EMERGENCE OF PAYMENT BANKS: IMPLICATIONS IN INDIAN SCENARIO

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Abstract

Payment Bank in India is a type of bank which is a non-full service niche bank. A bank licensed as a Payments Bank can only receive deposits and provide remittances. It cannot carry out lending activities. Thus, Payment Banks can issue ATM/debit cards, but cannot issue credit cards as they are not empowered to carry out lending activities. Till now, four payments banks have started operations in India. Airtel Payments Bank was the first such bank to start its commercial operation in November 2016 on a pilot basis covering only Rajasthan initially and extending nationwide later in January 2017.

Payments banks can strategically use technology and smart segmentation as disruption tools and tactically leverage their existing customer base and distribution channels to quickly acquire critical mass.

Payment banks are supposed to serve as supporters of existing banking mechanism, instead of competing with them. In fact top-notch banks will not be affected much as payment banks will operate in specific areas only. As a strategy, the major banks in India could take advantage of these banks (as business correspondents) to improve their reach in remote parts of the country.

The paper, besides outlining the emergence of payment banks in India, highlights its potential role, and challenges in Indian context.

Keywords: *Payment banks, Indian Payment system, Challenges, Oppurtunities.*

INRODUCTION

The financial system in India has observed marked changes since the time of liberalization. Banking has been one of the few sectors like IT, Telecom , pharmaceuticals and automobiles that have been performed very well since 1991. The success of banking and allied sectors can mainly be attributed to banking sector reforms and technological change. There have been many changes at the institutional and regulatory level that have led to changes on the ground level functioning of banks. Greater openness and transparency in banking operations and services must be attributed to some of the changes at the institutional and regulatory level. Measures to induce competition within the sector with greater participation from the foreign sector as well as the private sector, has been game changers. The competition along with reforms has paved the way for a retail banking revolution of sorts with the usage of ATM's (Automated Teller Machines) becoming a household reality in India. Some of the poorest people live in India and have remained outside the formal banking ambit. About 40%-50% of India's 1.25 billion populations is eligible to open a bank account, but is still unbanked. The prime minister's recent Jan DhanYojana has been aimed at greater financial inclusion. However opening and using the financial system for one's benefit are two different things.

A large number of people are not covered by the formal banking system. This is despite the existence of 157 operating banks in India, According to Census 2011, out of 246.7 million households, only 144.8 million (58.70%) have access to banking services. Due to high operating cost, traditional bank branch in rural areas are very reluctant in opening branches in rural or even semi-rural areas. Hence, it becomes important to think of innovative measures to address the situation. This led to the establishment of payments banks in India *(Choudhury, 2018).*

EMERGENCE OF PAYMENT BANKS

The payment system in India has experienced noteworthy structural changes since the early 1980s. Changes are evident from series of attempts (Exhibit: 1) ; adoption of computerized settlement facilities at all its clearing houses in 1988 by RBI, installation of a core banking software in 2000, the introduction of internet banking in 2001, inception of Payment and Settlement Systems Act 2007, the establishment of the National Payments Corporation of India (NPCI) in 2008, introduction of Real-Time Gross Settlement (RTGS) in 2004, the National Electronic Funds Transfer (NEFT) in 2005, the Immediate Payment Service (IMPS) in 2010, and Unified Payments Interface (UPI) in 2016, are examples of the government's initiatives in this regard and endeavor towards a cashless economy. Release of a discussion paper by RBI on 'Banking Structure in India – The Way Forward' August 2013 paved the way for revolutionizing the payment system in India. The paper argued for the need to adopt innovative approaches in banking and to provide access to the formal banking system to low-income households. This was followed by formation of an expert committee by RBI under the chairmanship of Dr. Nachiket Mor in September 2013. The committee, in its report submitted in January 2014, strongly recommended the licensing of payments banks to offer financial services to the previously excluded segments of the population. This was further confirmed by the Finance Minister Arun Jaitley in the Union Budget 2014-15 *(Choudhury, 2018).*

