Amity Journal of Management
Vol. IX, No. 2, July – December 2021
Amity Business School, Amity University Madhya Pradesh
ISSN: 2347-1832 (Print) | ISSN: 2581-5261 (Online)

A COMPARATIVE STUDY OF PAYMENTS BANKS AND FINANCIAL INCLUSION IN INDIA

Harsh Upadhyaya[1] and Yogesh C. Joshi[2]

ABSTRACT

Setting up of Payments Banks (PBs) is a relatively recent initiative to promote financial inclusion among the unbanked population and small enterprises. This is an attempt to study the introduction and progress of the new idea of payments bank for RBI's prominent objective of financial inclusion by RBI since inception. This paper also attempts to reflect on the comparative functioning of existing Payments Banks to fulfil their objectives of financial inclusion and study their relative performance covering major aspects during the initial years of their existence. Various entities had applied for the license for starting of operations of Payments Bank for that RBI permitted 11 applicants for starting for Payments Bank operations in 2015 while first Payments Bank started in the year 2016. Some of them withdrew the application considering the limited scope of business functions and profitability. Currently, only six such Payments Banks are functioning. As the setting up of branches is on the slower side, partly owing to the ongoing Pandemic, this object has been realized only to a limited extent. The existing PBs have adopted different routes for operations, depending on their existing strengths e.g. IPPB (India Post Payments Bank) is expanding through the existing India Post network, while a few are using a mobile application for expansion. All the six existing players are taking advantage of using technology and increase of teledensity in rural areas to reach the remote areas. Despite having many challenges initial progress made is quite encouraging, despite Covid 19 Pandemic by a majority of PBs. The impact of PBs on improving financial inclusion has been quite encouraging witnessing the growth in the number of accounts and financial transactions of Payments Banks. It is likely to get to see the expansion of PBs branches and network a greater degree of financial inclusion will be achieved.

Keywords: Payment Banks, Financial Inclusion

1. INTRODUCTION

The institution called Bank plays a very important and crucial function in every economy. At present phenomenon in India, Inclusion of all sorts of the population financially is one of the important policy concerns to spread benefits through which every citizen will have access to money. In pursuance of this concern, Payments bank is a new model of banks, conceptualized and implemented by the Reserve Bank of India (RBI) considering the recommendations of Nachiket Mor committee in the year 2013, for furthering the cause of financial inclusion. These banks are allowed to accept only a restricted deposit which was limited to Rs. 1 Lakh in the early phase which has now been increased to INR 2 lakhs per customer, however, they cannot issue any loans and credit cards to customers. Both current accounts and savings accounts can be operated by these banks while certain other services like ATM cards, online banking and mobile banking. The objective is to bring the small depositors which have escaped formal banking and are generally ignored by traditional banking institutions, including private banks.

The present paper attempts to study the need of Payments banks and assess the progress in their implementation and expansion to fulfil their avowed objectives. Further, suggestions and policy implications are provided to enhance their effectiveness in promoting financial inclusion.

2. EFFORTS FOR FINANCIAL INCLUSION

Financial inclusion emphasizes to join every person in formal banking, which enables people to diversify livelihood opportunities and improve the overall wellbeing of the population. The decision to start Payments Bank got fructified when Airtel Ltd. launched India's maiden payments bank in September 2016. The second such bank to start its operations in the country in 2017 was Paytm Payments Bank which was followed by India Post Payments Bank in 2018. As of now in 2021 there are six operational banks, out of eleven banks that were permitted by RBI initially in the year 2016.

1. Ph.D. scholar, Post Graduate Department of Business Management, Sardar Patel University, Vallabh Vidyanagar, Anand 388120, Gujarat.
2. Professor, Ex-Director, Ex – Dean, Post Graduate Department of Business Management, Sardar Patel University, Vallabh Vidyanagar, Anand 388120, Gujarat

The need and necessity of Payments Bank were felt after looking at the Indian scenario, it's economy and banking sector progress since the independence of nation till today. It tries to extend the reach of financial services among regions and populations that are deprived of benefits from financial services.

