Original Research Paper

Volume - 14 | Issue - 12 | December - 2024 | PRINT ISSN No. 2249 - 555X | DOI : 10.36106/ijar

Commerce

PAYMENT BANKS: A STEP TOWARDS FINANCIAL INCLUSION- A STUDY TO ANALYSE THEIR PERFORMANCE

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ABSTRACT Financial inclusion refers to initiatives to make financial products and services available and affordable for all people and enterprises. The goal of financial inclusion is to eliminate the obstacles that prevent people from engaging with the financial industry and utilizing its services to better their lives. Payment banks are established in the light to provide basic banking facilities to the all the sectors of the society especially rural section at an affordable cost. In this paper, an attempt was made to understand the concept of payment bank, analysing selected payment banks financial performance and also to track how much progress they have made and challenges they are facing in fulfilment of the goal of financial inclusion. It was found that compared to other PBs, Paytm has shown higher turnover, net worth and profitability.

KEYWORDS : Financial Inclusion, Payment Banks, turnover, banking services.

INTRODUCTION

Financial inclusion has emerged as one of the initiatives over the past few years. In terms of outcomes, the overall experience is mixed. Despite opening large numbers of bank accounts, majority of them remain dormant because appropriate products were not offered to address the needs of the newly included population. According to the NSSO 59th Round Survey results 51.4% of farmer households are excluded from formal as well as informal sources of finance. Only 27% of the farm households access formal sources of credit while 73% have no access.

In the first phase of inclusion a number of different channels have emerged. Microfinance institutions (MFI), Business correspondents (BCs) and Prepaid Instrument Providers (PPI) have acted as a bridge between banks and newly included population by offering low cost services at the doorstep of customers. Telecom companies also provide low-cost remittance facilities using their networks. A feature shared among all these models is that they finance their operations either from equity or borrowings from banks.

On 23rd September 2013, Reserve Bank of India formed a “committee on comprehensive Financial Services for Small Businesses and Low Income Households”, headed by Nachiket Mor. On 7th January 2014, it submitted its final report with various recommendations. In that it recommended the formation of new category of bank called payment bank. On 17th July 2014, the RBI released the draft guidelines for payment banks, seeking comments for interested entities and the general public. On 27th November 2014, RBI released the final guidelines for payment banks. On 4th February 2015, RBI released the list of 41 applicants which had applied for a payment bank licence. It was also announced that an External Advisory Committee (ECA) headed by Nachiket Mor would evaluate the licence applicants. On 28th February 2015, during the presentation of the Budget it was announced that India Post will use its large network to run a payment bank. The ECA committee submitted its findings on 6th July 2015. The applicant entities were examined for their financial track record and governance issues. On 19th August 2015, finally the RBI gave “in-principle” licences to 11 entities to launch payment banks. They are as follows:

1. Aditya Birla Nuvo
2. Airtel M Commerce Services
3. Cholamandalam Distribution Services
4. Department of Post
5. FINO Pay Tech
6. National Securities Depository
7. Reliance Industries
8. Dilip Shanghavi, Sun Pharmaceuticals
9. Vijay Shekhar Sharma, Paytm
10. Tech Mahindra
11. Vodafone M Pesa

The “in-principle” license is valid for 18 months within which the entities must fulfill the requirements. They are not allowed to engage in banking activities within the period. The RBI will consider grant full licenses under Section 22 of the Banking Regulation Act, 1949, after it is satisfied that the conditions have been fulfilled.

REVIEW OF LITERATURE

Sahoo (2017) found that household income, education, possession of private land and being in employment guarantee scheme are significant determinants of financial inclusion. The individuals with household income will have tendency to have bank accounts and hence use them to access financial services. Education was also found to enable individuals to access financial services through being able to open and operate bank accounts. The possession of private land enabled individuals to access bank loans since they can use the land as a security.

Zins & Weill (2016) also found that gender, age, income and education influenced financial inclusion in Africa. They also noted that education and income had a higher influence than the other factors. The gender plays a role in financial inclusion since the males control the finances in the family and they are in most families the income earners. The women are financially excluded because of cultural reasons. The age of the individual was also found to determine financial inclusion.