EXHIBIT: 1		
FIRST PHASE	**SECOND PHASE**	**THIRD PHASE**
1984: Introduction of Magnetic Ink Character Recognition (MICR)	2001: Internet banking	2010: Immediate Payment Service (IMPS)

technology		
1987: First ATM installed in Kolkata	2004: National Financial Switch (NFS)	2012: Adoption of ISO 20022 messaging standard in the Next Generation RTGS (NG-RTGS) system
1988: Computerized settlement operations at clearing houses of RBI	2004–2005: Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT)	2014: Jan Dhan Yojana, National Unified USSD Platform, RuPay Card, Bharat Bill Payment System (BBPS)
1998–2000: Core banking software	2007 : Mobile banking	2016: Unified Payment Interface (UPI), payment banks, mobile wallets,
	2008: Cheque truncation systems	2017: Bharat Interface for Money (BHIM) app

Source: ASSOCHAM report 2017, Shah (2017), Digital Payment System: Problems and Prospects, retrieved from https://eprawisdom.com/jpanel/upload/articles/518pm31.Zahoor%20Ahmad%20Shah.pdf

After incorporating the comments and suggestions given on the draft guidelines, the final guidelines were issued by the RBI in November 2014 to license payments banks. Out of 41 applications, the RBI issued in-principle license to 11 applicants to undertake banking business under Section 22(1) of the Banking Regulation Act, 1949. Eleven applicants comprised of nine organizations and two individuals. The nine organizations include, Aditya Birla Nuvo Limited, Airtel M Commerce Services Limited, Cholamandalam Distribution Services Limited, Department of Posts, FinoPayTech Limited, National Securities Depository Limited, Reliance Industries Limited, Tech Mahindra Limited and Vodafone m-pesa Limited. The two individuals include Dilip Shanghvi of Sun Pharmaceuticals and Vijay Shekhar Sharma of one communication which operates Paytm *(RBI Press Release, 2015)*.This marked the start of payments banks in India.

SEQUENTIAL EVENTS TOWARD FORMATION OF PAYMENT BANKS

- 23 September 2013: Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by NachiketMor, was formed by the RBI.
- 7 January 2014: The NachiketMor committee submitted its final report. Among its various recommendations, it recommended the formation of a new category of bank called payments bank.
- 17 July 2014: The RBI released the draft guidelines for payment banks, seeking comments for interested entities and the general public.
- 27 November: RBI released the final guidelines for payment banks.
- February 2015: RBI released the list of entities which had applied for a payments bank license. There were 41 applicants. It was also announced that an external advisory committee (EAC) headed by Nachiket Mor would evaluate the license applications.
- 28 February 2015: during the presentation of the Budget it was announced that India Post will use its large network to run a payments bank.
- 6 July 2015: The external advisory committee headed by Nachiket Mor submitted its findings. The applicant entities were examined for their financial track record and governance issues.
- 19 August 2015: the Reserve Bank of India gave *in-principle* licenses to eleven entities to launch payments banks.

Source: www.bemoneyaware.com/.../payment-banks-types-of-banks-in-india-history-of-bank

At present, four payments banks are operating in India. Airtel, with the network 250,000 retail stores (as banking points) was the first such commercial bank to start *Airtel Payments Bank* in November 2016 on a pilot basis covering only Rajasthan initially and extending nationwide later in January 2017. *India Post Payments Bank (IPPB)*, the only public sector entity that has been issued a license to operate a payments bank which started its branches on a pilot basis in Raipur (Chhattisgarh) and Ranchi (Jharkhand) in January 2017. It had announced plans to open 650 branches by April 2018. *Fino Payments Bank*, which started operation in July 2017, claims to have 410 branches and more than 25,000 banking points. The latest addition in this list is *Paytm Payments Bank* which started operation with the inauguration of its first branch in Noida, Uttar Pradesh, on 28 November 2017. Paytm aims to add 500 million customers by 2020 *(Choudhury, 2018).*