The banking in India is generally regarded as fairly mature in terms of supply and product range however one of the constraints and the weak link is the proper network to rural India and among the poor population, which remains a challenge to be overcome for fulfilling the full potential of development and economic benefits for all. The Payments Banks are hence set up to deepen its root of financial inclusion among the unbanked population, particularly in the rural hinterland and remote areas of the country wherein access to formal banking is lacking.

During past decades financial inclusion has been promoted through the State Bank of India by increasing its branch network and through the National Bank for Agriculture and Rural Development (NABARD) with promoting facilities like microfinance. Despite having such a strong Banking structure and widely spread sub-branches having numerous financial products of banking like retail banking, corporate banking, merchant banking, foreign banking, etc.

A considerable population is out of the structured banking system due to poverty and the vast expanse of scattered and thinly populated rural areas. This hampers financial inclusion and reach of the government welfare schemes in low-income population which is a matter of significant policy concern as it leads to encouraging corrupt intermediaries. A considerable number of steps have been initiated from time to time to further increase penetration and expansion of banking infrastructure facilities among population on the margins which include rural and mobile population into the mainstream economy. These efforts bring people who are poor to the mainstream of banking and promote financial inclusion and help in improving livelihood opportunities.

The government has set up new institutions besides introducing various financial products and measures from time to time e.g. Pradhan Mantri Jan Dhan Yojana, National Pension Scheme (Swavlamban Scheme), The MUDRA Bank, Aadhar -Unique Identification Authority of India (UIDAI), MGNREGS Scheme, Swarnajayanti Gram Swarojgar Yojna, Pradhan Mantri Jeevan Jyoti Bima Yojna, Pradhan Mantri Suraksha Bima Yojna to support and strengthen the life of large proportion of the population which is poor and were out of formal banking network. It is evident that significant efforts have been devoted to spreading awareness of the benefits of banking among people to motivate them to come to formal banking from continuous increase in numbers under formal banking networks. However, to bring in every individual under banking more efforts were called for in India. This resulted in finding out the situation on financial services and improvement required in the current Indian economy which resulted in leading the concept of Payment Banks. Hence, as suggested by the 'Mor committee' in the year 2016 eleven Payments Banks were permitted to start operations and till now 6 such new banks have started their operations, though having a varied pace and degree of expansion. However, it is clear that since the first Payments Bank has been formed, the progress is very slow and tardy to see the significant impact and achieve objectives in any perceptible and discernable manner. The evolution and growth of Payments Bank in India so far is presented and discussed here below.

Evolution and Growth of Payments Bank

On 23 September 2013, headed by Nachiket Mor Committee was formed by the RBI for analyzing Comprehensive Financial Services for Small Businesses and Low Income Households. On 7 January 2014, the committee submitted its recommendations of the formation of bank with a new genre called Payments Bank. RBI, on 17 July 2014, released the draft for payments bank, inviting comments for suitable and interested entities along with the general public. Finally, on 27 November, RBI released guidelines for setting up a Payment Bank.

In 2015, RBI released the list of 41 applicants for Payments Bank with the declaration that an external advisory committee (EAC) headed by Nachiket Mor to evaluate the license applications. At the time of the presentation of the Budget, it was specially mentioned that India Post will use its large network to run Payments Bank. The advisory committee, on 6 July 2015 after scrutinizing financial records and performance, submitted its report. Initially, the RBI issued licenses to eleven applicants to launch payments banks. These eleven entities were Airtel M Commerce Services, Aditya Birla Nuvo, Cholamandalam Distribution Services, Department of Posts, FINO PayTech, National Securities Depository (NSDL), Reliance Industries, Sun Pharmaceuticals, Paytm, Tech Mahindra, Vodafone M-Pesa. Out of these, three namely Chalomandalam Distribution Services, Sun Pharmaceuticals and Tech Mahindra have surrendered their licenses at the very early phase.

