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Genesis of New Era of Banking: Payment Banks

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Abstract

This paper an attempt has been made to study the new era of Indian Banking System with the inclusion of new age banks i.e. Payment Banks. It offers various information on different initiative is taken by government to achieve financial inclusion and the significance of digitisation of payments for the Indian Economy. In 2014 RBI introduced the two new categories of banks in system payment banks and Small finance banks. Objective of these banks to stimulate financial inclusion drive. The present paper deals with institutional and policy frame work for payment banks in India. It also provides some recommendation for the policy makers that might assist to developing a frame work that is progressive for all the stake holders.

Introduction

With the advent of new technologies banking industry is growing day by day with higher speed. Now days in India ecommerce is growing rapidly most of the peoples are like to do their shopping for their daily need or anything for special occasion they shift towards online websites for shopping. In online shopping they want to use more shopping coupon code for saving. Here is the genesis of payment banks people should adopt the payment banks to reduce the burden of scheduled commercial banks. The Indian financial system has witnessed some remarkable changes since 1991. Banking sector is the sector which has been performing really well after liberalisation, and this success can truly be associated with major banking reforms which were taken by RBI and some technological changes that have taken place over years. In 2013 reserve bank of India formulated a committee on comprehensive financial services for small business and low income house hold with the vision of improving financial inclusion in India. This committee recommend that open Payment banks and other differentiated banks in India. On 19th august 2015, the central bank of India gave nod to 11 banks out of 42 applicants of payment banks license. The nine organisations include, Aditya Birla Nuvo Limited, Airtel M Commerce Services Limited, Cholamandalam Distribution Services Limited, Department of Post, Fino pay Tech Limited, National securities Depositary Limited, Reliance industries Limited, Tech Mahindra Limited and Vodafone m-pesa.the two individual group include Dilip Sanghvi of Sun Pharmaceticals and Vijay Shekhar Sharma of one communication which operates Paytm. These enteties which are required to has an initial capital of Rs.100 crores each, will have to start operations within 18 month. These new type of niche bank was proposed in the Nachiket Mor Committee Report on ‘Comprehensive Financial Services for Small Businesses and Low Income Household’. These are expected to be game changer for India expanding banking services.

Payment Bank : Highlight and Feature

Payment bank is a type of niche non-full service bank, which can receive deposits and provide remittances but cannot lend money. The main target customer for them will be low income house hold, small businesses and migrant labourers. Payment bank means “digital Wallet or Mobile Currency” which can be used to book movie ticket, pay utility bills, do shopping etc. Payment bank is based on the concept of

PPI that is to load cash into mobile and use it to do various transactions such as transferring money using your mobile to another mobile phone holder or to another bank account or to point of sale terminals at large retailers and took cash out. Need for payment banks erupted India around 94 crore mobile subscriber which is approx 75% of the population of 125 crore bit if we see the number of bank account this figure comes down to 60 crore that is around 50% of the population. Most of the unbanked people lives in the rural lives in the rural area and are poor people or small businessman. So from financial inclusion point of view this model PPI seems to be sound concept.

RBI guide lines

1 RBI in its draft guide lines has stipulated the minimum equity capital of Rs 100 crore. The committee had recommended an amount of 50 crore but it seems that RBI has chosen to play safe and double the amount.

2 Payment bank can accept demand deposits; maximum balance per customer can only be re 100000. This can be for both current and saving account.

3 The leverage ratio shall not less than 5% i.e. liabilities should not exceeds 20 times of its net worth.

4 Promoters holding shall not be less than 40% for the first five years and 30% for the 10 years and 26% for the 12 year of commencement of the business of the payment banks.

5 Commercial bank could have payment banks as their subsidiary.

Payment banks do’s and don’ts

As per RBI norms a payment bank do’s and don’ts are listed here under;

- They can’t offer loans.
- They can’t issue credit cards
- They can enable transfer and remittances through a mobile pjone.
- They can offer services such as automatic payments of bill and purchase in cash less, cheque less transaction though a phone
- They can issue debit cards and ATM cards usable on ATM networks of all banks
- They can provide forex cards to traveller usable again as a debit or ATM card all over India.
- They can also offer card acceptance mechanism to third parties such as the apple pay.

Concerns and Issue

After a lot of scrutiny and examination, RBI finally gave ‘in-Principle’ license to11 entities to launch payment banks on august 19 2015 but by may 2016, three applicant –Tech Mahindra, Cholamandalam Finance and Dilip Shanghvi –IDFC bank-Telenor JV dropped out , leaving only 8 in the fray. Further the RBI was to consider full license under section 22 of the Banking Regulation Act 1949and this is for the first time in history of India’s banking industry that the RBI has given out differentiated licenses for specific activities .The more is seen as major step in pushing financial inclusion in the country and the expectations with India’s payment banks are huge. Its majorly serve India’s migrant labourer, Low-income household and businesses, offering saving account and remittances services with a low transaction cost. As some licensees delved in deeper, they found that economics didn’t make much sense for them or that there were other priorities they wanted to pursue. Secondary competition is also not a point to worry about. The real challenge is to drive the behavioural change to access digital transaction after the KYC process. With 97% cash transaction in the economy and with fast growing population of smart phones and data users, shopping behaviour and reducing their dependence on cash is the real competition.

Conclusion

Inclusion of both payment banks and small finance banks will mark biggest revolution after nationalisation of banks in the Indian banking system. It will make banking more competitive and more inclusive for both borrower and depositor thus making banking more affordable to common man. It is a positive disruption to the banking sector and would surely see the cost associated with transfer of money or settlements diminish dramatically for end users. Payment banks have been bounded in banking operations, as they will not be allowed to do a business of lending activities .Indeed there is a question about who will take care of the credits needs of the unbanked.

Some of economists are of the view of overlapping nature of PMJDY and payment and small finance banks. If PMJDY work out as a plan, one wonder there will be much more space left for payment banks. Why would a customer go to payment banks that only provide deposit and payment services when he has to a full scope bank? The Jan Dhan yojana is yet evolving. At the moment, even it conflict with payment banks- it meant to be reach to unbanked customers.

Both the initiatives are complementary to each other with common vision to achieve 100% financial inclusion.

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