PAYMENT BANKS

A payments bank is different from a mobile banking system. Payment banks do not necessarily require a physical branch. It generally uses mobile as medium of operation. On the other hand, a mobile banking system is merely a web-based application that enables the customer of a traditional bank to perform banking activities. One needs to have an account in a branch of a traditional bank to transact through the mobile banking system. Payment banks are supposed to support the efforts of financial inclusion by providing small savings accounts payment / remittances services to the lowest strata of the economy viz. migrant labourers, low income households, small / marginal businesses and persons engaged in unorganized sector of the economy *(gktoday, 2015).*

Payment Banks in India is a non-full service niche bank. Being licensed as a Payments Bank, it can only receive deposits and provide remittances but cannot carry out lending activities. Payment Banks can issue ATM/debit cards, but cannot issue credit cards as they are not allowed to carry out lending activities *(Goyal, 2015).*

In simple terms, it is a distinguished bank that will undertake only limited banking functions allowed as per the Banking Regulation Act of 1949. These banks can offer banking functions such as payments, deposits, remittances, internet banking, and would initially be allowed to take cash deposit of maximum Rs. 1 lakh per individual. These banks primarily differ from 'differentiated banks' by the fact that they are not authorized to carry out lending services in the form of giving loans or issuing Credit Cards *(Talwar, 2015).*The payment banks are expected to target India's migrant laborers, low-income households and small businesses, offering savings accounts and remittance services with low transaction costs.

Range of Activities permitted to Payment Banks *(Goyal, 2015).*

- *Acceptance of demand deposits:* Acceptance of demand deposits initially restricted to holding a maximum balance of Rs.100, 000 per individual customer.
- *Issuance of ATM/debit cards:* Issuance of ATM/debit cards(Payment banks are not allowed to issue credit cards).
- *Payments and remittance services:* Payments and remittance services are allowed through various channels.
- It can be BC of another bank, subject to the Reserve Bank guidelines on BCs.
- *Distribution simple financial products:* Payment banks are allowed to distribute non-risk sharing simple financial products like mutual fund units and insurance products, etc.

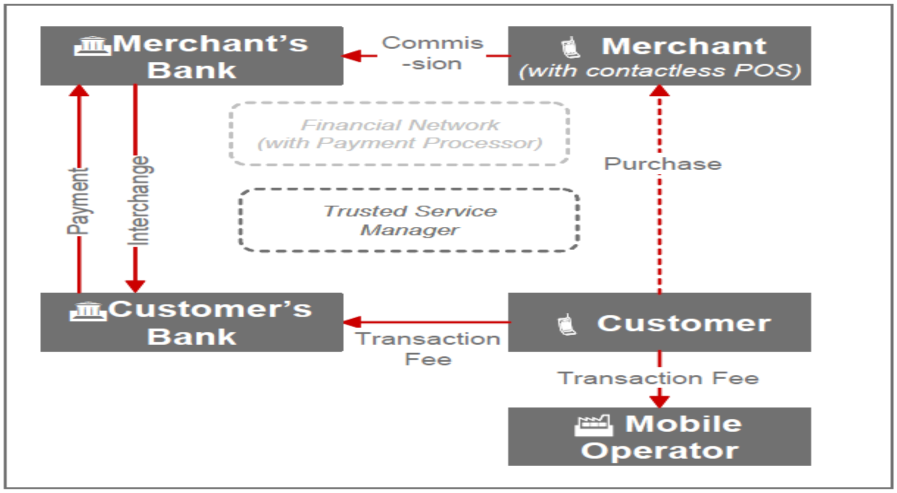
Exhibit: 2		
DIFFERENCE/SIMILARITIES BETWEEN PAYMENT BANK AND OTHER BANKS		
Activities	**Payment Banks**	**Other Traditional Banks**
Lending Money	No	Yes
Acceptance of Deposits	Yes (Not exceeding Rs. 1 Lakh)	Yes (No such limits)
Interest on Deposits	Yes	Yes
Issue of Debit Cards	Yes	Yes
Issue of Credit Cards	No	Yes
Foreign holding	Same as currently prevalent for FDI in the banking sector	Currently prevalent for FDI in the banking sector
Customer grievance cell	Yes	Yes
Source: http://www.goodreturns.in/classroom/2015/08/9-ways-which-payment-banks-are-different-from-commercial-banks-india-384042.html		

