"Role of Payments Banks in India"

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Abstract- Passage of time leads to drastic changes in the technology usage by the people. In the field of banking sector even we come to use more advanced technology rather than following the old re-materialization. Preferring maximum for the electronic rather than the paperwork. As the advent of core banking systems in the banking sector with the globalization effect has changed style of banking system in India. From the past decades the Indian economy has undergone transformations in the technology with innovation which led to the birth of new payment system in bank (Payment Bank proposed by the RBI committee on 'Comprehensive financial services for small businesses and low income households' spearheaded by Nachiket Mor during 2014'). Introduction of payment banks has resulted in greater financial changes among the Indian demographics in the form of increasing the awareness among the user and customer with their retention, it will make reduction in work for commercial banks and encouraging more for digitalization of banking transactions; More speed in payment, transfer, reduces the dependency with the banker and enhance the profitability position of the banks.

Keywords- Payment banks, Digitalization, Types of Payment Banks, Business Model.

Introduction;

1. About Payment Banks in India

Payments Banks are new models of banks, licensed by the Reserve Bank of India (RBI). These banks accept restricted deposits up to INR1, 00, 000/- per customer. RBI has not authorized these banks to issue loans on credit cards. However, payment banks can offer ATM cards, Debit Cards, Net-banking and Mobile –banking facilities to the customer.

2. Objectives of the study;

1. To study and understand the emergence of Payments banks in India.
2. To study the growth rate of digital payments system in India.
3. To study the contribution of the Payments bank in digital Banking.
4. To analyze the aggregate financial performance of Payments bank in India.

3. Research Methodology;

This paper is purely on conceptual study. The data and information collected from secondary sources like published articles, National and International Journals, Newspaper, websites etc.

4. Emergence of Payment Banks in India:

- 23 September 2013: The RBI formed a committee on comprehensive financial services for small business and low-income households was formed by the RBI headed by Nachiket Mor.
- 7 January 2014: NachiketMor committee submitted its final report with the various recommendations it recommended for the formation of a new category of bank called the payment bank.
- 17 July 2014: The RBI issued the draft guidelines for the payment banks, inviting suggestions comments from interested entities and the general public.
- 27 November 2014: RBI released final guidelines for payment banks.
- In February 2015, RBI released the list of entities which had applied for a payment banks license. There were 41 applicants. It also announced that an external advisory committee (EAC) headed by the Nachiket Mor would evaluate the license applications.
- 28 February 2015: During presentation of the budget it was announced that Indian post will use its large networks to run the payment banks.
- 6 July 2015: the external advisory committee submitted findings. The applicant entities were examined for their financial track record and government issues.
- 19 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:
  - Aditya Biral Nuvo
  - Airtle M commerce services
  - Department of posts
  - FINO paytech
  - National securities deposits
  - Reliance Industries
  - Patym
  - Vodafone M-pesa

RBI will grant full licenses under section 22 of banking regulation act, 1949, after it is satisfied that conditions have been fulfilled. List of the payment Banks in India that are currently active are:

- Airtel Payments Bank.

- Aditya Birla Payments Banks.
- India Post Payments Bank
- Fino Payments Bank.
- Jio Payments Bank.
- Paytm Payments Banks.

5. Payments Banking Regulations in India

Procedures involved in banking sector in India.

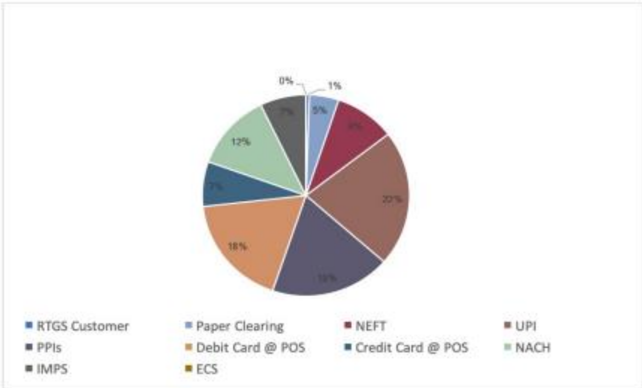
These are the regulations set by Reserve Bank of India for the Payments Banks in India.

