International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 8 Issue 01 Ver. IV || January 2019 || PP 78-83

Payment Banks on Improving Financial Inclusion in India

Anahita Singh[1] Sonalika Bhadouria[2]
BBA F&A, Department of Professional Studies, Christ (Deemed to be University), India
Corresponding Author; Anahita Singh

ABSTRACT*: In India, the ramped financial exclusion of the poor and unprivileged has led to many citizens being unable to have proper access to essential banking facilities and amenities that in turn restrict the growth and financial progress of several people. This is prevalent mostly in villages and rural areas, and hence there arose a need for solving the above-mentioned problem. In this paper, financial exclusion and its challenges are explored in-depth, along with the solution for the same being payment banks and how they've helped in improving financial exclusion, introduced by the RBI in 2014. This paper also explores the scope, benefits and changes implemented upon the introduction of payment banks, and the current scenario of financial exclusion in our country.*

KEYWORDS*: payment banks, RBI, financial exclusion, improvement, differentiated bank, financial progress.*

Date of Submission: 04-01-2019 Date of acceptance: 19-01-2019

I. INTRODUCTION

The Indian banking sector has been set apart by an exponential development in volume and complexity over the past decade. However, it remains an unpleasant reality that genuinely necessary essential monetary administrations have not permeated to underprivileged what's more, more fragile areas, regardless of accomplishing sizeable advances in terms of financial viability, profitability and competitiveness. Reserve Bank of India (RBI), the national banking regulator keeping a strong consideration on this issue has throughout the years introduced diverse financial inclusion initiatives as part of its prioritised agendas. These activities have been explicitly pointed towards reducing the monetary condition and models of life of poor people and disadvantaged as reported by Thorat (2007) and Leeladhar (2006).Financial inclusion primarily refers to the delivery of financial services to the disadvantaged and low-income groups at an affordable cost where these services are not accessible. Around 2 billion of world's population have no access to different kinds of financial services provided by various financial institutions like Banks, Mutual funds, Life insurance agencies. In India, this term financial inclusion was first mentioned in Annual policy of RBI in April 2005, which was presented by Y Venugopalreddy, then governor of RBI.

The main purpose of setting up of payment banks is to enhance financial inclusion. Payments banks is new model of banks conceptualised by the Reserve Bank of India (RBI). These banks can accept a restricted deposit, which is as of now constrained to ₹100,000 per client and might be expanded further. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. They can accept demand deposits, offer remittance services, mobile payments, transfer/ purchases and other banking services like ATMS, Net banking and third party fund transfer. Payments banks can issue services like ATM cards, debit cards, net-banking and mobile-banking.Bharti Airtel set up India's first live payments bank.In August 2015, the RBI of India gave "in-principle" licenses to 11 entities to launch payment banks out of these 3 were surrendered. The remaining 8 entities are listed below:

- AdityaBiralNuvo
- Airtle M commerce services
- Department of posts
- FINO paytech
- National securities deposits
- Reliance Industries
- Patym
- Vodafone M-pesa

REVIEW OF LITERATURE

a) **(Dr.N.Rajasekaran, 2018)Including the Excluded: The Scenario of Financial Inclusion in India** In this paper the author has explored the situation of financial exclusion in India, and the barriers that restrict the growth of the opportunities available to the poor as well as the underlying developments that the RBI and the government collectively initiated in order to reach out to as many financially excluded as possible. It also brings to light the outcome of the same. The paper states that one of the many issues in the country is lack of proper education amongst the rural population regarding the financial sources available to them and exploitation of the poor due to high dependence on informal sources of finance such as local lenders and creditors. There also seems to be the issue of irregular income that leads to inability in proper management of finances by the financially excluded.

b) **(Gwalani & Parkhi, 2014)Financial inclusion - Building a success model in the Indian context**In this paper, the authors compares various world scenarios of financial exclusion and the strategies used by various countries to overcome the same. With regards to India, the author believes that the main reasons of financial exclusion are poverty, lack of faith in the Indian banking system, financial illiteracy and unavailability of commercial bank outlets in rural and remote areas of the country. The authors also explore several options that have been introduced by the government in the country to improve financial exclusion such as lead bank system, mobile banking, correspondent banking and microfinance institutions.

c) **(Shankar, 2013),Financial Inclusion in India: Do Microfinance Institutions Address Access Barriers?**In this paper, the author conducts a study on the penetration of microfinance institutions by conducting interviews with 103 field officers and the analysis of the same included that while microfinance institutions do aid the poor and needy in satisfying their financial needs, due to insufficient coverage of areas and improper or irregular method of operations, they have not succeeded entirely in improving the grave issue of financial exclusion.Keeping this all in mind, the government and a RBI committee began exploring other options that could be helpful and successful in improving financial exclusion such as payment banks.