Exhibit: 3				
THE MAJOR DIFFERENCE BETWEEN THE PAYMENT BANKS, PPI AND COMMERCIAL BANKS				
System	**Can give loans/lend?**	**Can accept deposits?**	**Can make payments?**	**Can offer interest on deposits?**
Commercials banks (SBI, PNB)	Yes	Yes	Yes	Yes
Payment Bank	No	Yes	Yes	Yes
Pre-Paid Instruments	No	Yes	Yes	No
Payment network operator (Visa, MasterCard)	No	No	Yes	No

WORKING MECHANISM OF PAYMENT BANKS

Sine payment banks are not allowed to give loans and accept time deposits; they cannot earn the interest spreads between loan and deposits. Thus, primary source of their revenue is transaction fees. Payments banks generally charge customers fee for making a transaction, say transferring money to another bank or withdrawing money from own account. However, they are likely to get a fair amount of revenue from the payment merchants for facilitating remittances and bill payments. For example, when a customer makes an online payment for electricity bill using payments bank account, the bank charges the issuer of the bill (electricity board in this case) for facilitating the services. Just like commercial banks, payment banks make money in the form of commissions from transactions through point-of-sale (PoS) terminals and resultant MDR (merchant discount rate). Interest arbitrage is another way in which they may make money: payments bank can deposit money with some other bank and/or government deposits at higher rate of interest than they provide to their customers.

Figure-1



Rationally, it is uneconomical for traditional banks to open branches in every village which requires heavy expenditure but mobile phones with greater reach and acceptability by the masses, can serve the purpose without much investment with ease. It will serve as good low-cost platform for allowing basic banking services to every rural citizen. This will speed up India's expedition towards a cashless economy.

Even in absence of income from lending, payments banks are expected to justify their existence on the basis of large volume transaction being executed by millions of customers who are currently not within the fold of the formal financial system. For such large volumes of transactions, bank charge of 1 or 2 per cent on a large volume can be lucrative on normal cash transfers, which will include government's direct benefits transfer programmes. Moreover, new payments banks can also earn 7.0% or so on their investments in government securities. The mobile companies will have limited additional costs and thus they may even offer payment of more than 4% interest, which is the norm among banks as they pay mere 4% on savings banks. With no need for any provisions for losses on NPAs for these payment banks, they may become fitter banks than existing banks.

GUIDELINES FOR PAYMENT BANKS *(Talwar, 2015)*

- They must use the term "payment bank" so as to differentiate it from other type of banks.
- Minimum capital requirement; Rs. 100 crore.
- Promoter contribution; for the first five years, it should be at least 40%. However, excess shareholding could be brought down to 40% by the end of fifth year, to 30% by the end of tenth year, and to 26% in 12 years since the date of commencement of business. Other entities except for promoters will not be allowed to have shareholding of more than 10%.
- Foreign shareholding; It would be on similar rules for FDI set up for the private banks in India.
- Voting Rights; Payment banks have to follow the Banking Regulation Act, 1949 to regulate the voting rights.
- Acquisition; any acquisition exceeding 5% will require approval from the RBI.
- Board of Directors; the majority of bank's board of directors should include independent directors who will be appointed as per the guidelines of the RBI complying with the 'fit and proper' criteria meant for Directors as issued by the RBI.

- ➢ The payment bank has to be fully networked and technology driven from the time of its commencement.
- ➢ Location of Branches; 25% of its branches have to be in the unbanked rural areas.
- ➢ Registration; Payment banks will be registered as public limited company under the Companies Act, 2013.
- ➢ The RBI has strictly said that the banks need to have a high powered 'Customer Grievance Cell' to handle customer complaints and concerns.
- ➢ Besides cash Reserve Ratio (CRR) requirements with RBI on outside demand and time liabilities, payment banks will be required to invest minimum 75% of its demand deposit balance in Statutory liquidity ratio (SLR), eligible government securities/treasury bills with maximum maturity up to one year and hold maximum 25% in current and time deposits with other commercial banks for operational purpose and liquidity management *(gktoday, 2015).*

1. According to RBI guidelines the "fit and proper" criteria for the eligible promoters is that they must have sound track record of professional experience or must be running their businesses for at least a period of five years in order to be eligible to promote payments banks. A scheduled commercial bank can take equity stake in a payments bank to the extent permitted under Section 19 (2) of the Banking Regulation Act, 1949. Promoter/promoter groups should be running their businesses for at least a period of 5 years.