Rathore HS (2016) found that the major factor in adoption of digital wallet is convenience in buying products online without physically going from one location to another location.

Shah & Dubhashi (2015) reviewed literature and noted that financial inclusion can be improved by sensitizing people on the financial products, education, advice on money management, debt counselling, savings and affordable credit. They also said that technology can present a good opportunity for financial inclusion.

Lapukeni (2015) found that information and communication technology (ICT) increases financial access through the reduction of transaction costs and widening the areas that can be covered by the financial institutions. Many financial institutions have partnered with telecommunication firms in a bid to increase their clientele for financial services. A good example is Safaricom which started M-PESA services which has increased the uptake of financial services through savings, payment and borrowing services.

STATEMENT OF THE PROBLEM

Financial inclusion primarily refers to the delivery of financial services to the disadvantaged and low-income groups at an affordable cost. It includes access to basic financial services such as credit, savings, insurance, and payments and remittance facilities. In India, the schemes of financial inclusion envisaged by RBI cannot be executed solely on the basis of the branch banking model. Technology adoption is inevitable if the desired inclusion targets are to be achieved within a defined time span.

The key objective of setting up payment banks is to further financial inclusion by spreading the payment services to unbanked section of the population with greater access to small business, low-income household, labour workforce and remittance services.

OBJECTIVES OF THE STUDY

1. Analysing the financial performance of selected Payment Banks.
2. Exploring the progress and challenges of Payment Banks in reach out of the goal of financial inclusion.

RESEARCH METHODOLOGY

a) Nature of study- Conceptual analysis has been undertaken in this study.

b) Source of data- Secondary data were used for the analyses. The data were obtained from RBI website, Database of Indian Economy (DBIE), data from the Ministry of Corporate Affairs' Master Data, information from company's/parent company's annual reports (where available) of PBs and their respective websites, journals, and newspapers.

c) Time span- Six years data have been collected i.e. 2015-2020.

d) Statistical Tools used- Percentage Analysis, Bar chart diagram.

DATA ANALYSIS AND INTERPRETATION

FINANCIAL PERFORMANCE OF PAYMENTS BANKS

The profitability of the PB model has been seen in light of the fact that five of the eleven PBs have given up their licenses. The minimum SLR requirement of 75% and the model's restriction on lending activities have drawn criticism since they limit a PB's ability to generate money. It's crucial to remember that the majority of the seven PBs in operation began operations less than three years ago, even though it may be true that six of them have been losing money. Things may be improving for the PB model now that Paytm is the first PB to post profits of Rs. 19 crores.

1. TURNOVER AND NET WORTH

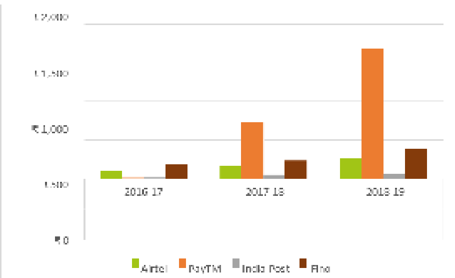

Figure 1: Turnover Figures of Pbs

As shown in Figure 1, all the four PBs have seen an increase in their annual turnovers. Paytm PB's turnover grew much faster than the other PBs, at a Compounded Annual Growth Rate (CAGR) of 777%. This is consistent with its superlative performance in both deposits and transactions.

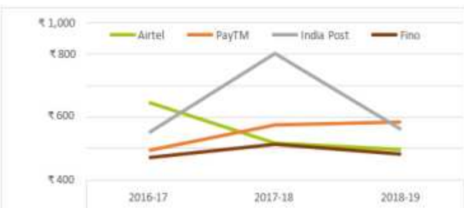

Figure 2: Net worth of Pbs

In terms of net worth, Paytm again tops the list with around Rs.367 Crores of net worth in the latest fiscal year 2018-19, as seen in Figure 2. Through the years, Paytm has seen several tranches of capital infusion from its founder, Vijay Shekhar Sharma, and parent company, One97 Communications.

