Volume 11, Issue 3 (2023) 26-28 ISSN 2347 – 3258
International Journal of Advance Research and Innovation

Payments Bank as A Tool for Financial Inclusion in India

Jyoti bhati[1*] and Dr.K.R.Gola [2]
[*1] Research Scholar,Department of Management, School of Business studies, Sharda University, Greater Noida, Uttar Pradesh, India.
[2] Faculty, Department of Management, School of Business studies, Sharda University, Greater Noida, Uttar Pradesh, India.
*Corresponding Author Email Address: Jyotibhati333@gmail.com
DOI: https://doi.org/10.69996/ijari.2023005

Article Info
Article history:
Received 9 June 2023
Accepted 20 July 2023

Keywords
Payments bank, financial inclusion, RBI, objectives, challenges

ABSTRACT
In 2013, the RBI formed a committee led by Dr. Nachiket Mor to investigate comprehensive banking facilities for small enterprises, less-earning people and migratory workers. The committee proposed introducing a Payments bank for low-earning individuals and small enterprises. Any other form of bank is a payments bank, operating modestly without exposing oneself to financial risk The majority of banking transactions can be handled by a payments bank. However, they are not able to make loans or issue credit cards. Payments banks' primary goal is to promote the accessibility of banking and payments services for migratory workers, less-earning people, and small businesses. The RBI's goal with payments banks is to increase financial inclusion and in order to enhance the use of financial services in the most distant places to bring every section of the economy into the mainstream financial system. The main goal of this work is to comprehend the concept and features of payments bank and to investigate the factors behind payments bank adoption and also to learn about the challenges for payments bank within our country. The secondary data used in the study was gathered from corporate web-sites, academic institutions, and governmental entities. The significant factor for payments bank adoption by the customers are zero balance account, convenience, attractive interest rates, security and privacy. Payments banks come across lots of challenges, including reliance on low ticket account balances for profitability, lack of awareness, customers' unwillingness to accept digital payments, the inability of cross-selling to contribute significantly to the bottom line, restrictions on the use of funds, payments banks are prohibited from making loans, and intense rivalry between several payments banks, commercial banks and other financial institutions.

1. Introduction

Throughout the main body of your paper, please follow these prescribed settings: 1) the font is nothing but Times New Roman; 2) in terms of font size, almost all the words are typed in 10 points except: a. the words in tables are in 9 pts; b. notes under tables or figures are in 8 pts; 3) the basic line spacing is single spacing; 4) in most cases, 12 pts spacing shall be left above and below any heading, title, caption, formula equation, figure and table, except that, 24 pts spacing shall be left above Level 1 headings (such as the title "Introduction" of this section). About the levels of headings, please see "3. Section Headings".

Actually, as mentioned in the abstract section, it will be rather easy to follow these rules as long as you just replace the "content" here without modifying the "form".

2. Financial Inclusion

According to the financial inclusion committee, "Financial inclusion may be described as the process of facilitating access to financial services and timely and enough credit when required by vulnerable people, such as weaker section and low-income people at a reasonable price." (Bhaskar.,2013).

To achieve economic growth stability, every sector of the economy must contribute to the economy and be integrated into the mainstream. The government is pursuing a multifaceted strategy, but the rural population's lack of access to basic resources, knowledge, and financial literacy is a significant barrier to economic progress. (Damle et al.,2016).

A. Dimensions of financial inclusion

Financial inclusion is dependent on 3 major and fundamental dimensions:

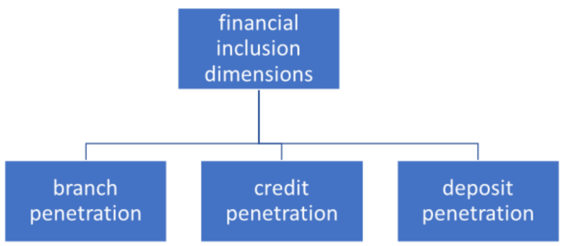

Fig. 1 Dimensions of financial inclusion

Branch penetration: Branch penetration is calculated as the ratio of bank branches to per one lakh people.

Credit penetration: Credit penetration is calculated as the ratio of advance records to per one lakh people, the number of little borrowers' advances records per one lakh people and the number of farming advances per one lakh people.

Deposit penetration: Deposit penetration is calculated as the ratio of savings deposit accounts recorded to per one lakh people.

3. Payments bank

A payments bank is a limited service bank that accepts deposits and facilitates remittances. It cannot perform lending functions; hence it can only provide debit card services and cannot issue credit cards (Khattar,2018). The payments bank provides low-income workers, independent businesses, and the unorganised sector with modest deposits or savings accounts, instalments, and payments and remittance services.

Payments banks are registered as public limited companies under the Companies Act of 2013 and licenced under Sec 22, Banking Regulation Act, 1949. Under Sec 42(6)(a), RBI Act, 1934, Payments Banks would be accorded the status of scheduled banks. However, the words "Payments Bank" must be used in the company's name to distinguish it from other banks. (Pahwa, 2020)

A. Payments Bank Objectives

A Payments Bank is similar to any other bank; however, it works on a smaller scale and does not include any risk on credit. It performs most of the banking functions, but cannot provide credit cards and loans. A Payments Bank can achieve the following goals using this business strategy:

- To widen the availability of payments and financial services.
- To offer financial services to small enterprises, less-earning families, migratory workers, and others.
- Increase the penetration of banking services in the country's outlying districts.
- To create a safe, technologically advanced environment for financial transactions.