Source: http://www.gktoday.in/iaspoint/current/payment-banks/

Applicants for Payment Bank

The telecom companies, retailers, mobile wallet providers, large business houses and several others are the main applicants for payment banks. As per the official guidelines, following are the eligible promoters for payment banks *(Genxtsolutions, 2018):*

- ➢ Existing non-bank Pre-paid Payment Instrument (PPI) issuers
- ➢ Individuals / professionals
- ➢ Non-Banking Finance Companies
- ➢ Corporate Business Correspondents (BCs)
- ➢ Mobile telephone companies
- ➢ Super-market chains and companies
- ➢ Real sector cooperatives owned & controlled by residents
- ➢ Public Sector Entities

Further, RBI has provided a proper guideline while establishing payment banks. These guidelines serve as a checklist while establishing a payment bank by any entity. The checklist also serves as step by step guide or structured and proven approach while executing the procedure for formation of payment bank. This systematic approach starts in form of preparation for analyzing internal and external environments in context of payment banks. Next step is developing a business plan after analysis. After preparing business plan one is supposed to be ready for applying for license for operating a payment bank and finally launch the same after developing a banks operating model. The same is exhibited as under:

Exhibit: 4				
Prepare	**Plan/Structure**	**Apply**	**Build**	**Launch**
Analyze internal & external	**Develop overall Business**	**Apply for license as per the RBI**	**Develop detailed design of the**	**Launch operations of the**

environment & Develop business case	structure & business plan	guidelines	bank's operating model	bank/ implement the operating model
- Have I ensured Management and key Stakeholder Buy in? - What are my internal capabilities that can be leveraged? - Do I have a solid Business Case? - How much capital do I need to rise? - Do I need to partner with others? - Am I eligible to apply for a Payments Bank license? - Does new venture require corporate restructuring? What are tax and Regulatory structuring implications? - What should be the mix of debt-equity? - Strategy for exit/ liquidity post 5 years of licensing	- What is my Business and financial plan I terms of key markets, products, channels, Risks, etc.? - What are the key elements of strategy, business and financial plan that need to be reviewed? - How best to implement the corporate, legal and tax structure? - What is the financial structure required for the venture?	- What are the key criteria for a Payments Bank license? - How to ensure the test of Responsiveness set by the RBI? - What are the other necessary documents to be submitted along with the application? - What are the Liasioning requirements with the RBI? - What are the timelines to send the documentation to the RBI? - What about liaison / responding to queries of the RBI?	- What is the proposed operating model for the bank? - How should I establish PMO, Implementation and communication plans? - What are product features? - How to get the bank structuring in place in terms of AOA/MOA/SHA - How well is bank geared up to ensure compliance with new requirements of Companies Act, 2013? - How to plan to ensure that bank meets with structure / shareholding as per Guidelines? - What will be the risk, compliance and treasury function of the bank - What should be the IT architecture? - Which vendor should be selected for IT? - How to develop org structure & staffing profile?	- What are the key policies for business processes? - What are my branch expansion plans? - What is the branding spend I want to do? - How to recruit and train staff? - How to manage the change? - How to build/ test systems? - How to prepare for regulatory review and regulatory reporting? - What all alliances need to be in place? - How to implement the Risk requirements of the bank

Source: Deloitte- RBI Guidelines for Licensing of Payments Bank Opportunities and Challenges. December 2014

The fact is that there is fundamental difference in business model of traditional banks and payment banks. The difference is exhibited as under:

