

Role of Payments Banks in Financial Inclusion in India

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Abstract:

In India, the domestic payments' market is valued more than 900 billion rupees. Payments Banks has been the recent banking initiative of Reserve Bank of India towards promotion of Financial Inclusion in India. The Payments Banks operate actively across India. Payments Banks have lot of challenges in terms of deposit mobilisation and operating expenses. The Payments Banks needs to survive and sustain despite all challenges and mentioned and to meet the objectives of existence financial inclusion. Mobile phone transactions might offer both urban and rural residents a low-cost platform for accessing basic financial services. This article discusses the payment banks operating in India keeping in mind the digitization and the customers' evolution from cash transactions to mobile transaction and overall performance in Financial Inclusion in India.

Keywords: Payments Banks, Financial Inclusion, Digitization, Performance, India

1. Introduction

Payments banks are a new type of bank that the Reserve Bank of India has developed (RBI). It operates on a small scale and does not involve any credit risk. These banks can take a restricted deposit, which is now limited to one lakh per person and may be increased further. These institutions are unable to provide loans or credit cards. Such banks can provide both current and savings accounts. They provide a variety of financial services, including remittance services, mobile payments/money transfers/purchases, and other banking services such as ATM/Debit cards, Net banking, and third-party fund transfers, but not advance loans or credit card issuance.

Financial inclusion is the provision of financial services to low-income members of society at a cheap cost. In India, the phrase financial inclusion was first used in the RBI's Annual Policy Statement in April 2005, which was given by Y Venugopal Reddy, the RBI's then-Governor. Indian financial services are undergoing a transformation, with a number of businesses being awarded licences to establish payment banks. The primary goal of establishing payment banks is to increase financial inclusion.

Payment banks' major goal is to provide payment and remittance services to the unorganised sector. Payments banks will boost the Indian economy's financial inclusion potential. It will enable those who have solely traded with cash to transition to formal banking. Traditional banks may be hesitant to build branches in every community owing to the low returns, but simple cell phone coverage is now all that is needed. India is also a large remittance industry, and with money transfers feasible via mobile phones, employees and migrant labours may simply switch to Payments Bank and send

their money home.

Payments Bank was established in response to the Nachiket Mor Committee's suggestions to operate on a smaller scale with little credit risk. The major goal is to promote financial inclusion by providing banking and financial services to unbanked and underbanked communities, as well as assisting migratory workers, low-income households, and small enterprises. They are incorporated under the Companies Act of 2013, but are subject to a slew of laws, including the Banking Regulation Act of 1949, the RBI Act of 1934, the Foreign Exchange Management Act of 1999, the Payment and Settlement Systems Act of 2007, and others.

Airtel Payment Bank, India Post Payment Bank, Fino, Paytm Payment Bank, NSDL Payment Bank, and Jio Payment Bank are the current payment banks in India.

2. Statement of the problem

Payment Banks are established to promote financial inclusion in India. There are six Payment Banks which are actively in to the business.

But the questions which arise here are; how to capture the extent of digitisation of payments across the country using Reserve Bank of India's constructed composite Digital Payments Index (DPI). This article makes an attempt to seek answers for the above questions through research.

3. Review of literature

Many research articles have detailed the Reserve Bank of India's goals for the formation of Payments Banks in the nation. According to CRISIL, financial inclusion is "the extent to which all segments of society have access to formal financial services such as deposit, credit, insurance, and pension services." Financial inclusion has three dimensions: branch penetration, credit penetration, and deposit penetration. [1] "In 2014, barely 50% of adults in India had a bank account," with 40% (the most in the world) inactive. Also, "the number of ATMs per 100,000 of population was 18 compared to roughly 50 in Indonesia and 125 in Brazil". According to the article "RBI Guidelines for Licensing of Payment Banks: Opportunities and Challenges" [2], published by Deloitte Touche Tomatsu India Pvt. Ltd., the RBI, the Government of India, and other stakeholders have undertaken several measures to promote financial inclusion. The key cause for low levels of financial inclusion in the nation despite these attempts is "the lack of financially viable business models to service the 'Bottom of the Pyramid' customer group in cost efficient way".