- Minimum capital of INR 100 Crore.
- Promoter Contribution of at least 40% for the first 5 years.
- Stake Holding can be brought to 40% at the end of the five years, to 30% at the end of the ten years, and to 26% at the end 12 years of commencement of payment bank.
- Foreign shareholding is subject to the following FDI rules, similar to the private banks in India.
- Any acquisition needs more than 5% needs an approval from RBI.
- The board of directors should be independent directors, who will be appointed as per the RBI guidelines. It must comply with the ‘fit and proper’ criteria for Directors as directed by the RBI.
- The payment bank must have wide network and driven technology, right from the commencement.
- At least 25% of its branches must be in the unbanked rural areas.
- The entity name must have ‘payments bank’ so as to differentiate it from the other types of banks.
- It should be registered under the company’s act of 2013 as public limited company.
- Each payments bank should have ‘Customer Grievance Cell’ to handle the customer complaints and concerns.

6. The growth rate of digital payments system in India;

The RBI captures, and publishes data related to payment systems transaction in terms of volume, and value A useful derived metric – Average Transaction Size (ATS) is also useful to better understand these systems. The following chart shows the share of the various payments Systems by volume.

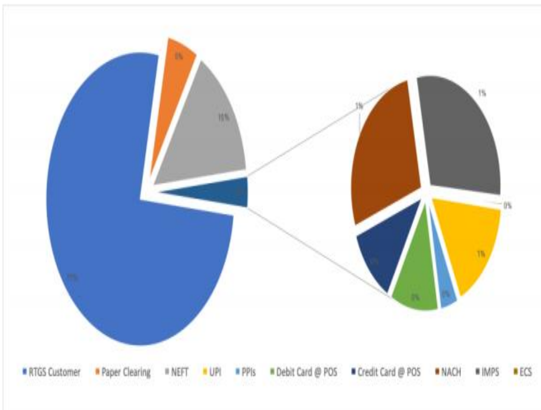
Figure no 6.1 showing the different Payments system



Sources: Payment system share financial year 2018-19 volume.

The following chart shows the distribution by value, showing just how much, it is dominated by high value payment systems.

Figure no 6.2 Payment System Share Value



From these charts, it appears that systems such as RTGS, NEFT and Paper (Cheque) dominate in terms of value, but not volume indicating that they are used for higher value payments.

6.1 RTGS

Real Time Gross Settlement (RTGS) system – RTGS system enables transfer of money from one bank account to another on a “real time” and on “gross” basis. The RTGS service window for customer’s transactions is available to banks from 8 am to 4:30 pm on weekdays (Monday through Friday) and on working Saturdays for settlement at the RBI's end. RTGS is operated by RBI.

The following chart shows the growth in volume, and value for customer transactions over the last 5 years.

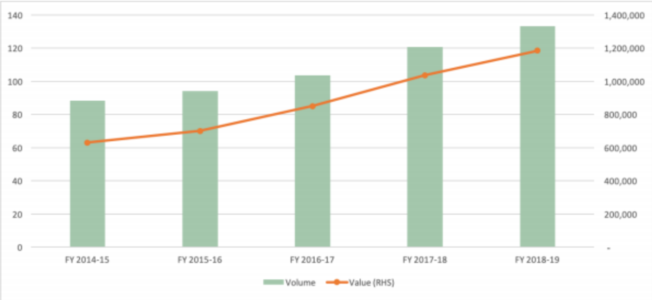


Figure no 6.1.1 Shows RTGS customer volume and Value

Year	Volume	Value	Transaction Size	Growth	CAGR
FY 2014-15	88.39	6,31,050.74	71.4 lakhs	51%	11%
FY 2018-19	133.30	11,84,368.12	88.9 lakhs		

Sources: RBI Documents.

