

## **PAYMENT BANKS: A NEW FORM OF FINANCIAL INCLUSION FOR CASHLESS ECONOMY IN INDIA**

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### **ABSTRACT:**

Banking sector has been undergoing through the varies changes in last few decades. We have witnessed massive changes in banking sector. Overall working culture of the banking has been changed due to technology upgradation and human behavior. In countries like India still there are lot of people who are deprived for having access to financial services which includes small business, low household income group and rural area where people still find difficult to access banking services. To serve purpose for this group Payment Bank (PB) has been introduced as new financial inclusion by Reserve Bank of India in the year 2015. The bank Passbooks and branch banking are replaced by e-statements and online banking. The Payment banks are blessed in banking sector as any individual can open an account within a few second digitally. It also supports sustainability practices in banking and served Government of India's purpose of cashless economy as transactions done with digitally in PBs. It follows Green Banking Practices like Digital Account, Online Banking and Mobile Banking. This paper focuses on Payment Banks services and its role in cashless economy in India.

**Keywords:** *Payment Bank, Digital Payment, Financial Inclusion, Cashless Economy, Green Banking*

### **1. INTRODUCTION:**

The banking sector has been highly transformed since the last decade. India's banking sector went through drastic changes post 1991 liberalization policy. RBI allows banking license to Private sector, further it leads to rapid technology changes with collaboration with foreign entities and fintech companies. Overall working culture of the banking has been changed due to technology upgradation and human behavior. In countries like India still there are lot of people who are deprived for having access to financial services which includes small business, low household income group and rural area where people still find difficult to access banking services. Cashless economy simply means initiate transaction with digital way

which can be done with the help of Debit/Credit Card, Wallets or any other Digital Mode of payment with the help of internet.

Financial Inclusion taps unorganized sector or group with the objective to deliver financial services at lower cost, especially people staying in rural area. It focuses on unbanked sector. In 2013, Mr Nachiket Mor committee established to study various aspects of financial inclusion. Payment Banks has been come into picture in 2015 as a new financial inclusion by Reserve Bank of India. The major purpose to established and introduced Payment Banks (PBs) is to enhance financial inclusion and tap unbanked sector in country. Presently total 6 payments banks are actively working out of total 11 PBs, Whom RBI had given banking license in the year 2015.

Payment Banks has same features like normal traditional banks. Like other traditional banks, payment banks also provide features like Making Deposit, Withdrawal facility, Interest on account and use Debit Card or ATM facility. Payment Banks work as normal bank as per the guideline with restrictions laid down by RBI. Payment Banks can not issue Credit Card and involve any Credit Risk.

## **2. LITERATURE REVIEW:**

(D'souza, 2018) studied payment bank working mechanism with respect of India Post Payment Bank (IPPB). Researcher has discussed RBI guidelines for payment bank and criteria which payment bank needs to fulfilled also made comparison of payment banks with other commercial banks like restricted to deposits to Rs.1 Lakh also can not issue credit card and loans. Researcher finds over 70% population have less than Rs. 1 Lakh deposits in their bank accounts and payment banks majorly concentrated on these population. The study concluded that payment banks will increase financial inclusions to low income household and small business.

(Srinivas, 2017) in his study mentioned role of payment banks in India. With considering role of payment banks, Author has listed out services offering by PBs in county like remittance of payment service, debit card, online and internet banking.

(Thushara, 2020) has examined various services offered by Payment Banks with considering its role in India. Researcher has also mention RBI guidelines of payment banks and concluded that PBs plays significant role implementing government DBT schemes. Set up payment banks not only helps to increase financial inclusion in the county but also strengthen the weaker section of the society.

(Mehta & Shah, 2020) in their research paper 'Payment Banks: Digital Revolution in Indian Banking System' studied RBI guidelines, Eligibility Criteria and Scope of activities of Payment Banks. Researches has analyzed the effect of demographic variables on use of PBs. The study suggested PBs needs to make more tie ups with other financial institutions and provides variety of offers and discounts to increase its uses. Further suggested that awareness

of the payment banks needs to be increases by Government, RBI and Banks to increase subscribers or users.

(Choudhary, 2022) has studied and understand the role of payment banks in rising financial inclusion. She has listed out edge of payment banks as compare to traditional bank in term of interest rate on saving bank account which offers maximum upto 7.25% and zero balance account maintain facility. Researcher concluded that PBs would be next big things but survival will be difficult.

### 3. OBJECTIVES OF THE STUDY:

- To understand Payment Banks working in India
- To study utility of Payments banks under financial inclusion in India
- To understand difference of payment banks and traditional banks in India

### 4. METHODOLOGY:

The study is base on descriptive nature of research paper based on secondary data which has been collected from journals, government report, RBI report and websites which focused on payment banks.

### 5. DISCUSSION

#### PAYMENT BANKS:

Reserve bank of India and government of India always look for new financial inclusion. To provide financial services access to small business and low-income households and with objective to develop institutional framework government set up committee under the chairmanship of Dr. Nachiket Mor on Sep 2013. The committee submitted final report on Jan 2014 with recommendation of new form of banking model hence in the same year RBI has introduced two new form of banking which were Payment Banks and Small Banks. Payment bank is a new form of financial inclusion where primary objective is to spread financial services to unbanked section of the society. Feb,2015 RBI has released list of 41 entities which had applied for payment bank license. Finally, in 19 Aug,2015 RBI has given in principal license to 11 entities to launch as payment banks where they have to comply with the all conditions laid down by Reserve Bank of India in next 18 months and among these 3 entities were surrender, which are listed below.