The key features of this service are Immediate payment service; Instant fund transfer; Any time any day availability; Simple and easy to use; Inexpensive, fast and safe to use; Accessible globally etc

4. Research objectives

1. To analyse the penetration of digital payments of Payment Banks in India using RBI-DPI Index
2. To analyse influence of area and age in payment bank adoption.

5. Research methodology

The interpretations conversed in this paper are based on our conceptual understanding about the topic. We have tried to describe the topic using secondary data sources such as research paper, journal, the internet websites and related articles related to payment banks from the newspapers, magazines and publications.

6. Penetration of Payments Banks and their performance

The RBI-DPI comprises of 5 broad parameters that enable measurement of deepening and penetration of digital payments in the country over different time periods.

These parameters are –

- (i) Payment Enablers (weight 25%)
- (ii) Payment Infrastructure – Demand-side factors (10%)
- (iii) Payment Infrastructure – Supply-side factors (15%),
- (iv) Payment Performance (45%)
- (v) Consumer Centricity (5%).

The RBI-DPI Index continues to demonstrate significant growth in adoption and deepening of digital payments across the country. The index series since inception is as under:

Period RBI - DPI Index

March 2018 (Base) 100

March 2019 153.47

September 2019 173.49

March 2020 207.84

September 2020 217.74

March 2021 270.59

September 2021 304.06

The RBI-DPI has been constructed with March 2018 as the base period, i.e., DPI score for March 2018 is set at 100. The DPI for March 2019 and March 2020 work out to 153.47 and 207.84 respectively, indicating appreciable growth. Going forward, RBI-DPI shall be published on RBI's website on a semi-annual basis from March 2021 onwards with a lag of 4 months.

7. DATA ANALYSIS AND INTERPRETATION

Tabulation of age of the Respondents

Age of the Respondents	Frequency	Percent
< 20 years	19	37.25%
20 – 25 years	14	27.45%
> 25 years	18	35.30%
Total	51	100%

It is clear from the above table that majority of the respondents which comprised 37.25 % of the total sample were below 20 years followed by 35.30 % of them were between 20 to 25 years.

Cross Tabulation of Preference of Payment Bank and Area of the Respondents

Area	Yes	No	Total
Urban	340	10	350
Rural	160	0	160
Total	500	10	510

The above table depicts that majority of the respondents prefer Payment Bank irrespective of Gender.

Comparison of Digital Payment Mode and Area using Chi - Square Test

H0: There is no association between preferences of Digital payment with respect to Area of the respondents

H1: There is an association between preferences of Digital payment with respect to Area of the respondents

Test Statistics

Gender Preferences of Digital Payments

Test	Value	df	Asymp. Sig. (p-value)
Chi-Square	7.078	1	0.001
Likelihood Ratio	81.302	4	0.000

As test results indicates that P value .000 is lesser than 5% significance level, null hypothesis is rejected hence, there is an association between preferences of Digital payment with respect to Area of the respondents

Comparison of Benefit received from Digital Payment and Age of the respondents using F -test
H0: There is no significant relationship between benefits received from Digital payment with respect to age of the respondents

H1: There is no significant relationship between benefits received from Digital payment with respect to age of the respondents

ANOVA TABLE

Particulars	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.982	2	0.991	1.131	0.331
Within Groups	42.057	48	0.876	—	—
Total	44.039	50	—	—	—

As test results indicates that P value .331 is greater than 5% significance level, null hypothesis is accepted hence, there is no significant relationship between benefits received from Digital payment with respect to age of the respondents.

8. Conclusion

The Payments Banks are meant to promote financial inclusion in India. These banks are performing considerably well and they have good potential all over India as financially excluded people are at large in India. Payments Banks significantly promote financial inclusion in India by establishing almost 95% of their branches in rural and semi-urban areas of the country and by serving to all kind of people including poor and low-income people of those areas. Payments Banks need to adopt innovative technologies in their retail banking business and in the process of providing financial services to their customers which will strengthen their sustainability.

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