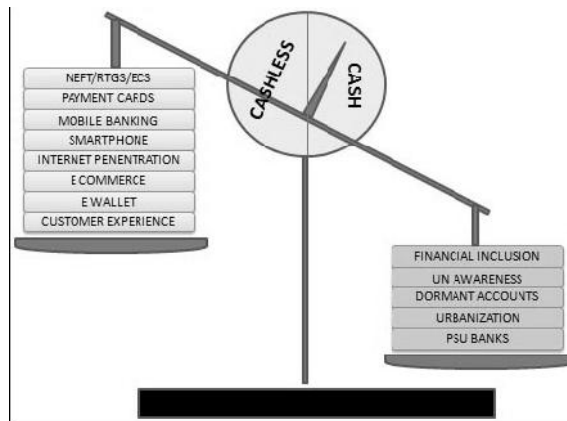
- To study the concept of a Less cash (cash lite) economy.
- To highlight the various initiatives undertaken by the govt of India to promote a Cashless society.
- To have an insight about the available digital payment modes .
- To study the role of Payment Banks in achieving the goal of a financially inclusive and digitally empowered economy.
- To highlight the opportunities for the Payment banks as well as the hurdles in their growth.

Research Methodology

This paper is a conceptual paper. The study is based on secondary data. The data is collected from national and international journals, published government reports, News paper, websites.

Cash Lite Economy

A Cash-lite economy is an economy wherein the usage of electronic payment channels exceeds the usage of cash in performing the financial transactions resulting in reduction of cost of production of cash as well as its transportation.



The Cash lite economy creates an environment where in the monetary transactions are carried out without the physical movement of cash from one person to another. Hence the usage of credit card, debit card, fund transfers increases manifold in a cashlite society. Money is generally accepted as a means payment for goods and services and repayment of debts in a country .Money is considered as having three functions:

- a unit-of-account function
- a medium-of exchange function
- a store-of-value function

In a cashless society all the above mentioned functions of money are performed in digital manner.

Various Initiatives Undertaken by the Govt to Promote a Cashless Economy

The Indian economy has undergone numerous changes as there has been large scale acceptance of digital mode of financial transactions by the masses of the country. It has forced the govt of India to come up with new payment avenues and also educate the people about the benefit of these new modes. Therefore the govt of India launched the DIGITAL INDIA CAMPAIGN. The success of the campaign is based on the availability of mobile internet and smart phones at reasonable prices to the customers. During the past five years the reach of the telecom companies has increased manifold and hence can contribute significantly to achieve the govt aim of a faceless, paperless and cashless society.

The Govt. has given a Six-Point Formula

- All cash counters in government offices should put up BHIM-UPI QR codes for performing digital transactions
- Cash counters may send a request on customers mobile phones to have an access of payment through UPI.
- *Campaigning must be done to cover all the merchants through BHIM-UPI.
- Encouraging more and more people to adopt Fast TAG on their vehicles/
- QR code must be provided on all utility bills.
- National Common Mobility Card must be pushed in metros to fulfill basic transportation needs.

Digital Payment Modes

Rbi in its vision 2020-21 has provided a vision of creating a digital economy which is based on three main pillars

- Faceless
- Cashless
- Paperless

The Digital India programme can contribute significantly in achieving this vision of Rbi. With an objective to encourage cashless transactions and converting the economy from cash driven to cash lite, various modes of digital payments have been introduced from time to time.

These Modes are:

- Banking cards
- USSD
- Aadhaar Enabled Payment System (AEPS)
- UPI
- Mobile Wallets
- Bank pre-paid cards
- Point of Sale (PoS)
- Internet Banking
- Mobile Banking
- Bharat Interface for Money (BHIM) app

Role of Payment Banks in Achieving the Goal of a Financially Inclusive and Digitally Empowered Economy

Payment bank is one of the latest initiative by the Reserve Bank of India (RBI) towards the important objective to promote digital, paperless and cashless banking in our country. It is an ecosystem wherein the non-banking financial organizations are granted the permission to offer basic bank services to Indian citizens. A payments bank is a niche bank setup with the specific objective of serving to the unbanked and under banked section of the population. Although the Pradhan Mantri Jan Dhan Yojana has contributed significantly in increasing the the number of banked individuals in the country yet there are still millions of Indians who do not have basic bank accounts. According to a World Bank report, 21% of the world's unbanked adults are Indians.