Interpretation:

RTGS usage (in volume terms) has steadily grown with a CAGR of about 11% over the past 4 years. While the number of transactions is small, the transactions are very large, the average size, over the past 5 years has varied between Rs 70 lakh and 90 Lakh.

6.2 NEFT

National Electronic Funds Transfer (NEFT) – NEFT facilitates funds transfer across all computerized branches of banks (member / sub member of NEFT) across the country. Presently, NEFT operates in half hourly batches – there are twenty-three settlements from 8 am to 7 pm on weekdays (Monday through Friday) and on working Saturdays. NEFT is operated by RBI.

The following chart shows the growth in volume, and value for customer transactions over the last 5 years.

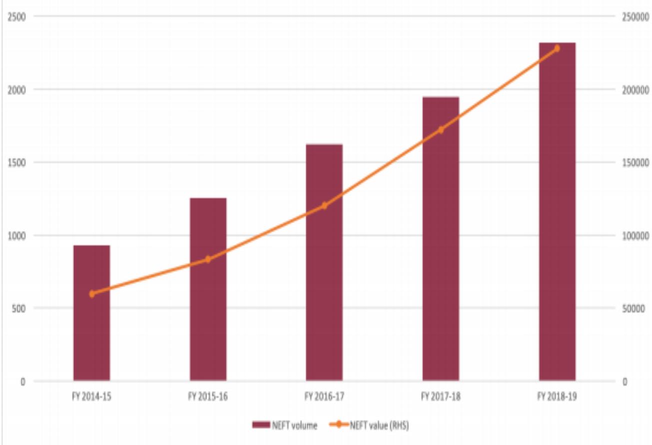


Figure no 6.2.1 Shows NEFT customer volume and Value

Year	Volume	Value	Transaction Size	Growth	CAGR
FY 2014-15	928	59,804	64.5 thousand	150%	26%
FY 2018-19	2319	2,27,936	98.3 thousand		

Sources: RBI Documents.

Interpretation:

NEFT usage (in volume terms) has steadily grown at a CAGR of 26% over the past 4 years! While the number of transactions is small, the size of transactions is large, the average size, over the past 5 years has varied between Rs 60,000 and 1 Lakh.

6.3 Paper (Cheque)

India has a very efficient clearing house infrastructure, which is used by businesses to clear cheques, across the country, settling them on the same day, or the next day, and is the preferred mode for a lot of business transactions. Most banks do not charge retail customers for cheque clearing.

Figure no 6.3.1 Shows NEFT customer volume and Value

Year	Volume	Value	Transaction Size	Growth	CAGR
FY 2014-15	1,197	85,434	71 thousand	-6%	-2%
FY 2018-19	1,124	82,461	73 thousand		

Sources: RBI Documents.

Interpretation:

The number of cheque transactions has reduced over a long period of time, briefly rising in 2016-17 in the context of demonetization. The average cheque size, over the past 5 years has varied between Rs 65,000 and 75,000, indicating that it is used for relatively higher value transactions. Cheques have been included in this report for comparison purposes and endeavor should be to reduce the cheque mode of payment.

7. Card Based Payment System

Cards are well understood products at the global level, and find acceptance at stores, as well as for online payments. Cards have played an important role in the spread of digital payments. Cards are also used to withdraw money from ATMs, and hence have been issued to most account holders. India has had the presence of international players in the payments space for many years. In the last decade, an Indian player – NPCI – has also introduced card payments through the RuPay scheme.

Non-bank PPI issuers are allowed to participate as members / associate members of authorized card network.

7.1 Credit and Debit Cards

Credit cards have been used in India for over 40 years now. While the other digital payments have taken off, the use of cards has gone up as well. There are 3 dominant card schemes in India – RuPay, MasterCard and Visa Over the past few years, the number of credit cards has grown, but it is overwhelmed by debit cards.

India has made tremendous gains in financial inclusion, bringing in most Indians into the banking system. Many of these have been issued a debit card to access these accounts.