The license given were valid for 18 months within which, licensees had to fulfill various requirements to initiate operations. The Payments banks were not allowed to engage in banking activities within the period. It is further planned that RBI will consider granting full license to these entities u/s 22 of The Banking Regulation Act, 1949 subject to fulfillment of conditions. A glimpse of the timeline of significant events with respect to Payments bank licenses is shown in Figure 1.

Real sector cooperatives; and public sector entities may apply to set up payments banks.

According to guidelines, to set up a payments bank, a promoter or its group may have a joint venture with an existing scheduled commercial bank. However, A scheduled commercial bank can take an equity stake in a payments bank up to the extent allowed under Section 19 (2) of the Banking Regulation Act, 1949. It further required that

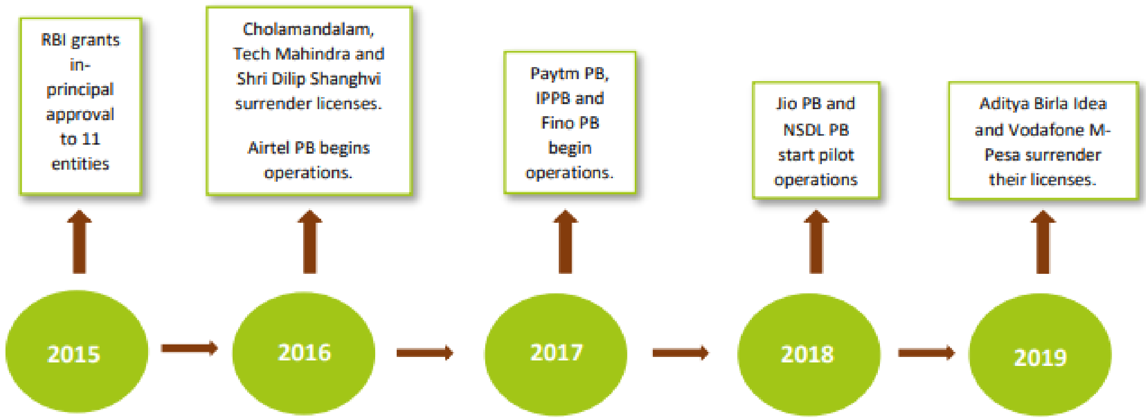


Figure 1: Timeline of PBs' Operations in India
Source: RBI Notifications

RBI in its guidelines also mentioned main objectives to set up payments banks would be mainly to further financial inclusion among individuals who do not have access to formal banking by not having access to (i) Small Savings Accounts and (ii) Remittance services to labor working elsewhere from their native, small businesses, low income households, other unorganized sector entities and individual users. Payments Bank on successful fulfillment of their motives will lead the country to all unbanked or under-banked areas at remote places to allow facilitate the provision of all services offered by the Banks and other retail services to be part of an organized Indian Economy. The key feature of the Payments Banks, according to guidelines of RBI are as mentioned below and set contours for the functioning of these banks.

i) Objectives and functioning of Payments bank:
The main objectives for establishing payments banks are financial inclusion by providing (i) Small Savings Accounts and (ii) Remittance services to labor working elsewhere from their native, small businesses, low income households, other unorganized sector entities and individual users. The eligible promoters constituted Pre-paid Payment Instrument (PPI) issuers; and individuals/professionals; (NBFCs) Non-Banking Finance Companies, Business Correspondents (BCs), Telecom companies, Super-market chains,

promoters should be 'fit and proper' with a track record of past professional experience of running their businesses for a minimum of five years in order to be eligible to promote payments bank.