d) **(Naik, Firdous, & Harika, 2018)A study on role of payment banks in India-Financial Inclusion**This paper focused on role of payment banks in financial inclusion on M-Banking, The Department of Post, Pradhan Mantri Jan-DhanYojana and the Indian Post Payment Banks. In 2014, RBI introduced two new categories of banks into the Indian financial system, namely Payment Banks and Small Banks. The objective of introducing these new categories of banks is to provide a much needed rigour to the financial inclusion drive. Payment banks is a new kind of bank which is potential with the express purpose of extending the reach of banking to vast majority of the unbanked and under banked segments of the population.The payment banks plays 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 costs and which may finally leads results in financial inclusion. On 19 August 2015, The RBI of India gave “in-principle” licenses to11 entities to launch payment banks.

e) **(Sikdar & Kumar, 2017) Payment bank: A catalyst for financial inclusion**This paper includes the reactions of various existing full-service banks and others players in the Indian financial services industry on RBI’s action towards licensing payment banks and whether the Indian banking system has evolved enough to face the impending competitive pressure from payment banks. Non-inclination of banks to set up branches in the hinterland and interior regions coupled with lack of financial awareness has been a bane for the prospects of financial inclusion and has hindered the inclusion of marginalised and excluded groups. Tie-ups between banking concerns and major telecom operators and and credit disbursing eligibility of banks and the overall impact of payments banks on the commercial banks.

RESEARCH DESIGN

Statement of Problem

Financial exclusion leading to unavailability of financial sources has caused a massive setback for low income classes as well as the unemployed, in turn causing them to spiral down into poverty. Despite repeated efforts by the government to reduce the differences caused due to financial literacy and unavailability of sufficient finance sources, there has not been much growth with regards to the financial development of the poor and rural India. Not only does financial exclusion lead to difficulties in sustaining and financial woes, it also eventually leads to social exclusion, due to which many individuals are unable to have proper access to health, education and residence. They are also unable to provide for their families and businesses, thus creating a domino effect leading to poverty.They are unable to have access to the basic facilities that a bank provides such as savings management, credit provision, insurance and risk management services, financial transfers as well as deposit services. Instead, they rely on informal sources that lack proper regulation and proper documentation causing to the exploitation of the innocent. This also causes a cycle of debt, which becomes unescapable.

A major cause of this increasing financial exclusion is also due to the limited reach of commercial banks in the rural and remote areas, and the competitive nature of the private sector due to which their target market is based on the middle class and urban population and not the vulnerable section of society, which would perhaps require more help in managing their finances.

Since the beginning of nationalization of the banks dating back to 1969 and 1980, the government has emphasized on the growing need for financial inclusion as otherwise there has been no growth amongst the weaker sections of society and financial inclusion is seen as an indicator of development in a country, thus motivating the banks to focus on other sections of society as well and making being inclusive an objective of their operations.Several measures have been introduced by the government such as microfinance institutions and lead bank systems, as well as various committees been set up in order to focus on the same. Some of the measures that have been introduced involve business correspondent models, joint liability groups, self help groups, micro insurance, and Non Banking Finance Companies (NBFCs)

There has also been the introduction of electronic kiosks for provision of financial services, no –frill accounts and for credit provision, the introduction of Kisan Credit Cards and General Credit Cards. However, with the introduction of Pradhan Mantri Jan DhanYojana (PMJDY)' in August 2014, the focus shifted on increased financial inclusion via technology and digitalization, thus leading to the introduction of payment banks, which are one of the latest developments being undertaken and measures introduced.Given it is a relatively new measure, with the introduction of payment banks, there has not been much research regarding their contribution towards helping the vulnerable. Also, given how digitalisation is the future, it is necessary to understand its impact on the current banking sector in the rural areas as well as in the coming future.

Thus, our study consists of an analysis of the current situation of the financial exclusion faced by millions in India, as well as the introduction of payment banks and how they've contributed towards bridging the gap between the vulnerable and financial development. Our study also proposes to highlight the recent shortcomings faced during the course of the operations of payment banks and suggest suggestions for the same.

Table 1. Progress of financial inclusion at a glance

Parameter of financial inclusion	March 2010	March 2016	March 2017
Number of Bank branches in villages	33,378	51,830	50,860
Number of Business Correspondents (BCs)	34,174	531,229	543,472
Number of other forms of banking touch points	142	3,248	3,761
Total number of banking touch points	67,694	586,307	598,093
Number of BSBDA* (in millions)	73	469	533
Deposits in BSBDA (Amount in Rs. billions)	55	636	977

Note: *Basic Savings Bank Deposit Account is a no-frill savings account without the need to maintain minimum balance and where no charges are levied.
Source: Annual Report of RBI, 2016–17.