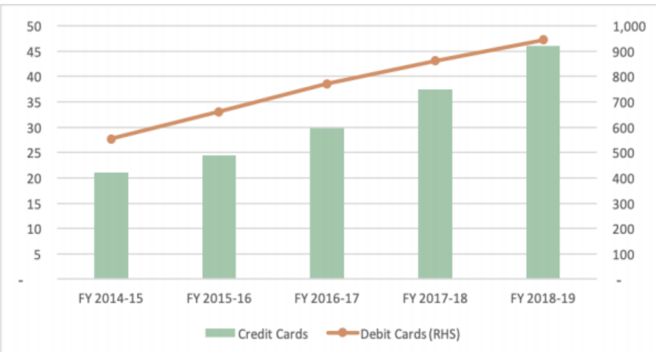


Figure no 7.1.1 Shows Issue of Debit and Credit cards

	Credit Cards			Debit Cards		
Year	Number	Growth	CAGR	Number	Growth	CAGR
FY 2014-15	21	123%	22%	554	67%	14%
FY 2018-19	47			925		

Sources: RBI Documents.

7.2 Credit Cards and Debit Cards Payments

Debit Cards at POS / Ecommerce The following chart shows the use of debit cards, to make payment transactions – at a physical POS, or for ecommerce.

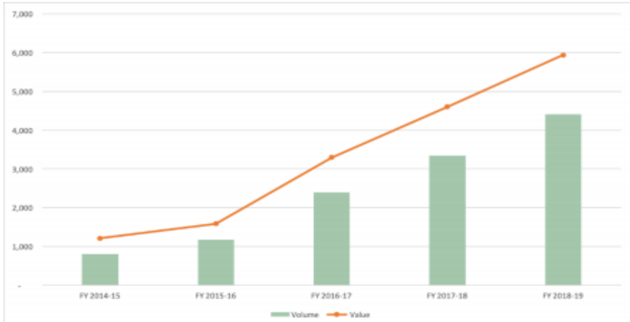


Figure no 7.2.1 Shows Cards usage, customer volume and Value

Year	Volume	Value	Transaction Size	Growth	CAGR
FY 2014-15	808	1,213	1.5 thousand	446%	53%
FY 2018-19	4414	5,935	1.3 thousand		

Interpretation:

It is quite clear that this mode of payment has shown tremendous growth with a CAGR of 53% over the past 4 years. Drilling down by where the card was used (ATM, POS, Ecommerce).

We see the following data for March 2019 (Off Us transactions only):.

7.3 Credit Cards at POS / Ecommerce

The following chart shows the growth in credit card usage for payments over 5 years.

Figure no 7.3.1 shows Cards usage, customer volume and Value

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Year	Volume	Value	Transaction Size	Growth	CAGR
FY 2014-15	615	1,899	3.1 thousand	187%	30%
FY 2018-19	1,763	6033	3.4 thousand		

Interpretation:

Growth has been significant, with a 30% CAGR over 4 years, but it has been overshadowed by the growth in debit card usage, and other payment forms.

8. Contribution of the Payments bank in digital Banking;

It is very interesting to know the contributions of the payments bank in India with respect the digital banking system in India.

"Digital Transaction' means a payment transaction in a seamless system effected without the need for cash at least in one of the two legs, if not in both. This includes transactions made through digital / electronic modes wherein both the originator and the beneficiary use digital / electronic medium to send or receive money."

Table No: 8.1 payment bank's share in the field of Mobile banking

Payment banks' share in mobile banking

	Volume (mn) actual	Value (₹ bn)	Share in total volume (in %)
Paytm Payments Bank	166,840,377	201,148,546	19.23
State Bank of India	145,159,525	1275,330,289	16.73
Axis Bank	83,925,325	445,085,957	9.68
HDFC Bank	60,057,314	525,843,746	6.92
ICICI Bank	59,826,121	450,217,373	6.9
Airtel Payments Bank	46,370,845	61,514,845	5.35
Bank of India	38,124,316	103,934,991	4.4
Union Bank of India	36,142,562	91,328,955	4.17
Kotak Mahindra Bank	28,731,458	244,821,904	3.31
Canara Bank	21,544,106	68,919,390	2.48

