

PAYMENT BANKS – NEW CONCEPT FOR BANKING REFORMS

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ABSTRACT

This paper presents payment banks a new concept for banking reforms. The financial system in India has witnessed marked changes since the time of liberalization. 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 lead to changes on the ground level functioning of banks. The ATM's becoming household reality in India due to revolution in banking sector. Recently our prime minister was launched Jan Dhan Yojana aimed at greater financial inclusion. Nevertheless, a beginning has been made for greater financial inclusion and it is a step in the right direction. Financial inclusion has always been a major motto of the Indian government. The latest way out to speed up the process is the payments bank entity. Customers can open current and savings accounts. There is no restriction on the income level to open an account and no need to maintain a certain level of business. Besides having regular accounts in a traditional bank one can open an additional account in a payments bank. Small scale businesses can maintain salary accounts and avoid cash payments to their employees.

Key Words: Payments banks, Financial System, Financial Inclusion, Liberalization.

I. INTRODUCTION

The purpose of this paper defend payment banks a new concept for banking reforms. The financial system in India has witnessed marked changes since the time of liberalization. The success of banking and allied sectors can mainly be attributed to banking sector reforms and technological change. Some of the changes at the institutional and regulatory level have included greater openness and transparency in banking operations and services as well as various measures to induce competition within the sector. 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. The competition along with reforms has paved the way for a retail banking revolution of sorts with the usage of ATM's becoming household reality in India. The dream of a truly banked society has eluded India. Some of the poorest people live in India and have remained outside the formal banking ambit. The prime minister's recent Jan Dhan Yojana has been aimed at greater financial inclusion. However opening and using the financial system for one's benefit are two different things. Nevertheless, a beginning has been made for greater financial inclusion and it is a step in the right direction.

II. ROAD MAP OF PAYMENT BANKS

Fortunately there are many positive externalities of digitization and getting our arms around the informal economy. There are situations which always a driving force behind the establishment of payment banks called road map.

III. FINANCIAL INCLUSION

The main reason for payments banks being considered a revolution is that they are expected to bring the unbanked population (adults without their own bank accounts) within the scope of formal banking, thereby facilitating financial inclusion. They will make banking more accessible to people in rural areas and poorly connected terrains. The government expects payments banks to make economically-backward classes more financially literate and assist them in combating poverty.

IV. ADDRESSES BANK ACCOUNT DORMANCY

Around 20 crore bank accounts in India are lying dormant. Payment banks can serve at least as transactional instruments if not a savings instrument. There's a financial inclusion elements here as well as payments banks can now make payments/remittance more accessible and seamless for small businesses and migrant labour workforce.

V. BENEFITS TO BANKS

Payment banks will be advantageous to banks in many ways:

- They will help the greater flow of money into the banking system.
- Banks that have been looking to increase their rural reach will be better poised to do so.
- A MasterCard study reveals that the costs of maintaining, managing and transporting cash add up to thousands of crores each year for the banking sector. Electronic transactions and mobile banking will help in reducing this cost significantly.

Payments bank license will also allow the network of over 1.5 lakh post offices to offer banking services to the country's masses.

VI. IMPACT OF PAYMENT BANKS ON THE BANKING SECTOR

For all accounts held by the payment banks, the banks would be stipulated to pay an annual interest to the account holder. While the Reserve Bank of India is yet to define the quantum of interest rates payable by payment banks to their customers, an interest rate of 4 per cent similar to the one offered by public sector banks is likely. The one big difference between payment banks and ordinary banks would be the fact that payment banks would not be eligible to offer any loans to its customers. To avail any kind of a retail loan, the consumer will have to approach a full-fledged bank instead.

With increasing competition in the core banking services especially in semi urban and rural sectors, traditional banks have to keep them abreast with superior customer service and constant innovation in introducing new

schemes. With this increasing competition among banks and banking services, customers are likely to benefit with quality, promptness and convenient financial services.

As the government is working towards a direct repayment of subsidy on various schemes to the bank account of consumers, poor sections of society who not having a bank account would gain with the introduction of payment banks. Since most of labourers working away from home use post offices or third-party channels to initiate a funds transfer to their native places, payments banks once approved and introduced in the near future will change the face of rural India.

VII. SIGNIFICANCE OF PAYMENT BANKS

The banking landscape in our country is going through unprecedented changes and challenges. Various schemes have been launched by banks to promote financial inclusion and there are so many success stories shared by beneficiaries. Financial Inclusion which means providing banking services to deprived people, at affordable rates, is amongst top national priorities.

- Payments banks will cater to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users.
- Payments banks can take deposits. Deposits up to only Rs 1 lakh per person are allowed currently. They can issue ATM or debit cards.
- Payments banks cannot give loans or issue credit cards.
- Customers who do not have the means to maintain minimum balance will be welcomed into payments banks as revenue will be earned through transaction charges and not on the spread of interest between deposits and loans.
- Payments banks can sell financial products like mutual fund units and insurance policies.
- Money collected from depositors can be invested either in government bonds or can be deposited with other commercial banks.
- Payments banks will allow last mile connectivity, they will make banking available in remote areas that are not serviced by bank branches currently. For this, payments banks are expected to piggy-back on their existing retail or other networks.
- The operations of the payments banks will be fully networked and technology driven from the beginning.
- The payments banks will also have a high-powered customer care cell to handle customer complaints.
- The minimum paid-up equity capital for payments banks is Rs 100 crore. This means owners of payments banks have to put in a minimum of Rs 100 crore in return for equity in the company.

VIII. CONCLUSION

Obviously, Payment banks signal a new revolution in the country's banking sector. The Payment bank activities include deposits, payments, remittance, internet banking and functioning as a business correspondent of other banks. Payment banks are primarily geared to target remittances and transactions, both of which are prone to being commoditized, thus involving upfront expenditure on marketing, branding, freebies and the like. It will also offer payments and remittance services mainly to migrant labourers and those working in unorganized

sector. Payment banks will also accept government subsidies and other aid for credit to their beneficiary customers. Perhaps it makes sense to explore payments and small banks under one umbrella, one for width and the other for depth. Undoubtedly, it is indeed a bold move to shake up the world of small finance.