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PAYMENT BANKS IN INDIA

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Abstract:

The Payment Banks should use the platform of mobile banking, as it reduces the overhead operational costs and decrease the customer reach to the great extent due to the penetration of the smart phones in the market today. Payment banks have been introduced with the primary objective of increasing the impact of financial inclusion drive. The payment banks play a significance role in implementing government's direct benefit, transfer schemes, where subsidies on health care, education and gas are paid directly to beneficiaries account. However, the competition between traditional and payment banks will lead to widening and improvement in quality of banking services are reduced cost and which may finally lead results in financial inclusion. There are numerous bottlenecks that need to be addressed before the real benefits of payment banks.

***Keywords:* Bottlenecks, Financial Inclusion, Facilities**

Introduction:

The underlying foundation of a country's financial system – including all institutions, information, technologies, rules and standards that enable financial intermediation- is its "financial infrastructure." A poor financial infrastructure imposes a considerable constraint upon financial institutions in many developing countries, hindering their efforts to offer financial services to underserved segments of the population and the economy. It also creates risks that can threaten the stability of the financial system as a whole.

The buzz word in Indian banking industry, during the recent days are “Payment Banks”. Reserve Bank of India (RBI) seems to be very cautiously active in granting licenses to (a) Payment Banks (b) Small Finance Banks in India.

Evolution of Payment Banks

The lack of current banking infrastructure gives rise to the new class of banks “Payment Banks” which are not allowed to provide loans to public thereby reducing the chances of increasing NPA’s and credit risk but they are allowed to make the payments only and RBI has given licenses to the 11 such payment banks to include the cash outs and earning interest to the end users. To achieve this change, the retails touch points will be very crucial like the small kirana shops and the mobile recharge outlets (the classic case is of PAYTM) where the subscribers can keep the credit in the wallets and make the charges from this wallet as and when required. This will help the both online and offline payment mechanisms along with the new merchant acquisitions, customer education and ease of use etc. From these wallets the individual can pay the bills or make the payments to the various parties linking an account number to the wallet. So, this helps in making huge number of transactions which reduces the burden on traditional banking and making the efficient payment system. The Payment Banks should use the platform of mobile banking, as it reduces the overhead operational costs and decrease the customer reach to the great extent due to the penetration of the smart phones in the market today. This is studied under the KPMG-UBS Study which proves that the penetration of the smartphones in India increase the total reach of the customers with the minimum cost as they need not to open the physical branches for accessing the banking services and hence making the financial inclusion an efficient system.

Concept of Payment Bank

A Payment bank is like any other bank, but operating on a smaller scale without involving any credit risk. In simple terms, it can carry out most banking operations but can’t offer advance loans or issue credit cards. It can accept demand deposits, offer remittance services, mobile payments, transfer/purchases and other banking service like ATMS, Net banking and third-party fund transfer.

New-stripped down type of banks, which are expected to reach customers mainly through mobile phones rather than traditional bank branches. Payment banks have been announced by RBI as a possible of digital transaction only one kind. The RBI of India had asked Nachiket Mor Committee to explore and recommended options for creating special category of banks which would positively impact financial inclusion within India. As a part of the recommendations of the NachiketMor committee a special category called ‘payment Banks’ has been proposed.

Functions of Payment Banks

The payment bank can perform following functions as per the guidelines issued by RBI

i. Payment bank can accept demand deposits from individuals, small business and other entities up to Rs. 100000/- form single customer. These deposits would be covered under the deposit insurance scheme of the Deposit Insurance and Credit Guarantee Corporation of India (DICGC). However Payment banks are restricted to accept NRI deposits. The payments bank will have to undertake its own KYC/ANL/CFT exercise as any other bank.

ii. Payment banks can issue debit cards and ATM cards usable on ATM networks of all banks, however, cannot issue credit cards.

iii. Payments banks, can provides payment and remittances services through various channels including branches, Automated Teller Machines (ATMs), Business Correspondents (BCs) and mobile banking.

iv. Issuance of PPIs as per instructions issued from time to time under the PSS Act. However, the outstanding balances in PPIs will be deployed as per the pattern of deployment of funds indicated at paragraph 5 below.

v. Payment banks can offer internet banking services to its customers subject to comply with RBI instructions on internet banking and information security, electronic banking, technology risk management and cyber frauds. The payment bank is expected to leverage technology to offer low cost banking solutions.

vi. Payment bank can perform the function as business correspondents (BC). It may choose to become a BC of another bank, subject to the RBI guidelines on BCs.

vii. As a channel, the payments bank can accept remittances to be sent to or receive remittances from multiple banks under a payment mechanism mechanism approved by RBI, such as RTGS/NEFT/IMPS.

viii. Payment bank can provide forex cards to travellers, usable again as a debit or ATM card all over India.

ix. Payment bank can offer forex services such as handing cross boarder remittance transactions at charges lower than banks.
x. Payment banks can also offer card acceptance mechanisms to third parties such as the ‘Apple Pay’.
xi. Payments banks can provide other services such as distribution of mutual fund units, insurance products, pension products, etc. with the prior approval of the RBI and after complying with the requirements of the sectarian regulator for such products.
xii. The payments bank may undertake utility bill payments etc. on behalf of its customers and general public.

Conclusion

Payment banks have been introduced with the primary objective of increasing the impact of financial inclusion drive. The payment banks play a significance role in implementing government’s direct benefit, transfer schemes, where subsidies on health care, education and gas are paid directly to beneficiaries account. However, the competition between traditional and payment banks will lead to widening and improvement in quality of banking services are reduced cost and which may finally lead results in financial inclusion. There are numerous bottlenecks that need to be addressed before the real benefits of payment banks. There are million of Indian don’t have access to banking facilities. They cannot avail of government benefits, loans, insurance and even interest on savings. M-Banking, IPPB, PMJDY will reach the unbanked and the under banked across the all cross section of society and geographics.

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