The existing players of the banking system(private and public sector banks) were unable to reach the people residing in far off areas of the country which has led to the formation of new types of banks known as Payment Banks wherein all the transactions are done digitally with the use of mobile phones. Hence there is no need of setting up of branches which saves huge cost of the banks. The entire transactions in these payment banks are based on technology these banks leave no loophole for blackmoney.

Feature	Payments banks	Traditional banks	Wallets
Making deposits	✓	✓	✓
Interest on deposits	✓	✓	✗
Withdrawal facility	✓	✓	✗
Availing of loans	✗	✓	✗
Credit cards	✗	✓	✗
Buying investment products	✓	✓	✗
Deposit limit	₹1 lakh	No limit	-

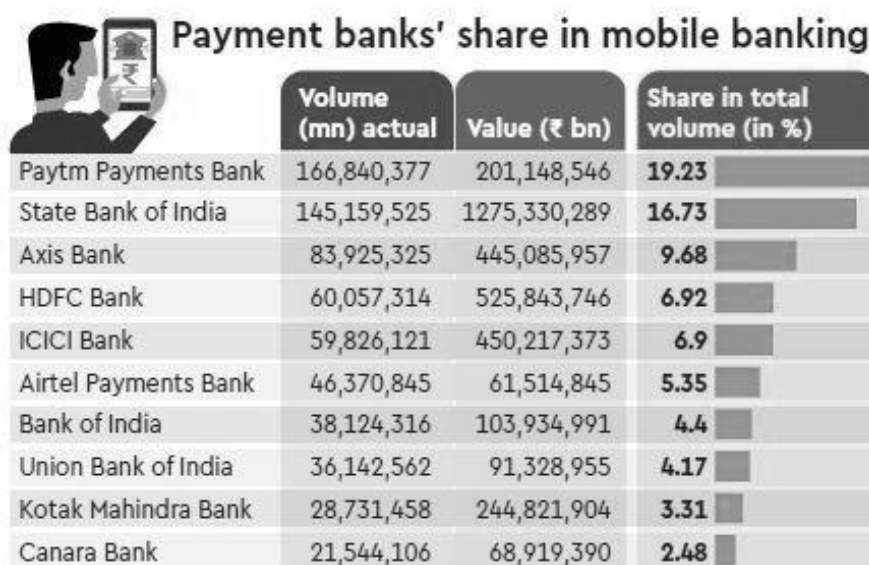
Advantages of Payments Bank

- Payment Banks have greater reach to the remote areas of the country as compared to the traditional banks as they are technology driven and all transactions are carried out through mobile phones only.
- The services of the paytm banks are available around the clock and there are no minimum balance charges on maintaining the account.

- The entire process of the account opening is digital hence the customer is not required to visit the branch to fill any forms.
- Initially the rate of interest provided on the saving accounts was also high as compared to the traditional banks.
- The entire deposit of the Payment Banks is invested in the Govt funds hence the money deposited is relatively safer.

Contribution of Payment Banks

The year 2018-19 has proved to be an important milestone for this Payment Banks. During this year these banks have entered in the list of top 10 mobile banking players. The paytm payment bank has gained the 1st position in share in total mobile banking transactions during the above said period, leaving behind the biggest public sector bank (SBI). The Airtel payment bank has also improved his position by leaving behind various existing players as Kotak Mahindra Bank, Canara Bank.