Table 2. Progress of PMJDY up to 9 May 2018

Group of banks	Number of new savings bank accounts opened (in millions)	Deposits accumulated (in Rs. millions)	No of debit cards issued (in millions)
Public sector banks	255.3	652182.50	192.00
Regional rural banks	50.7	137170.30	36.80
Private sector banks	09.9	22681.30	08.20
Total	**316.6**	**812035.90**	**238.00**

PMJDY website

Sources of data:

For the purpose of conducting the study of this paper, secondary data has been essentially used by referring to several journal articles, newspaper articles, online articles and reports and research papers published previously by authors. The official websites for Pradhan Mantri Jan DhanYojana and RBI have also been referred to further insight into the topic of payment banks and financial inclusion.

Objectives of study:

1. To evaluate the present conditions of financial exclusion of the vulnerable and weaker sections of the society in India.
2. To analyze the impact of payment banks and their introduction in order to improve financial exclusion and bring out digitalisation of banks to extend reach to masses.
3. To consider the challenges and recent shortcomings of payments bank in their operations.
4. To suggest changes that can be introduced for aiding the development and growth of payment banks in the coming future.

Expected Outcome:

Payment banks were introduced keeping in mind the low-income households and small businesses and hence aimed at providing basic banking facilities via technology, which was seen as a revolutionary step in the digitalisation of banks, especially when aimed at the vulnerable sections of society. Given its relative newness, payment banks are subject to several regulations and hence only 11 entities have been provided the license to establish payment banks, but not without facing certain obstacles involving the Know Your Customer (KYC) norms. Hence, due to their unique structure and enhanced regulations and uniqueness it is possible that they may not prove to be as successful initially, but it is certain that payment banks can be viewed as the next big step towards helping improve financial exclusion but not without taking qualitative measures such as providing financial literacy.

Limitations of study:

1. For the purpose of conducting the study for our paper, we have only considered the introduction and impact of payment banks in helping in the improvisation of financial exclusion in India, thus not considering other measures such as micro finance institutions and several schemes introduced by the government for the same.
2. Given payments banks are a relatively new concept, the entire structure is still under heavy scrutiny and subject to more regulations which are ongoing and hence may not be considered in our study in the paper. It is also a concept not many are yet exposed to and hence there is limited data available to support their functioning and impact.
3. Payment banks were not merely introduced just to help in improving financial exclusion, but were also introduced for the purpose of restricting black money growth which has not been included in our study.
4. As only secondary data has been considered for the purpose of our study, there is limitation to the understanding of the popularity and actual use of payment banks amongst the target group consisting of low-income households and small businesses.

DATA ANALYSIS AND INTERPRETATION

Data Analysis

Prior to the commencement of the implementation of Financial Inclusion, less than 40% of Indians had savings accounts, and even lesser access to credit provision facilities. Since then, results have shown that about 62% Indians have access to banking facilities.

CRISIL Inclusix measures progress on FI down to the level of each of the 666 districts in the country in 2013 (as against 717 now). The index is based on data provided by RBI, the MicroFinance Institutions Network (MFIN), and the Insurance Information Bureau of India.

In 2013, the first Financial Inclusion index was introduced based upon the following criteria:

1. Branch penetration
2. Deposit penetration
3. Credit penetration
4. Insurance penetration

The CRISIL Inclusix index measures financial inclusiveness for all 717 districts in India. The data is provided by RBI, Microfinance Institutions and Insurance Information Bureau of India. As per the index readings for fiscal year (FY) 2015-2016, the all-India score rose from50.1 in FY 2012-13 to 58 in FY2015-16. This growth in the numbers of the index can be attributed to the increase in deposit accounts between FY 2012-13 and FY 2015-16, during which 600 million deposit accounts have been opened. The number of people now availing credit has risen to 31.7 million, provided by microfinance institutions and by banks in two years up to FY 2015-16. Digitalization and payment banks have contributed to this increase as well.

However, as of July 2017 and as per a study conducted by ASSOCHAM and EY, 19% of India's population is still financially excluded despite repeated efforts by the government to ensure 100% financial inclusion of all.

Challenges

Payments banks were launched to make the country more financially inclusive. The regulators and investors have been concerned as payment banks continue with their second straight year of losses with little signs of turning the corner. The consolidated balance sheets for the operational payments banks show net losses of Rs 516.5 crore for the fiscal year 2018, almost double that of the fiscal year 2017 when they lost Rs 242.2 crore, according to RBI's trends and progress report. The prime reason for their financial weakness is high operational costs due to infrastructure setup required by these banks to tap the underpenetrated markets in the country. Things haven't shown any signs of improvement with even the regular banks ramping up their technology initiatives.