Source: RBI

Analysis and Interpretation:

From the above table 01, we can come to know that the share of all the banks with the payments bank in India for the financial year 2019. In this above data it is clearly shows that contribution of regular banks with payment banks for payments banks, 2018-19 turned out to be an important milestone. It was when they joined the ranks of the top 10 mobile-banking players, matching them in volumes. As Paytm Payments Bank cemented its position as the market leader in this segment of digital transactions, Airtel Payments Bank climbed up the table, leaving behind the likes of Bank of India and Kotak Mahindra Bank. New–age players, however, have a long way to go to match banks' transaction values.

March 2019 saw Paytm account for over 19% of all mobile-banking transactions while Airtel's Payments Bank contributed more than 5% to the 867 million transactions made during the month. In contrast, State Bank of India (SBI), the largest lender in the country by assets, recorded 145 million transactions, accounting for under 17%. The only banks ahead of Airtel Payments Bank are SBI and the three largest private-sector banks – HDFC Bank, ICICI Bank and Axis Bank. Indeed, ICICI Bank saw close to 60 million mobile-banking transactions in March 2019 though it was just a whisker ahead of Airtel, with under 7% of the market.

Legacy banks aren't throwing in the towel, just yet. While Paytm Payments Bank may still be leading the market, but its share dropped to 19% from over 22% in March 2018. In February 2019, SBI had almost closed the gap with its new-age rival with a share of 17.6% against Paytm's 18%. Much of the ground Paytm has lost may have been won by HDFC Bank, whose share in mobile-banking transactions shot up to nearly 7% in March 2019 from just 1.5% a year ago.

Bankers point out that while new-age players are getting more share in the digital payments market, the legacy banks have a bigger share of transaction values. Paytm Payments Bank's transactions aggregated Rs 20,115 crore in March 2019 – or 4.6% of the total value of mobile-banking transactions – against SBI's Rs 1.27 lakh crore, or a whopping 29% of the market.

9. Aggregate Financial Performance of the Payments bank

It is always it is very interest to see the performance of the Payments bank when compared to the regular banks. In this, study taken on aggregate of the financial data published in article and sources collected from RBI

Figure No 9.1 Financial performance of payment banks

Financial Performance of Payments Banks (₹ cr)

	FY17 (2 banks)	FY18 (5 banks)
INCOME		
Interest income	31.4	175.6
Other income	108.6	1,003.6
EXPENDITURE		
Interest expended	0.7	24.5
Operating expenses	380	1,676.8
Provisions and contingencies	1.5	-5.6
Net interest income	30.7	151.1
PROFIT		
Net loss	242.2	516.5

RBI data: numbers for FY17 and FY18 pertain to two and five payments banks, respectively, and are not comparable

Financial Ratios of Payments Banks

	FY18
Return on assets	-10.6
Return on equity	-22.4
Investments to total assets	50.1
Net interest margin	4.5
Efficiency (cost-income ratio)	142.2
Operating profit to working funds	-10.7
Profit margin	-43.8

Sources; SBI ECOWRAP

Analysis and Interpretation

The above tabulation shows that the financial performance of the payment banks from past two years. It is clearly showing that there is huge change in the revenue of the payment banks when compare to financial year 2017 there is the drastic change in other income nearly increase of 895 (crores). Even after that payment banks are suffering with huge financial net loss around 516.5 (crores) in the financial year 2018. The payment banks are performing well with the collection of interest from the customers but the huge spending on the assets purchase and the expenditure incurred for the expansion of the market leads to decrease on the profit level of the payment banks.