<table>
<tr><th colspan="3">Exhibit: 5</th></tr>
<tr><th></th><th>Value Proposition of a Traditional Banks</th><th>Value Proposition of a Payments Banks</th></tr>
<tr><td rowspan="3">Business Model</td><td>Focus: Focus on all customer segments - retail, MSMEs and corporate; Unbanked population only for fulfilling regulatory obligations</td><td>Focus: Financial inclusion and unbanked/ under-banked population are the priority target market (focused on providing basic banking services).</td></tr>
<tr><td>Distribution: Traditional banks follow Brick and Mortar ‘Branch’ centric distribution model.
Cost to serve unbanked population is traditionally high</td><td>Distribution: Though internet banking services has been encouraged, the RBI does not visualize “virtual” or branchless bank Payments Banks.
Cost to serve unbanked population is lower due to technology adoption right from the inception</td></tr>
<tr><td>Traditional banking offers product variants across entire product range of accounts, deposits, payments and credit; Credit is the primary product for revenue generation.</td><td>Payment banks focus on only simple accounts, deposit products and transactions; Fee earned from transaction is primary product for revenue generation.</td></tr>
<tr><td rowspan="3">Enablers</td><td>Outsourcing: Traditional banks mainly outsource administration and other non-core activities.</td><td>Outsourcing: Heavy focus on technology and IT infrastructure. Only core banking operations such as risk management, treasury, finance and accounts expected to be in house.</td></tr>
<tr><td>Assets: Follow asset heavy approach by investing in technology, infrastructure, office space, branches, etc.</td><td>Assets:Follow asset light approach with pay per transaction for technology, customer acquisition, collections, transactions, etc.</td></tr>
<tr><td>Technology: Technology plays only an enabling role in few functions and processes.
Heavy and continual investment in technology and lower ROI due to leverage and legacy issues.</td><td>Technology: Technology is the backbone and plays a central role across all functions and processes
Cost efficient technology platform to reduce overall cost of transaction.</td></tr>
<tr><td colspan="3">Source: Deloitte- RBI Guidelines for Licensing of Payments Bank Opportunities and Challenges December 2014.</td></tr>
</table>

OPPORTUNITIES FOR PAYMENT BANKS

- According to KPMG, about 40 – 50 percent of India’s 1.2 billion populations is eligible to open a bank account but still unbanked. Further, 937 million mobile subscribers, substantially outnumber those with bank accounts. Besides, the urban population is going to jump over the next 25 years – from the current 26% to between 36 – 50% of the total population. All these facts indicate the huge opportunity for payment banks *(caknowledge, 2018).*

TABLE: 1 PENETRATION LEVEL OF FINANCIAL SERVICES			
Penetration levels of new age payment mediums	India	China	USA
Number of people with bank accounts (per '00)	58	70	92
Number of bank branches(per 1 lakh)	11	8	36
Number of ATMs (per 1 lakh)	11.4	30.7	137.6
PoS terminals(per million)	684	5,245	17,020
Total cards (per '000)	283.6	2,604	3,699
Credit by FIs to GDP ratio	75%	155%	229%
Source: Deloitte- RBI Guidelines for Licensing of Payments Bank Opportunities and Challenges December 2014.			

TABLE: 2 DEPOSITS BY PAYMENT BANKS (May, 2018)	
Airtel Payment Bank	$42.3 Mn
Paytm Payment Bank	$26.7 Mn
Fino Payment Bank	$05.0 Mn
India Post Payment Bank	$191.0 K Mn
Source: https://inc42.com/buzz/deposits-of-payments-banks-in-india-were-under-74-5-mn-as-on-may-2018-rti/	

- In India, payment banks are at the nascent stage. The funds deposited by payments banks are much lower than the funds mobilized by large bank branches. Payments banks' deposits were less than 0.005% of the overall bank deposits of $1.5 Tn (INR 115 lakh Cr). This is indication of huge potential with payment banks in Indian scenario *(Pradhan, 2018).*

- Masculine society like India has the low participation of women (48% of the population or 586 million) in financial management and decisions. These challenges stem from complexity associated with banking and financial transactions. This is indeed the opportunity a payments bank should encash. Offering tailor-made products for bottom-of-pyramid (BOP), rural, the unbanked and women on the basis of smart segmentation-both geographical and demographic may possibly serve the purpose *(Balooni, 2017).*