The figure is a table titled "Payment banks' share in mobile banking" with an illustration of a person using a smartphone. The table lists the top 10 payment banks, their volume in millions, their value in billions of rupees, and their share in total volume in percentage. The data is as follows:

	Volume (mn) actual	Value (₹ bn)	Share in total volume (in %)
Paytm Payments Bank	166,840,377	201,148,546	19.23
State Bank of India	145,159,525	1275,330,289	16.73
Axis Bank	83,925,325	445,085,957	9.68
HDFC Bank	60,057,314	525,843,746	6.92
ICICI Bank	59,826,121	450,217,373	6.9
Airtel Payments Bank	46,370,845	61,514,845	5.35
Bank of India	38,124,316	103,934,991	4.4
Union Bank of India	36,142,562	91,328,955	4.17
Kotak Mahindra Bank	28,731,458	244,821,904	3.31
Canara Bank	21,544,106	68,919,390	2.48

Source: RBI

The share of Paytm Payment Bank in total volume of mobile banking transactions is 19.23% (the highest) whereas the share of Sbi stood at 16.73% (2nd position). The Airtel Payment has also become successful in achieving its position in top 10 banks with share of 5.35%.

Opportunities for the Payment Banks

• Sheer Size of the Unbanked Population

India's unbanked population stands at 233 million. These people are still outside the umbrella of the formal banking system. This provides an opportunity to these payment banks to attract these masses by designing their products as per their needs and convenience.

• Govt Initiatives

The various govt initiatives such as Demonetization, Digital India campaign, PMJDY etc provides an opportunity to these payment banks to come up with innovative products and take the advantage of the govt support.

• Cost Effective

The payment banks has proved to be cost effective model of achieving the goals of a financially inclusive economy as the medium of transaction is totally digital. No need of opening physical branches contributes significantly in cost reduction and this benefits the customers in the form of higher rate of interest to the customers.

Hurdles in the growth of Payment Banks

The concept of the Payment Banks was introduced with the main objective to make the country financially inclusive as well as Cashless, but following are the various factors that hinders the growth of these banks in India.

- **The Cap on Accepting Deposit**

A payment bank can accept deposit upto Rs 1 lakh per customer only, which restrains them to accept bulk deposit and hence hinders the growth.

- **Cross-sell Fee**

The payment banks are totally dependent on the third party to earn their income as they are not allowed to lend. The main source of income for these banks is only by selling third party products such as Mutual Funds, Insurance etc.

- **Restriction on Fund Deployment**

Payments banks have to invest 75% of their CASA balances in Statutory Liquidity Ratio (SLR) eligible government bonds or T-Bills. Although this is considered as a safety measure from the investor's point of view but curtails the growth of these payment banks.

- **No Lending. No NII (Net Interest Income)**

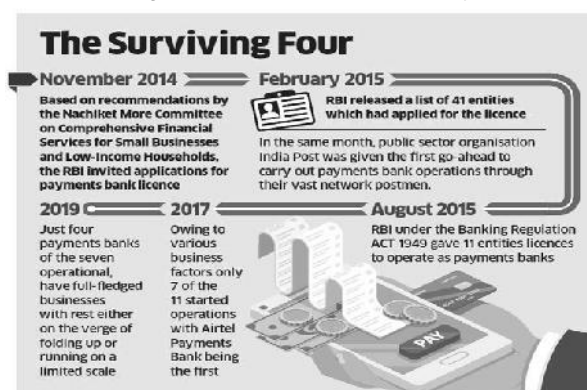
Payments banks are not allowed to undertake lending activities resulting in no net interest income to these banks whereas this interest income contributes significantly in the total income of the existing traditional banks.

- **Over-Competition**

There are many existing players in the formal banking system and payment banks are the new entrants and thus have to face over competition from the existing players, which forces them to come up with innovative products for their survival.

Conclusion

The Indian financial markets have changed rapidly and are becoming globally competitive. A **cashless society** describes an economic state in which financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the use of digital mode for performing financial transactions. Technology has transformed the way one banks or carries out business transactions. Digital Banking is becoming the preferred mode of operation among the millennial. Various initiatives are undertaken by the govt of INDIA in its DIGITAL INDIA campaign to make our economy digitally competitive on the global platform. One of the biggest initiative was the setting up of Payment Banks for catering the untapped rural masses who are out of the ambit of formal banking structure. Payment Banks through their technology driven models (all banking services through the mobile phones) are easily acceptable to the peoples. Though these payments banks have been widely accepted as a medium of executing financial transactions but yet there are various challenges that these banks have to overcome. The need of the hour is relaxation of stringent norms (such as Deposit CAP) to make these banks as a successful initiative in the growth of a Cashless economy.



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