Fino had recorded revenues of Rs 375 crore in 2018-19 and expects to break even in 2019-20

A Paytm spokesperson says their payments bank became profitable in the first year of its operation and earned a net profit of Rs 19 crore in 2018-19. “Paytm Payments Bank focuses more on transactions than balances in the account,” he adds. Paytm started off as an e-wallet business but invested in converting its customers into bank account holders. Today it operates 27 crore wallets and 4.7 crore savings bank accounts

An indicator of differentiation in the sector is how the banks responded to the 2018-19 target of 30 billion digital transactions that was set by the Ministry of Electronics and Information Technology. While Airtel and Fino were able to reach more than double the target, Paytm clocked 122% of the target number, Jio scored 15%, India post was at 0.15% and Aditya Birla barely opened its account

10. Findings:

These initiatives might indicate a robust model in the payments bank space. But not all is hunky-dory. The Reserve Bank of India (RBI) had in 2015 issued 11 licenses to entities to start payments banks. Today, there are only three serious players left in the market. Therefore, some questions have been raised if the model can succeed. Many have blamed RBI’s restrictions for the payments bank model not taking off.

Chief economist of State Bank of India Soumya Kanti Ghosh said in a recent report: “Due to strict regulatory guidelines, payments banks’ business operations are restricted to only mobilizing deposits and investing in government securities. This has led to substantial losses in their operations.”

However, three players — Fino Payments Bank, Airtel Payments Bank and Paytm Payments Bank — seem to have cracked the business model.

They also have big backers. Airtel Payments Bank has investments from Kotak Mahindra Bank; ICICI Bank, BPCL, IFC, Blackstone and Intel Capital have invested in Fino; Paytm Payments Bank’s promoter has the backing of Softbank and Alibaba. Among the other players, India Posts Payments Bank was upgraded to a scheduled commercial bank in July. Jio Payments Bank, a joint venture between Reliance Industries NSE 3.29 % and State Bank of India, is still in the pilot stage. The combined firepower of the giants could disrupt the field. NSDL Payments Bank had made a start in September 2018.

Those who have backed out from the payments bank space include Tech Mahindra, Cholamandalam NSE -0.67 % Finance and a consortium of IDFC Bank, Telenor and Sun Pharma.

In late July, Aditya Birla NSE -0.45 % Payments Bank said it would close operations by October 2019 due to “unanticipated developments” that rendered the “economic model unviable”. This came as a surprise. The Aditya Birla Group had two payments bank licenses but had to give up the permit for the Vodafone m-Pesa platform when the Vodafone-Idea merger happened.

On the heels of Aditya Birla Payments Bank declaring its intent to shut down, SBI’s Ghosh painted a grim picture for the sector in a report dated July 22, 2019. His report, A Case of Near yet Too Far, pointed out that five payments banks posted a combined net loss of Rs 516 crore in 2017-18, even though they reported a positive net interest income (difference between interest earned and interest paid) of `151 crore. While most of the loss can be attributed to expenditure related to expansion, the positive net interest income suggests the payments bank model is inherently safe.

Commenting on the limitations in the model, Ghosh wrote: “Payments banks emerging as a real competitor to banks is not a near-term possibility.” There are various RBI restrictions on the sector, he said. Deposit collection for payments banks is capped at Rs 1 lakh per customer, and they are not allowed to lend. The money collected as deposits has to be parked in government securities and larger banks. “Payments banks are turning out to be working merely as an aggregator ” The steep capital requirement for payments banks — at 15% of risk-weighted assets against 8% according to Basel III norms and 9% mandated by RBI for scheduled commercial banks — would keep it free of credit risk and ensure low market risk, Ghosh said.

But it would expose PBs to operational and liquidity risks. The experiment has failed as only so few were still operational, and they can succeed only if they cross-sold services such as insurance and loans from other banks and have deep tie-ups with universal banks and telecom companies, he added.

11. Conclusions:

Payment banks have been introduced with the primary objective of increasing the impact of financial inclusion drive. The payment banks play 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 lead results in financial inclusion. There are numerous bottlenecks that need to be addressed before the real benefits of payment banks. There are millions of Indians don’t have access to banking facilities. They cannot avail of government benefits, loans, insurance and even interest on savings. M-Banking, IPPB, PMJDY will reach the unbanked and the under banked across the all cross section of society and geographic.

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