As a scope of activities, Payments bank can accept demand deposits and is restricted to holding a maximum balance of Rs. 200,000 per customer individually which has been revised from Rs. 100,000/-. It can also issue ATM/debit cards, however, cannot issue credit cards. Further, a Payments bank provides remittance services through various channels, bank correspondent of peer bank, as per Reserve Bank guidelines on these correspondents, distribution of third party financial products like insurance products and mutual fund units etc.

ii) Application of funds and capital and statutory requirements
The payments bank cannot indulge in lending activities. Besides, other than the amount maintained as Cash Reserve Ratio (CRR) with the RBI on its time liabilities and demand, it has been made mandatory to invest at least 75 percent of its demand deposit balances in Statutory Liquidity Ratio (SLR), prescribed Government securities, treasury bills with a maturity of one year and keep maximum 25 percent in current, time and fixed deposits in scheduled commercial banks for routine operational purposes and liquidity management. It

indicates stringent requirements expected from Payments banks.

The minimum required paid-up equity capital for payments banks has been fixed Rs. 100 crores. It would have a leverage ratio of at least 3 percent, which means its liabilities payable outside should not exceed 33 times its paid-up capital and reserves (net worth). Initially, the promoter's contribution to the paid-up equity capital of payments bank will at least be 40 percent for the first five years from the commencement of its business. The foreign shareholding in the payments bank should be as per the government FDI (Foreign Direct Investment) policy for private sector banks. It is also mandated that their operations should be networked and technology driven from the very beginning, fulfilling generally accepted and prescribed standards and norms. Besides customer grievance is also made mandatory for the payments bank having high powered cell to address customer complaints and redressing them.

Hence, it is clear that the initiation of Payments banks will further direct the way for penetration of formal banking facilities among small businessmen and poor people. The presence of these banks is aimed at filling the financial gap within the population and small businesses which are left out of banking amenities and services till now despite considerable economic development experienced in India. A brief relevant review of the literature is presented here below.

3. REVIEW OF LITERATURE:

To have further insights on various aspects of the functioning of a Payments bank and resulting financial inclusion a brief review of literature is undertaken and presented here below.

Iyer, Bhansali, Bhatt, Deshpande, & Chhatwani in 2018 in their research paper on the role of payments banks in India, opportunities and challenges focused on challenges and opportunities faced by the banks along with the impact of these payment banks regarding lower income earning households and other various small businesses. The paper gave insights concluding that payment banks are growing rapidly covering a major population and increasing customer base every single day with good revenue numbers.

Thenuan, P., Raval, J., & Damle, M. in 2016 wrote about the genesis of payments banks and its likely impact on financial inclusion in India and stated that the country has been facing a challenge of financial inclusion with a huge population not having an ideal tool to cover a large amount of rural population. It also studied the Nachiket Mor committee which recommended and after formed primarily operationalization of payments bank whose objective was to provide small savings accounts, remittance services for low income population and other small businesses. This paper also reviewed the parameter for financial inclusion and the model of the existing system of a payments bank and the issues faced by the traditionally prevailing banking system. It concluded that expansion of payments bank will have a positive impact on financial inclusion benefitting hitherto unbanked population and small entrepreneurs.

Anon. (2008) defines financial inclusion as the process to ensure access of timely and adequate financial services, credit where required by vulnerable groups like financially weaker sections and low income groups at an affordable cost. Financial inclusion is the delivery of financial services to the low income groups who are not part of the formal banking structure due to a lack of equal opportunities. The main object is access to all sorts of financial services for a good standard of living and income.

Table 1: A Basic Comparison of various parameters shown below as of 31.03.2020

Parameters	FINO Payments Bank	Paytm Payments Bank	IPPB	Airtel Payments Bank
Started Operations (month and year)	June-17	Nov-17	Sep-18	Mar-17
Branches (nos.)	410	7	650	2
Access points (nos.)	25000	Mobile application	136078	Mobile Application
Deposits (Rs. Cr.)	222	525	855	320
Transactions (Rs.Cr.)	1	4.6	5.5	Not derived
Revenue/(loss)(Rs.Cr.)	689	19	(334)	(474)
Customers (nos.)	Not derived	6.4 Cr	1.81 Cr	Not derived

Source: Annual reports and websites of Payments Banks.

Thus in view of literature surveyed, the present paper attempts to compare various Payments Banks on different parameters to figure out where these banks have reached in terms of object realization of financial inclusion.