B. Scope of activities of payments bank

What a paymentss bank can accomplish are:-

- Take depositing (up to Rs. 2 lakh) and give interest on such deposits.
- Provides remittance services
- Facilitates mobile payments
- Inter or intra bank fund transfers
- Provision of debit card and ATM services
- Giving travellers access to currency cards
- Services for Net Banking
- Promote ancillary financial services like insurance and mutual funds.

However, these banks are prohibited from engaging in lending operations like:-

- Advancement of loans
- Issuing credit cards, etc.
- It does not take time or NRI deposits.
- It cannot establish subsidiaries to engage in non-banking financial operations.

3.1 Reasons for Customers' Adoption of Payments Bank in India

As per the analyses done by various researchers for factors behind payments bank adoption in India (Sarkar,2020; Kaur et al.,2020; Mehta & Shah,2020; Gupta et al.,2019), these are some of the reasons for their usage of payments:

- Ease to use
- Zero balance account
- High-interest rate
- Customer support service
- Convenience of access
- Security and privacy
- Immediate refund

3.2 Challenges faced by Payments bank in India

Many challenges faced by India's payments bank over the years:

- Payments banks are prohibited from lending money, preventing them from receiving interest revenue. Payments banks must rely on other sources of revenue to remain profitable.
- The general population is unaware of the existence of payments banks. The major aim is to attract a diverse range of clients living in rural and urban locations through advertising.
- These banks are entirely technologically powered. To operate in a market, foolproof secure software is required.
- Payments bank services are also provided by traditional commercial banks. They may present a difficult competition.
- The compensation Banks do not have a physical presence. Only internet connections are used for the transactions. Fast internet connectivity is a critical part of operations. To be successful, a proper band with internet access is necessary everywhere.
- A wide network is required to run payments institutions on a big scale. As a result, only telecommunications corporations have entered the battle. The Post Payments Bank has a large network, and the government has given it permission to use its resources for operations.
- Wallets provide comparable functions and pose a significant threat to payments institutions.
- Customer's acceptance of digital payments and transactions is a new problem. Many clients, especially in cities, are not ready to embrace digital purchases. To some extent, the influence of demonization has changed this thinking.

4. Conclusion

Payments bank is a revolutionary step taken by the RBI and the government. Payments banks seek to serve migratory workers, small enterprises and low-income people in order to integrate them into the formal financial system. Additionally, it offers the advantage of safe, technologically advanced transactions that are simple to track. Commercial banks can accomplish all that payments banks do, but owing to their architecture and business model, they may not be able to serve few groups and regions, since it is difficult for banks to start new branches in all villages throughout the nation, payments bank may bridge this gap by employing smartphones. In contrast to commercial banks, the Payments banks can only take deposits up to Rs 2 lakh. Payments banks generate money by selling third-party items because they cannot lend. Payments banks and commercial banks can work together to sell investment products and issue loans. The payments banks can be a grate way to boost financial inclusion in the country by creating awareness about it and its functioning. As the people living in the rural area do not have sufficient knowledge about how banking system works, so there is need for the advertisement campaign for the same. People must understand that payments banks are responsible and secure to use. Additionally, since remittances and ease of use are the primary factors in customers choosing payments banks, the banks should place greater emphasis on these areas.

Acknowledgment: Not Applicable.

Funding Statement: The author(s) received no specific funding for this study.

Conflicts of Interest: The authors declare no conflicts of interest to report regarding the present study

References

1. M. Damle, P. Thenuan & J.Raval, "Genesis of Payments Banks: It's Stimulus on the financial inclusion in India," International *Journal of Scientific and Engineering Research*, 7(3), 2016, 783-791.
2. K. P. Gupta, R. Manrai & U. Goel, "Factors influencing adoption of paymentss banks by Indian customers: extending UTAUT with perceived credibility," *Journal of Asia Business Studies*, 2019.
3. Global finance (2021). https://www.gfmag.com/global-data/economic-data/worlds-most-unbanked
4. J. Kaur, S. Kaur, A.S. Syan & R.R. Sharma, "Factors influencing the adoption of payments banks in India using an extended TAM," *Asia-Pacific Journal of Management Research and Innovation*, 16(4), 2020, 309-321.
5. K. Khattar, All You Need to Know About Payments Banks. Retrived from https://blog.ipleaders.in/what-is-payments-bank/, 2018
6. D. Mehta, "Payments Banks: Digital Revolution in Indian Banking System," 2020.
7. N. Mehta & S.Shah, "Payments Banks: Digital Revolution in Indian Banking System," *International Journal of Management and Humanities (IJMH*), 2020.
8. Pandit C Bilamge. (2021). Challenges for Payments Banks. International journal of science technology and management. Vol.10 Issue 5.
9. A. Pahwa, "What is a Payments Bank and how does it work?," Retrieved From: https://www.feedough.com/paymentss-bank/, 2020.
10. P. Vijaya Bhaskar, RBI, "Financial Inclusion in India – An Assessment," RBI, Dec. 2013.
11. P. Sarkar, "The Impact of Payments Bank Services on Indian Banking Industry and Customers," *International journal of innovative research and advanced studies (IJIRAS*), 7(6), 2010.
12. B. Shrey, B. Tanmayee, C. Mohak, D. Animesh & I. Geetha, "Role of payments banks in India: opportunities and challenges," *Int. J. Adv. Manag. Econ*, 2018.
13. P. Sikdar & A. Kumar, "Payments bank: a catalyst for financial inclusion," Asia-Pacific Journal of Management Research and Innovation, 12(3-4), 2016, 226-231.
14. https://economictimes.indiatimes.com/topic/payments-banks
15. https://www.rbi.org.in/