



Payment Banks: A Game Changer for Financial Inclusion in India

KEYWORDS

Payment Banks in India, Nachiket More Committee, Financial Inclusion, changes in Indian Banking Industry

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ABSTRACT

Post 1991 some of the Industries of India has witnessed huge amount of development and changes out of which Banking Industry is one of the Industry where majority of the changes have been drawn with micro view point of Financial Inclusion Movement to ensure that every citizen of India has access to Banking services and is part of Financial System. A remarkable decision is taken by RBI to Give License to Payment Banks which are anticipated to be the Game changer in achievement of Financial Inclusion. This article is an effort to understand the existence, objectives, modus operandi, impact and effectiveness to provide each and every citizen of India an access to banking services with the new Players Payment Banks.

1. Introduction

On 19th August 2015 RBI gave in-principle license to eleven entities to launch Payment Banks as per the recommendation of Nachiket Mor Committee. Payment Banks are considered as crucial linkage which would ensure to bridge the gap between banking services and population at the bottom of pyramid for a populous country like India. However out of the eleven entities three of them have surrendered the license which had created some ripples in the Industry about its existence and effectiveness.

Table no.1 List of entities entitled to launch Payment Banks.

Sr. no.	Name of entities
1	Aditya Birla Nuvo
2	Airtel M Commerce Services
3	Cholamandalam 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

As mentioned in Table no.1 three entities namely Cholamandalam Distribution Services, Dilip Shanghvi and Tech Mahindra have surrendered their in-principle license. This in-principle license is valid for 18 months in which entities must comply with the criterions otherwise they are not allowed to engage in banking activities.

2. Nachiket More Committee Recommendations

A committee was set up by RBI under chairmanship of Nachiket MOR an RBI board member in September on "Comprehensive Financial Services for Small Businesses and Low Income Households 2016" and the committee gave detailed report in Jan 2014. The report was perceived as too ambitious and unrealistic by some, however it sparked a debate on creating an inclusive financial system in India. The committee gave its recommendations in the form of six vision statements mentioned below,

Table 2: vision Statements and strategies by Nachiket Mor committee.

Sr. No.	Vision Statement	Strategy to achieve same
1	Universal Electronic Bank Account (UEBA) by Jan 1, 2016	All people above 18 years who possess Aadhar Card number will be given choice to open Bank account without any fee by 1 st Jan 2016 with an assumption that government will finish issuing Aadhar card by Jan 1, 2016.
2	Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges	Opening of Bank accounts will be useless if there is no access of bank. Hence it was recommended that "Access points" should be opened in a manner that no one has to walk more than 15 minutes to such access point. As a result Committee suggested giving license to "PAYMENT BANKS" which would be similar to Pre-paid Instrument (PPI) providers operating currently.
3	Sufficient access to affordable formal credit	The Committee suggested ensuring that low income household and small business should have convenient access to regulated formal lenders with full range of suitable credit products at affordable prices. To achieve same committee made various recommendations such as, <ul style="list-style-type: none"> Abolish Statutory Liquidity Ratio (SLR) gradually and replace it with the Liquidity Coverage Ratio (LCR) Reduce Cash Reserve Ratio (CRR) increase Priority Sector Lending (PSL) targets from 40% to 50%, but with regionally differentiated targets Stop giving loan waiver and interest subvention to farmers RBI should give licenses for a new type of banks called "wholesale banks": District-level inclusion metrics: such as credit-GDP ratio for monitoring of financial inclusion. Regulatory convergence of NBF Cs with banks

4	Universal Access to a range of deposit and investment products	The inflation is higher than the money a person can earn from bank deposit. The committee has recommended various measures such as provision of a range of products such as inflation indexed bonds, mutual funds, National Pension System, etc. to help protect people's earnings from being eroded by inflation.
5	Universal Access to a Range of Insurance and Risk Management products at reasonable charges	Each low-income household and small-business should have access at a reasonable price to a range of insurance and risk management products, related to: a) commodity price movements; b) life and disability; c) death of livestock; d) rainfall; and e) damage to property by 1 st Jan 2016.
6	Right to Suitability	Right to suitability refers to right of each low income house hold and small business to get only suitable financial services from service providers and they will have power to initiate legal proceedings against financial service providers. The committee believes that India needs to move to a regime where the financial service provider itself makes sure that the product or service being provided is as per the needs and suitability of the customer.