4. PAYMENTS BANKS AT PRESENT:

The RBI provided the license to eleven entities to begin operations in accordance with the objectives of the formation of Payments Banks. If one looks at the progress shown till now from the operations of Payments bank, it has been indicated that only a moderate success is achieved in setting up of operations and undertaking of banking business to achieve financial inclusion of targeted population and clientele. Due to some basic constraints pertaining to business model, it appears that the administration hesitates to step up further to expand and have full-fledged business activity. Already out of 11 licensees granted permission to start payment banks 05 have surrendered the license or not initiated operations during a stipulated time and even to date. Hence, at present only 06 payments bank entities have started their functions and these are Airtel Payments Bank, India Post Payments Bank, Fino Payments Bank, Jio Payments Bank, Paytm Payments Bank and NSDL Payments Bank. Out of these six banks only four, namely Airtel Payments Bank, India Post Payments Bank, Fino Payments Bank and Paytm Payments have progressed reasonably well in carrying out their major portion of operations while the remaining two have barely initiated operations to save their license, it appears. Therefore, the main focus is only on operations of four Payments Banks for a comparative study of operations of a Payments bank and to study the extent of achievement of avowed objectives.

From table 1, it can be derived that these four newly set up Payments banks, from the figures, are focusing more on both digital applications as well as physical branch networks. A brief of the performance of individual Payments bank is provided here below for comparison purposes and drawing conclusions.

Paytm Payments Bank: Paytm is available in 11 Indian languages and available for online use of financial transactions e.g. cases like mobile recharges, movies, utility bill payments, travel, and shows bookings, fruits and vegetable shops, as well as, in-store payments at grocery stores, restaurants, tolls, parking, education institutions and pharmacies with the Paytm QR code, are facilitated. Thus, it has good command over payment services for its users.

Paytm operationalized in August 2010. By 2014, it launched the Paytm Wallet and made joined Indian Railways and Uber as a payment option. In August 2015, Paytm received a license from Reserve Bank of India to launch a payments bank. Paytm Payments Bank officially commenced operations in November 2017. Paytm Payments Bank is a mobile-first bank with zero charges on all online transactions (such as IMPS, NEFT, RTGS) and no minimum balance requirement. The Paytm payments bank failed to maintain the prescribed net worth limit of Rs.100 Cr Bank and also violated Rs. 1 lakh limit per account and was not allowed to hold more than the limit in each account (The Times of India, Dec 2018) and it faced 6 months operation ban. It could restart opening accounts for its customer after a gap of six months only. Despite these constraints, it has 6.4 crore customers (at the end of March 2020), which are served through only seven branches to boast for, while access points are facilitated for service through the mobile application. Hence, the journey of Paytm has not been an easy ride and it has experienced various ups and downs in its brief journey itself.

Fino Payments Bank

Fino Paytech launched its banking operations, adding to the strength in efforts for financial inclusion through the newly-created payments bank segment. Fino Payments is the fourth such player in this segment after Airtel, India Post and Paytm started their operations. Fino has incorporated till 30th March 2020 a total of 410 branches across 14 States with 25,000 banking access points, the largest so far in the segment among.

Fino Payments Bank was also once barred from opening fresh accounts by the RBI mainly because of its failure to impose a deposit limit of Rs 1lakh on accounts of customers held with the bank and it was also fined Rs 1 crore by the regulator.

Airtel Payments Bank:

Bharti Airtel's payments bank started its operations in March 2017 by educating customers about making cashless payments and rewarding them for doing digital transactions. Its focus is on attracting customers to use technology for undertaking digital transactions. The focus of Airtel Payments bank since its beginning is to leverage its customer base which has swelled to a base of over 309 million cellular and allied services customers in India (Statista.com/statistics /740315/India-number-of-Bharti-airtel-customers/) during the end of 2020. It focused on customers with basic/feature mobile phones to use their phones to make USSD (Unstructured Supplementary Service Data) based payments.

