



## ROLE OF PAYMENT BANK IN FINANCIAL INCLUSION

Aarti Devi<sup>1</sup> and Vijay<sup>2</sup>

<sup>1</sup>Research Scholar, Haryana School of Business, Guru Jambheshwar University of Science & Technology, Hisar, Haryana, India.

<sup>2</sup>Research Scholar, Department of Commerce, Kurukshetra University, Kurukshetra, Haryana, India.

### ABSTRACT :

*In Indian banking system there is emergence of new concept i.e. Payment Bank. With the help of payment bank an attempt is made to reach all section of society. Payment bank covers all people who live in remote and rural area. The concept of Payment banks are the latest initiative taken by RBI with main objective to promote cashless banking in our country. These banks are formed to cover all the shortcoming of traditional banking system. Payment banks are operating on small scale it means it can accept demand deposit up to RS 1 Lakhs. It can carry out almost all banking function but without involving any credit risk. These banks do not advance loan and credit card. This paper aims to know the concept of payment bank in India and role in financial inclusion. It is an exploratory study and the data used is secondary in nature. The data is gathered from various websites, online journals and magazines & Newspaper.*



**KEYWORDS :** Indian banking system , section of society , online journals.

### INTRODUCTION

Economic development of a country is mainly depending upon the banking system of that country. Banking system plays an important role not only by channeling saving into investment but it also helps by allocating resources efficiently. In the pre-banking era, the people used to depend upon the money lenders to serve their needs of money and were often exploited by them. But after the banking system comes our dependence has decreased on moneylenders and non-intuitional sources. The Indian financial system has witnessed some noticeable changes since 1991. After liberalisation, various major banking reforms are taken by RBI, out of which payment bank is one.

Payment bank is like any other bank, but without any credit risk, it is working at a small level. In other words we can say that, it can carry out most banking operations but can't advance loans or issue credit cards. Like other banks in Indian banking system it can provide services like payments, deposits, remittances, internet banking as well and would initially be allowed to take cash deposit of maximum Rs. 1 lakhs per individual.

### OBJECTIVE OF STUDY

- To know the concept of payment bank in India
- To study the role of payment bank in financial inclusion

## LITERATURE REVIEWS

Srinivas, G. (2017), find in his study that there are number of people who can not avail the government benefit, loans, insurance and even interest on saving. Therefore various steps have been taken by the government to reach the unbanked region like M-Banking, IPPB, PMJDY, etc.

Madhavi Damle(2016), observe in her study the parameter for financial inclusion and business model of existing system and payment bank. This paper also include various issue faced by traditional banking system which can be overcome using payment bank.

Dr.v. Ramesh NaikAsst(2018), in his study explain the framework, expected benefit from payment banks and also explain the bottlenecks in the development of such banks.

## RESEARCH METHODOLOGY

Research methodology is used to collect data for the purpose of making research decisions. Exploratory and descriptive research design has been used for the study. According to Neuman(2006) the primary purpose of exploratory research is to explain why events occur and to build, elaborate, extend or test theory. Descriptive research describes the features of research problem. Secondary sources of data have been taken to enrich the results. Different books, articles and websites are also considered for the study. It's a conceptual study and no data required therefore no hypothesis and testing can be applied.

## EVOLUTION OF PAYMENT BANK IN INDIA

On September 2013, RBI formed a committee headed by Nachiket Mor, to study 'Comprehensive Financial Services for Small Businesses and Low Income Households'. The objective of the committee was to propose measures for achieving financial inclusion and increased access to financial services. Nachiket Mor committee submitted its final report on 7 January 2014 with recommendation of formation of new category of bank called payment bank. On 17 July 2014 RBI released the draft guideline of payment bank and on 27 November RBI released the final guideline for payment bank.

In February 2015, RBI released the list of 41 entities which had applied for a payments bank license. It was also announced that an external advisory committee (EAC) headed by Nachiket Mor would evaluate the licences applications on the basis of their financial track record and governance issues. And finally, on 19 August 2015, the Reserve Bank of India gave **in-principle** licences to eleven entities to launch payments banks. They are Aditya Birla Nuvo, Airtel M Commerce Services, Cholamandalam Distribution Services, Department of Posts, FINO PayTech, National Securities Depository, Reliance Industries, Sun Pharmaceuticals, Paytm, Tech Mahindra, Vodafone M-Pesa.

The "in-principle" licence is valid for 18 months within which the entities must full fill the requirements under the Guidelines and other conditions as may be stipulated by the RBI. They are not allowed to engage in banking activities within the period. After being satisfied that the applicants have fulfilled the requisite conditions laid down by it as part of "in-principle" approval, the RBI would consider granting them a licence for commencement of banking business under Section 22(1) of the "Banking Regulation Act, 1949."