In the first half of this fiscal they have made losses and it may well continue for many quarters, according to the RBI. Though financial metrics remain weak, there is hope in other with the share deposits of these banks marginally rising from 5.7% to 9% during this period. The net interest income has also improved from Rs 151.1 crore to Rs 30.7 crore and the total liabilities/assets have risen to Rs 4,891.6 crore from Rs 1,193.9 crore. About 81% of the business of the payments bank has been made on account.The target market is very niche and they also offer very limited services given that they are not allowed to lend and only accept deposits and therefore the revenue is very limited which raises doubts over the model's viability.

Paytm has now received the green light from the Reserve Bank of India to restart opening accounts for its customers. The bank intends to start Know Your Customer formalities for its wallets as well as its bank accounts from December 31. The RBI had asked the bank to stop adding new customers about six months back in June, when a regulatory audit found lapses on the part of the entity to stick to RBI's requirements. The payment banks have still not had a major impact on the overall financial ecosystem in the country. Paytm has got a large chunk of its customers to use the bank account and the wallet interchangeably and has also played a critical role in driving financial inclusion.

Current Developments

The state-run payments bank expected to launch soon will face no competition from private sector players because of its far superior reach across the country. The Telecommunications minister Manoj Sinha expects India Post Payments Bank (IPPB) to be profitable after two years and will be backed by a highly secure network.

On September 1, 650 branches across the length and breadth of the country with 3,250 access points will be launched. By December 31, 155,000 access points will be rolled out.. Being present in the remotest parts of the country, there will be no competition from telcos and other private players who have launched payments bank already. With smartphone and biometrics, accounts can be opened within a minute, which is in line with the prime minister's aim to make India a cashless Digital economy.

Aadhaar is the most secure system and opening an IPPB account through Aadhaar will prevent security risks**.** There is no scope for corruption because there will be very few cash transactions and therefore this is a big step towards eliminating corruption and increasing GDP growth of the country. IPPB will become profitable after two years and this will happen because postal workers will be motivated by the commissions offered to them. It is decided that 30% commission on earnings will be given — 25% of that will go directly to the postmen or GrameenDakSevaks (GDS) and 5% to the department of post. This will motivate workers, which is generally not the case in the government sector.

FINDINGS AND SUGGESTION

Awareness campaigns could be held by the RBI through mainstream media sources, newspapers etc. Also, Airtel and Paytm can help people in the rural areas by opening helpdesks to reach the untapped customers who are not a part of the banking system yet and those who are not active due to unavailability of a nearby branch, inconvenience due to low literacy rates etc. Thus, financial inclusion of these individuals is easily attainable and would be a great step forward for the economic growth of the nation.Airtel, having over 25, 00, 00,000 users inIndia, can effectively use its first mover advantage to convert these users into payment bank users as well and also create a dial-up toll-free system for convenience of a major percentage of people in rural areas who have telephone connectivity but no internet or a smart-phone.

Acceptance as an alternate source of transfer is necessary for the people to start using payment bank accounts for transaction for example at websites, portals, payment gateways and online transfers. Also at government authorized stores or ration shops, payment through these payment banks should be accepted for people to actually start using it for transactions.

The use of QR card will provide a unique, secure and convenient way to access an account without the hassle of remembering the account number. There will be no need to remember the PIN/Password, as transactions can be initiated by using OTP (One Time Password) authentication and showing any one of the valid OVDs (Officially Valid Document)*.

The payment banks should not play only the price game, but focus on providing the value to the customers in terms of quality services at the required time, place, quality and differentiate themselves on the basis of service quality.

CONCLUSION

While financial inclusion has been a need of the hour for more than 3 decades, with efforts being taken from the nationalization of banks, as of the present, it is necessary to ensure additional measures are taken to raise awareness amongst the masses that may not have access to all the information required to be considered financially literate. Along with the introduction of technological measures for providing banking services such as payment banks, it is also necessary to ensure the challenges faced can be overcame in order to reap full benefits of this unique concept. Payment banks can certainly be seen as the future, despite facing difficulties in establishment and operations as the government as well believes that it is possible that these payment banks will be able to cover up their losses within two years, while introducing other services slowly, which may also help support the unique model of these banks. Thus, keeping in mind the objectives and motive of the creation of these banks, it can be concluded that they will be able to lift India’s vulnerable and aid in economic development of all by provision of their services and extended reach.

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Anahita Singh" Payment Banks on Improving Financial Inclusion in India" International Journal of Business and Management Invention (IJBMI), vol. 08, no. 01, 2019, pp 78-83