Airtel Payments Bank also offers incentives in the form of surprise gifts to customers who use digital/cashless modes of payment. Every month, it gave away 100 minutes of free Airtel to Airtel mobile talk time to 100,000 of its customers (through a lucky draw), who use digital payments for transactions. In a bid to encourage more transactions, Airtel Payments Bank is not charging any processing fee from its customers and merchant partners for digital transactions. The registration process for merchants is also completely paperless and would allow them to start accepting payments instantaneously using either an app (smartphone) or USSD (feature phone).

India Post Payments Bank (IPPB) and its progress

The India Post Payments Bank (IPPB) started its operations on 1 September 2018 with an aim to give access to the banking system to all in India. This public sector Payments bank takes advantage of the wide reach of post offices in India that enables it to have a minimum of one branch in each district. After getting a license from the RBI, India Post started its payments bank services and by December 2018, all 155,000 post offices have been linked to the IPPB model. An extensive and large number of access points already existing is the biggest advantage IPPB enjoys in its operations.

Since IPPB is a payments bank, its services are limited, unlike a full-fledged bank. It can accept deposits up to Rs 1 Lakh only (one can transfer an amount above one lakh to a linked Post Office Savings Account). One cannot avail of loans or credit cards from IPPB as the regulatory conditions require. The IPPB provides doorstep banking services to its account holders through a postman paying prescribed charges per transaction. The transaction limit for doorstep banking has been kept at Rs 10,000. Gramin Dak Sewaks personnel (officials of Post office in Rural areas) provides service at the doorstep through a cell phone and biometric device to the individual bank account holders.

It is clear that till now, since the formation of payments banks IPPB has had an additional advantage of having India Post as its backup. A detail of progress made by IPPB in Gujarat up to November 2020 is shown here below in table 2 regarding saving and current accounts in Gujarat.

Further, all Payments Banks, especially India Posts Payments Bank had shown remarkable work during the Covid-19 pandemic and lockdown from March-2020 (Information and statistics, Southern Gujarat Region, Department of Posts). During the pandemic period it was very essential to keep necessary important household goods into circulation and in enough supply. Hard cash was one of the pinching issues in front of the government. IPPB at that time, through AePS (Aadhar Enabled Payment Service), provided the facility to withdraw money from any bank account with the help of the biometric device. Hence during the pandemic, IPPB besides undertaking its normal banking functions was also responsible for playing a crucial role to help people to sustain their life. Following table 3 shows (AePS) transactions undertaken by IPPB branches till November-2020. It is further clear from the data below that a large number of transactions have taken place in various branches of IPPB leading to increased financial inclusion.

Table 2: Current and Savings account holding of IPPB branches of Gujarat (up to Nov-20)

Sl No	IPPB Branches	No. of accounts	Sl. No	IPPB Branch	No. of accounts
1	Bhuj Branch	10,378	17	Silvassa Branch	17,646
2	Botad Branch	5,283	18	Surat Branch	36,493
3	Modasa Branch	11,049	19	Ahwadangs Branch	1,088
4	Palanpur Branch	17,396	20	Navsari Branch	25,277
5	Morbi Branch	4,979	21	Valsad Branch	17,711
6	Mahesana Branch	10,021	22	Vadodara Branch	22,924
7	Gandhinagar Branch	7,758	23	Bharuch Branch	6,496
8	Himatnagar Branch	7,732	24	Bhavnagar Branch	20,734
9	Patan Branch	6,007	25	Jamnagar Branch	13,048
10	Dahod Branch	121,335	26	Amreli Branch	17,583
11	Rajpipla Branch	15,801	27	Junagadh Branch	8,861
12	Bardoli Branch	36,562	28	Porbandar Branch	6,438
13	Anand Branch	20,435	29	Veraval Branch	8,001
14	Godhra Branch	16,201	30	Surendranagar Branch	11,288
15	Nadiad Branch	22,237	31	Rajkot Branch	13,566
16	Ahmedabad Branch	15,269	32	Dwarka Branch	2,013
				Total	**557,410**

Source: Department of Posts, Gujarat Circle (Compiled from departmental reports during visit to DOP).