3. Payment Banks

The key objective of setting up a Payments Bank is to further the cause of financial inclusion by widening the spread of payment services and deposit products to small businesses, low-income households, migrant labour workforce, and other unorganized entities by enabling high volume-low value transactions in deposits and payments/ remittance services in a secured technology-driven environment.

3.1 Scope of Functions

A Payments Bank can accept demand deposits, issue ATM/debit cards/ PPIs, offer remittance services (incl. cross-border remittances) and internet banking services, act as a BC for another bank and undertake non-risk sharing simple financial services activities not requiring any fund commitment, such as distribution of MFs, insurance products, pension products, etc. and undertake bill payments. However a Payment Bank can not undertake lending activities, issue credit cards, accept NRI deposits or become a "virtual" bank or branchless bank. RBI norm limits payment banks for demand deposits maximum to 1 lakh and further they cannot provide loans or accept term deposits. The Deposits raised by payment banks will have to be invested in Government bonds and a maximum of 25% can be invested in an account with another bank.

3.2 How it would operate

The payment banks will largely depend on mobile and ATM infrastructure to provide banking transactions. Intense competition can be expected which would result in to reduction in charges for remittances, fund transfer and other transactions. As maintenance of minimum balance is not mandatory customers who do not have means to maintain balance will be welcomed in payment banks as source of revenue would be transaction charges and not the spread of interest between deposits and loans. RBI has selected different payment bank players from different sectors and background considering evolution of different models. Hence it would be too early to suggest or predict which model would be successful.

4. Payment Banks and Financial Inclusion

Out of remaining 8 players among payment banks department of post is considered as the most equipped player and with few

limitations as department has base of approximately 1.55 lakh post offices and close to 5 lakh experienced employees who can act as a Business correspondents in providing banking services. NSDL (National Securities Depository Limited) which is India's first depository and also pioneer of technology in financial market also has the remarkable strength of implementation as NSDL is acting as registrar for Aadhar Card and it also has the strongest lead in e KYC however there is potential of conflict as NSDL moves from being a service provider to Industry player. Further payment banks from groups such as Vijay Shekhar Sharma- a Promoter of Paytm, Vodafone Mpesa, Fino pay tech and Airtel M commerce who have strong market presence with large customer base on technological platform can also emerge as the strong players to reach the unbanked. Reliance Industries although a new player in banking has capability to launch mega projects and especially with the launch of Rel jio 4G pan India It has created strong base for itself. With the usage of Rel Jio 4G, dedicated handsets and tie up with SBI Reliance has put forward a huge leap to provide banking services. Aditya Birla Nuvu although one of the oldest business groups in India has yet to establish capability in reaching out to financially excluded.

5. Changes that Payment Banks can bring in Indian Banking Industry

Payment bank's differentiated license with limitations might bring advantages for customers such as reduction in service charges, non-application of minimum monthly or quarterly balance maintenance and competition from these new entities will force existing banks to offer low cost or low balance basic accounts. Payment banks may help to fight with forged note issues as with the usage of technology – mobile phones and bio metric system (Aadhar card enabled bank accounts) the use of currency circulation will drastically fall as majority of transaction might take place with the help of these technology only. Payment banks may also give PAPERLESS BANKING enough space to penetrate. Due to RBI norm of investing deposits of payment banks only in Government Bonds this model may be perceived as the safest model as there is no Credit risk involved. One product one segment approach that is mobilizing authority of only one lakh rupees would require less investment in marketing and hence niche segment which is not tapped by commercial banks can be tapped fully.

6. Conclusion

Due to the thin margins and a small industry size, it is critical for Payments Banks to get their strategy design correctly and to try out innovative/off beat revenue models. Only selective players with Financial Capability, higher risk appetite and expertise in Business to customer small value transactions may find themselves at good position. It is interesting to observe that giants from across industries will compete to reach unbanked.

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