After 2017–18, IPPB exhibits a sharp decline in net value. The unusually high tax provision in the 2019 Financial Year (FY) may be the cause of this. Nonetheless, IPPB had a significant edge in net worth the year before. Their extensive physical network may be the reason for their high net worth. While maintaining a low net value, Paytm PB has been beating the other PBs in terms of deposits and transactions. Its digital approach may be the reason behind this. The net worths of Fino PB and Airtel PB, both of which received cash infusions from their parent firms, have decreased.

Figure 3 shows the profits/losses for FY'17 and FY'18. As mentioned earlier, Paytm turned profitable in its second year of operations. IPPB reported a profit of approximately Rs.69 Lakhs in the first year of operations but went into losses in FY'18.

It is evident from comparing the IPPB profit and loss statements for the two fiscal years that the operating region has incurred a notably high level of expenses. The absence of annual reporting for Airtel PB and Paytm PB made it difficult to analyse the precise reasons for their gains and losses.

2.PROFITABILITY

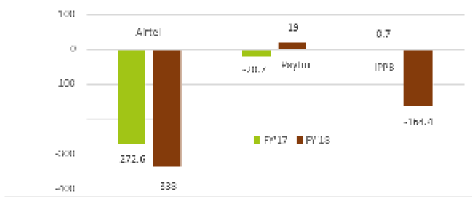

Figure 3: Profits/Losses of Pbs

PROGRESS AND CHALLENGES OF PAYMENT BANKS IN FINANCIAL INCLUSION

In order to expedite financial inclusion to the last mile, the Committee on Comprehensive Financial Services for Small Businesses and Low-income Households, which was chaired by Nachiket Mor, advised in 2014 that "high technology—low cost" banking models be established. Payments Banks (PBs) and other "vertically differentiated banking systems" were subsequently regulated by the Reserve Bank of India, which also established the framework.

Although they operate on a bigger scale than SFBs, PBs have seen great revenue growth. When it comes to its effect on inclusion, the high-tech PB model has proven more rigorous than the expensive branch-based SFB model. Based on this model's development, we can conclude that PBs have made headway in accomplishing their goals. However, PBs will need to take on a bigger role if we want to actually advance on the inclusion front. They function at around a tenth of the cost of servicing typical banks, are digital, and have access to a sizable customer base.

Banks with no credit risk are known as payments banks. This implies that while they are unable to offer lending services, they are able to take deposits, process remittances, and offer debit card services. Although a payment is classified as a "scheduled bank," companies are required to include the phrase "payments bank" in their titles. This makes it simple to differentiate it from conventional banks.

One notable development in the Indian banking industry has been the emergence of payments banks. Only anything so drastic could address the problem of financial inclusion in a nation with a low general literacy rate. The establishment and growth of a digital ecosystem depend heavily on financial inclusion and literacy. Furthermore, the government has benefited greatly from these banks' assistance in putting government welfare programs, transfer programs, and subsidies into place across a range of industries. Instead of a physical payment, these programs and subsidies are now sent straight to the beneficiaries' accounts. Consequently, the banking industry benefits from increased competition between commercial and payment banks. Additionally, increased competition will result in lower service prices and higher-quality banking services.

CONCLUSION

The introduction of Payment Banks in India is a major positive disruption to the banking sector and would certainly see the cost associated with the transfer of money or settlements reduce dramatically for end users. Payments banks are expected to revolutionize financial services the way e-commerce has changed the retail industry; by offering prompt service, reasonable prices, a new approach, infinite options for customer, emphasis on volumes transacted over margins earned, especially by altering the established standards. The success of these challenges to make a place for themselves in the industry that has being ruled by conventional banks for decades and boost healthy competition will depend on the way they approach the market and the financial products they offer.

Although it is too early to judge the competency of payments banks, the effects till now are positive. They are becoming popular amongst the youth as a model of digital transaction, bill payment and recharging.

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