Table 3: AePS Transactions & its Amount in IPPB Branches of Gujarat (up to Nov-20)

Sl. No	IPPB Branch	Achievement		Sl. No	IPPB Branch	Achievement	
		No of transactions	Amount in Rs.			No of transactions	Amount in Rs.
1	Rajpipla	45,458	9,07,99,003	17	Vadodara	1,03,807	20,28,49,474
2	Ahwadangs	3,851	59,01,556	18	Bharuch	47,607	9,81,25,196
3	Dahod	77,878	18,47,93,921	19	Rajkot	78,866	11,34,08,203
4	Silvassa	10,348	2,34,19,151	20	Amreli	53,517	12,53,23,264
5	Botad	19,196	4,34,60,466	21	Junagadh	29,455	7,28,56,927
6	Nadiad	1,19,472	25,59,47,394	22	Surat	46,384	7,69,76,702
7	Anand	76,263	15,07,11,013	23	Modasa	32,924	6,36,55,138
8	Godhra	77,005	17,60,13,244	24	Jamnagar	31,193	6,77,60,832
9	Valsad	64,985	14,49,00,352	25	Veraval	27,394	7,20,96,651
10	Palanpur	1,05,053	22,99,50,057	26	Surendranagar	43,122	8,81,86,891
11	Navsari	65,623	11,06,40,943	27	Gandhinagar	36,405	6,28,05,690
12	Bhavnagar	68,168	15,33,08,030	28	Mahesana	38,454	9,20,30,663
13	Bardoli	48,688	8,13,44,738	29	Ahmedabad	84,454	17,20,80,215
14	Porbandar	32,691	5,34,72,165	30	Himmatnagar	31,972	7,23,14,407
15	Patan	49,872	8,87,52,955	31	Dwarka	13,204	3,71,48,808
16	Morbi	27,747	4,10,26,797	32	Bhuj	48,459	14,34,28,704
Total						16,39,515	3,39,54,89,550

Source: Department of Posts, Gujarat Circle (Compiled from departmental reports during a visit to DOP).

Table 3 above clearly indicates that IPPB has planned to set up at least one branch in each district covering various states of India having 650 branches pan India. Likewise in Gujarat, it established 32 branches taking into consideration areas covered i.e. Rural, Urban, postal sub-offices and branch offices linked with each branch of IPPB. Sub post offices are those which are called the departmental post office, headed either by a postal assistant working as a counter clerk as well as a supervisor (sub-postmaster) single handedly is called as a single-handed sub-post office. A sub post office having a postmaster along with one or more counter clerks is known as a double handed or triple handed sub post office depending upon the number of operative staff. On the other hand, a Branch Office (BO) is an extra departmental office headed by a branch postmaster, who is an extra-departmental worker. Since BOs are not having computers, each and every transaction done have to be sent to its accounting office. To facilitate efficient functioning of IPPS and conduct operations in remote areas as well as taking advantage of digital technology has been attempted by IPPB. The IPPB has been providing BOs with POS machines and computer systems to facilitate digital transactions to aid financial inclusion. BOs are at times situated in areas where even rural banks do not operate. The IPPB provides its customer's facilities like Sweep-in and Sweep-out from IPPB account to POSB account, Digital life certificate (DLC) for pensioners and QR Card for IPPB account holders.

The biggest promise which is held by Mobile Network Operator (MNO) through a strong network of the postman, who have many factors of their advantage like their large network of retail stores operated by agents for cash management, the ready existing telecom customer KYC and thus lowering costs, a ready brand recall among the MNOs' already existing customer base and possibly the experience of operating in a highly-competitive field with long periods (KYC Requirements, Operating Guidelines for Payments Banks, October 6, 2016).