From the above entities, Cholamandalam Distribution Services, Sun Pharmaceuticals and Tech Mahindra have surrendered their licenses. At present India have six payment banks which provide their services to customer. These are Airtel payment bank, Paytm payment bank, Fino payment bank, Indian post payment bank, Jio payment bank, Aditya birla idea payment bank Out of which Bharti Airtel launched India's first payment bank in March 2017. And after that India Post Payments Bank Ltd, Paytm Payments Bank Ltd and Fino Payments Bank Ltd were launched.

## OBJECTIVE OF PAYMENT BANK

The main objectives of payment bank are to increase financial inclusion by providing

1. Small savings account
2. Payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users.

**Role of Payment banks in financial inclusion**

Financial inclusion means providing banking and financial services to each and every individual in the society without any discrimination. It means every individual has access to financial services saving, loan, insurances, payment and remittance services etc. the main objective of setting up of payment banks is to facilitate financial inclusion. After examine various challenges in financial inclusion **Nachiket Mor** committee had come to the conclusion that a new institutional structure is required.

According to RBI financial inclusion means “process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular.”

According to World Bank, “Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way”

In India the number of people with bank account is increased from 53% in 2014 to 80% in 2017. But as per World Bank report there are 191 million Indians over the age of 15, are still without a bank account. According to the latest Global Findex Database released by the World Bank, India (190 million or 19 crore) has the second world’s largest unbanked population after China (224 million or 22.4 crore).

**Table**

Number of adult without a bank account in 2017 in country	
China	224 million
India	191million
Pakistan	99 million
Indonesia	96.6 million
Nigeria	62.7million
Mexico	58.7 million

Source: Global Findex Report, World Bank

For increasing financial inclusion in India many steps have been taken by the government. For example financial services can be provided with the help of post offices, regional rural banks, etc. In 2002-2005 it was felt that the need of financial services cannot be fulfilled through bricks-and mortar branches. Now there is a need to start the concept of “branchless banking”. In 2014 "**Pradhan Mantri Jan-Dhan Yojana (PMJDY)**" was launched with the objective of deep penetration of financial services. Despite the success of Jan Dhan Yojna there is large share of population which remains unbanked.

In 2014 RBI launch the new concept i.e., Payment Bank. The main objective of payment bank is to reach unbanked region and to incorporate those region with mainstream of financial system.

Role of payment bank is very important when we considered from the perspective of financial inclusion. With the help of mobile platform, payment bank facilitate transaction between two parties. Payment banks provide their banking services to the remotest area with the help of mobile phones because in rural and remote areas there is lack of infrastructure facility for the development of banks and financing system. The main objective of payment bank is to incorporate the unbanked region with mainstream of financial system. The coming of payment bank does not affect the working of existing top-notch bank because payment bank will operate in specific area. But, the major banks in India could use these banks to improve their reach in every part of the country. Payment bank can function as their business correspondent. In fact, some of the major banks have already tied up with the license holders. Payment bank helps in financial inclusion in the following way:

1. As per RBI guideline during a financial year at least 25% of total number of banking outlets should be opened in unbanked rural center. India has largest postal network in the world with 1.55 lakh branches across India and out of which 1.35 lakh branches are in rural areas. IPPB (India Post Payment Bank) was setup under the department of post, ministry of communication with 100% equity owned by government of India. At present IPPB has 650 controlling office as one branch in every district, 3250 Post Offices, 1,700 Counters and more than 15K postman to provide doorstep

- banking services across urban and rural India. In the same other operator has large infrastructure which may help payment bank to reach remotest region of India.
2. RBI choose few companies which have higher customer base for payment bank services such as Paytm, Airtel, Aditya birla group, etc. higher customer base help to achieve the objective of financial inclusion by providing services to low income household people. All over the country Airtel payment bank has 1.5 million retailers. Now Airtel has 4 lakh banking point. In the same way Paytm is one of the successful company in India which have 100 Million wallet users. These few factors help these companies to get the license of payment bank.
  3. Payment bank use mobile platform to provide services between two or more parties. It provides banking services to the area where physical penetration is difficult. Due to lack of infrastructure for the institutional development of banks in rural and remote area it becomes necessary to make a partnership between bank and telecom companies.
  4. As per RBI guideline minimum paid-up equity capital of payment bank are 100 crore. They have to maintain leverage ratio of at least 3%, it means its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves). Therefore great wealth is required by the companies to put money in payment bank business.
  5. Payment banks help to make a check on black money. The India economy is cash based economy which create hurdle for government and regulator to check on black money. Payment bank help to make digital transaction which will help the tax authority look after the evaders.

## CONCLUSION

With the advancement of technology a large number of alternative electronic payment systems have emerged. In order to face number of challenges and problem to reach low income and rural population RBI introduced the concept of payment bank in 2014. Main idea behind the concept of payment bank is to provide financial services to small businesses, low-income households and vulnerable populations. Payment bank together with traditional bank will improve the quality of banking services and which may finally lead to financial inclusion.

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**Aarti Devi**

**Research Scholar, Haryana School of Business, Guru Jambheshwar University of Science & Technology, Hisar, Haryana, India.**