1. Aditya Birla Nuvo
2. Airtel M Commerce Services
3. Department of Posts
4. FINO PayTech
5. National Securities Depository
6. Reliance Industries
7. Paytm
8. Vodafone M-Pesa

RBI issue full license under section 22 of banking regulation act 1949 after conditions that has been laid down by Central bank fulfilled and will be registered as public sector banks.

At present below mention 6 Payment Banks are working in India (RBI, 2022).

1. Airtel Payments Bank Ltd
2. India Post Payments Bank Ltd
3. FINO Payments Bank Ltd
4. Paytm Payments Bank Ltd
5. Jio Payments Bank Ltd
6. NSDL Payments Bank Limited

Payment Banks (PBs) is a new form of digital banking in country. PBs can accepted deposits from per individual customer upto restricted amount. also, Payment Banks can not issue any loan or credit facility. Customer can open current and Saving bank in PBs upto restricted limit. Payment banks can issue various services to its customer like other banks offers which includes Online Banking, Mobile Banking and Debit Card. In India Airtel has launched first live payment bank and later on PayTM started working as Payment Banks. The objective of payment banks is to provide payment and remittance facility upto restricted amount to the unorganized sector of the country.

The function of Payment Banks are different from other normal banks as there are more restrictions has been imposed to the payments banks as compared to other schedule banks. One of the major difference of payment bank as it restricted to accept deposit upto 2 lakh per individual customer. As per last year RBI circular dated April 8, 2021 with considering performance and progress of payment banks, RBI has allowed to enhance of maximum balance at the end of day from 1 lakh to 2 lakh per individual customer (RBI, April 8, 2021). Payments Banks has an edge over traditional banks as it offers interest rate as high as 7.25 percent also it provides zero balance account facility without any charges.

#### **RBI GUIDELINES TO PAYMENT BANKS-**

RBI has issued license to payment banks with certain restrictions and all payments banks need to follow RBI guidelines and work accordingly. One of the major difference in Payment Banks is that it is not allowed to buy Credit Risk hence they wont be able to lend money like any other traditional banks.

- As per latest RBI notification on April 8, 2021 Payments banks can accept deposits form saving and current accounts upto 2 lakh per customer from pervious 1 lakh.
- PBs can pay interest rate as notified by banks.
- Payment Banks can only issue Debit Card and Cannot lend money or Credit Card unlike other banks. They are not eligible to grant loans.
- It can charge a fee as commission.
- PBs cannot undertake non-banking financial activity.

- Payment Banks needs to maintain Cash Reserve Ratio (CRR) like other commercial banks.
- It must have customer grievance cell to handle customer complaints.
- It can not accept any NRI deposits.
- Minimum paid up capital fixed at 100 cr.
- Payment Banks should have at least 25% physical access in rural area (Damle, Thenuan, & Raval, 2016).

Payment Banks needs to work and provide services as per RBI guidelines.

### SERVICES OF PAYMENT BANKS-

Like any other commercial banks, Payment Banks also provides banking services as per the guidelines and restrictions laid down by the Reserve Bank of India (RBI). They are having same features like traditional bank.

- Digital Saving and Current Accounts
- Issuance of Debit Card
- Payment and Remittance Services
- Mobile and Internet Banking
- SMS Banking and Phone Banking
- Bill Payment and Direct Benefit Transfer (DBT)
- Issuance of Financial Services such as Insurance Product, Mutual Fund Units, Pension Policies as per T&C imposed by RBI.

Payment Banks services can be accessible from any corner of the world with the help of internet at any point of time. Services of payment banks serve a purpose of Green Banking since it applies Green Banking applications e.g. Digital Banking, Online Banking, Mobile Banking, Phone Banking etc. Green Banking is providing eco-friendly services with conserving or protecting natural resources.

### 6. CONCLUSION:

Payment Bank plays vital role in digital India and Cashless economy. PBs not only gains good popularity within few years especially PayTM and Airtel but also It started to tie-ups with other commercial banks to issue credit card or any other financial services. Payment banks becomes successful in providing benefits of banking services to weaker income groups and small businesses. The usage of Payment banks significant raised at the time of demonetization, Payment banks grabbed this opportunity when there was a shortage of physical currency. Especially PayTM has tapped smaller business group and given them UPI and QR code facility in quicker way to smooth payment operation.

It does not need any physical branches unlike other commercial banks in country hence transaction has happening through digital mode. Payment Banks is blessed for sustainable banking as it works digitally instead of physical banking. Payment banks promotes Green

Banking practices. We can call payment banks as 'Paperless Bank' it also serves government purpose regarding Digital India. Though payment banks gains notable popularity within short span of time, still there are lot of awareness required among the people to avail banking services digitally. Government and RBI needs to take more steps to increase literacy level and awareness about digital banking in county.

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