- Majority of the people in India have little access to any form of financial advisory. As you go down the economic pyramid, money management advice is completely absent. This inefficiency opens a huge white space for payments banks to offer real advisory services to rural and BOP. The key, however, is to control in the tendency to mis-sell or biased selling. It may bring the lost 'trust' back to banking *(Balooni, 2017).*

- Payment and remittance market for semi-urban and rural areas offer a huge opportunity for the payment banks. According to a Crisil report Rs. 80000 crore to 90000 crore domestic remittances market for the low-income migrant population will grow at 11 – 13% CAGR in the next few years. This segment is expected to be among the early users of payment banks *(Shivapriya, 2015).*
- Transactions done through mobile wallets have also tripled over the last two years to Rs 2,750 crore. The easy access, cost effective means and the comfort of operation arising out of

simple and hassle free formalities will induce the large urban population to remit money to their family and relatives living in rural India *(Shivapriya, 2015).*

- Opportunity also exists in context of distribution of third-party products like insurance and mutual fund schemes thereby earning commission on sale of such products. Mutual fund market as well as insurance sector is expected to have notable growth. Further, the insurance market is expected to grow at 10-15% annually.
- Last but not the least, the utility bill payment market with annual growth rate around 20-22% and mobile recharge market with annual growth rate of 8-10% offer some opportunities for payment banks to generate revenue.

In spite of the massive opportunities that payment Bank would have, there are some challenges also as they are not full-fledged banks offering the whole gamut of product and services.

CHALLANGES FOR PAYMENT BANKS *(caknowledge, 2018)*

Non-Attractive for Non-Telecom Firms: As far as non-telecom entities are concerned, they will be at disadvantageous position compared to telecom firms when it comes to setting up PB because they will have to make huge investment towards establishment and expansion of their distribution network, technology infrastructure and brand building. Therefore, initial years will tough because earnings from remittance services may not be sufficient to cover up distribution, marketing and technology related cost.

TABLE: 3	
Select Financial Indicators of Payment Banks	
Financial Parameters March, 2017	**Amount (Rs.Million)**
Interest Income	314
Interest Expenses	7
Net Interest Income	**307**
Non Interest Income	1,086
Operating Expenses	3,800
Earnings before Provisions and Tax	**-2,407**
Risk Provisions	4
Tax Provisions	11
Profit after Tax	**-2422**
Financial Ratios (March, 2017)	**Ratios**
Return on Asset	-25.2
Return on Equity	-36.4
Investments to total Assets	29.2
Net Interest Margin	2.8
Efficiency (Cost to income ratio)	272.7
Operating profits to working funds	-25.1
Profit Margin	-172.9
Source:https://www.business-standard.com/article/economy-policy/heavy-set-up-costs-hurt-payments-banks-profitability-rbi-118010300056_1.html	

Partial Fulfillment towards Financial Inclusion: Financial inclusion being a wider term, is much more than mere "payment/money transfer". Financial inclusion means access to complete bouquet of financial services — banking, investment, insurance, pension – everything. But that's very difficult to achieve through Payment bank system as because the model does not allow PB aspirants to lend money for productive purposes.

Stiff Competition and Price Wars: The PBs will face stiff competition both from the large players like commercial banks. Commercial banks also permitted to run Payment banks through their subsidiaries. That may contradict the whole purpose because big commercial banks with larger resource base and manpower are allowed to start a payment bank then other small player's cannot compete, and they may not survive in the price wars. The competition will become more intense as commercial banks are expanding into semi-urban areas – a key market for payment banks.

Conflict of Interest: PB model can generate conflict of interest arising out of difference in mobile service providers and PB service providers. If the mobile service provider do not cooperate and charges higher for banking services for the account maintained in other group of service provider, then the whole PB model will fail to generate the desired result. But the problem of conflict of interest can be controlled if all mobile companies are compelled to provide Unstructured Supplementary Service Data (USSD) connectivity as per recent TRAI regulations (Rs 1.5 per 5 interactive sessions) and `to categories all SMSs related to banking and financial transactions as Priority SMS services (with reasonable rates).

POTENTIAL ROLE OF PAYMENT BANKS IN INDIAN SCENARIO

Assistance towards Financial Inclusion:

Financial inclusion still remains a major problem for existing banking system in the country. Even after opening of accounts at mass level to serve the purpose, the problem remained because majority of accounts turns dormant at later stage for one or another reasons. The payments banks, in such scenario, can be very supportive to fill the gap towards financial inclusion. Payment banks besides covering the remote areas to bring unbanked masses under the ambit of general banking, it will also ensure that more money comes into the banking system and hence will accelerate financial inclusion. They will also be helpful in improving financial literacy rate amongst the poor.

Payment banks as Supporters of Existing Banking Mechanism

Payment banks rather serve as ***supporters*** of existing banking mechanism, instead of competing with them. In fact top-notch banks will not be affected much as payment banks will operate in specific areas only. As a strategy, the major banks in India could take advantage of these banks (as business correspondents) to improve their reach in remote parts of the country. As business correspondents, these banks can align with other commercial banks in the country which enable both the entities to leverage on opportunities *(Fernandes, 2016).*

In fact, some of the major banks have already tied up with the license holders. For instance, the State Bank of India (SBI) has tied up with RIL's proposed payment bank and will have about 30% share in the same. Tie up of Aditya Birla Nuvo Limited with Idea Cellular which will have 49% share in the joint venture. Kotak Mahindra Bank will have 19.9% stake in Bharti Airtel's bank. Tech Mahindra is likely to join hands with Mahindra Finance for payment banks. Deal between Norwegian telecom giant Telenor, Dilip Shanghvi and infra financier IDFC for payment banks *(Talwar, 2015).* Thus payment banks will serves as a feeder banks are supposed to intensify the level of completion amongst larger banks.

Payment banks as Competitor of Existing Banking Mechanism

As ***competitor,*** there could be an impact on small and medium public sector banks as incremental deposit growth and market share will see some impact from payment banks, especially in the rural and semi-urban areas. Public sector banks are also seeing their current and savings account (Casa) deposit share slowing and have a huge pile of bad debts, which is affecting their profitability and ability to grow.

FINO PayTech Ltd is one of the largest BCs and with an established rural network, may create strong competition for public sector banks in rural areas.

India Post, with 139,000 post offices which significantly exceeds the number of bank branches at around 44,700 in rural areas may offer potential pressure on public sector banks' deposit franchise. Since payment banks are allowed to take deposits up to Rs. 1 lakh, public sector banks could lose out on customers who might open savings accounts with the post office.
Payment banks could also start offering competitive deposit rates of as high as 6-7% to attract customers, compared with the average 4% savings deposit rates of traditional public sector banks. Moreover, competition for state-owned banks will intensify as payment banks, which are backed by digital platforms, adequate capital, zero legacy issues, and low-cost innovative and convenient services, will compete heavily for liabilities in rural and semi-urban areas. There could be a loss of market share in payment transactions and government transfers too *(Merchant, 2015).*

CONCLUSION

Advent of payments banks in Indian context is a notable step. Though, India has a modern and technologically advanced banking and payments system. Developing an efficient ecosystem will be a prerequisite for a sustainable banking and payment mechanism. Bringing rural population under the ambit of formal banking system is still a major challenge. Payment banks in this context can play a crucial role. Financial literacy should be seen as an essential step towards development of ecosystem.

While there is huge potential, such a banking initiative also faces several challenges. The only medium of operation for these banks is the internet. India is struggling with very low internet speeds – far lower than the global benchmarks. According to Akamai's State of the Internet report, in the fourth quarter of 2016, the average internet speed in India was 5.6mbps. India's global rank in this regards is 97, a little behind China and Indonesia, out of the 149 qualifying countries *(Wikipedia).* Slow internet speed in the country is still a major issue which may hinder the growth of these banks. Furthermore, being an entirely technology-based and without any significant physical presence, the payments banks suit chiefly to the tech-savvy citizens. It would not be easy for people from the rural areas and small towns in India participate in such type of banking facility. Efforts towards familiarizing people with the technology and assuring the safety of money in this new banking system should be pre requisite for success of payment banks in India.

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