Table 4: Glance of Ratio of Branch to Access points PBs and Contemporary Commercial Banks

PBs/CBs	No of Branches	No of Access points	Access point: Branch Ratio
Yes Bank	1120	31000	27.68
AU Small Finance Bank	322	67	0.21
FINO Payments Bank	103	200000	1941.75
Paytm Payments Bank	7	200000	28571.43
IPPB	650	136078	209.35

Source: Tracking Performance of Payments Banks against Financial Inclusion Goals, Sept-2020 & IPPB Annual report.

5. PAYMENTS BANK PERFORMANCE:

5.1. Access points availability:

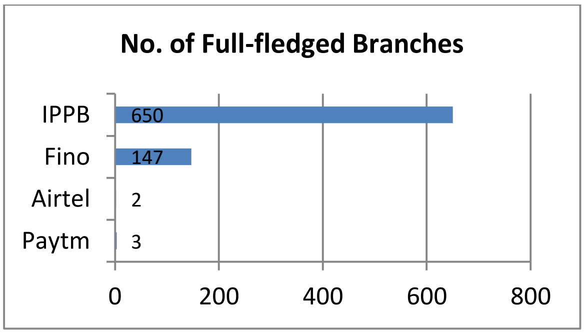
To study the reach of Payments Banks in banking services, it becomes essential to have a look at their physical access points beyond fixed points or branches. These points are referred as access points in the context of providing financial services by payments banks which are made available in the form of business correspondents, POS are handled by BCs (or merchants), banking outlets and unmanned points such as ATMs. One of the major requirements expected of PBs against full-service banks is that they would set up and utilize a large network of access points and its extensive network of workforce or BCs. To be an effective business model, PBs should utilize widespread access points networks, particularly in remote areas, through their branch network, ATMs, BCs, or through networks provided by others.

A perusal of Table 4 indicates that the number of access points for PBs is much higher than that of individual full-service banks in general compared to those set up around the same time (e.g. Yes Bank and AU Small finance bank) as shown in table 4 above. After Payments Banks are permitted to function as BCs of other banks, a portion of these could be categorized as access points which is part of other banks' network and not exclusively of PBs. This is hence, further likely to improve financial inclusion through crucial support from payments banks and their access points.

5.2 Branch availability:

It is clear from Figure 1, that the leading four PBs have 802 have a total number of branches. IPPB has the greatest number of branches, constituting close to 85 percent of these branches as of November 2020.

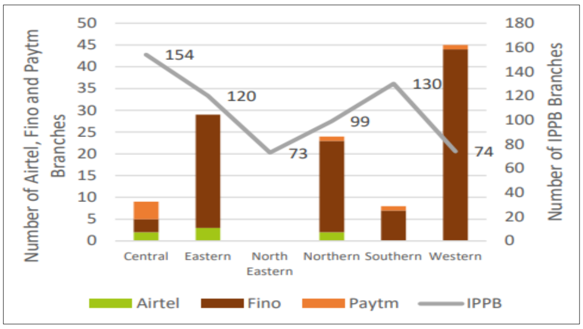
Figure1: Payments Banks having full-fledged branches



Source: Annual reports of Payments Banks / published on authorized websites

While Figure-2 shows the region-wide distribution of these branches, it becomes obvious that IPPB displays the best spread of branches across all regions. While the plan is for all post offices to be enabled as touchpoints, in terms of branches, only 650– one for each district. Each of these branches acts as a controlling office for all the access points' fall within the district. Due to their full district coverage policy, IPPB has been able to mark its presence in the North-Eastern region of India as the only PB, so far, to open branches in all districts of the country. Based on its relatively high presence in the Western region, it appears that Fino PB is aiming to emerge as a strong regional player as it is already ahead of other PBs (except IPPB) in its branch network in the Western states of India.

Figure 2: Region-wise distribution of Payments Bank Branches



Source: Database on Indian Economy (RBI DBIE)

5.3 Banking at Remote /unbanked areas:

To enhance the efforts in the provision of financial services, the RBI regulated banks to open 25 percent of their Banking outlets in Unbanked Rural Centers (URC). As mentioned in RBI's Rationalization of Branch Authorization Policy 'an Unbanked Rural Centre is a rural (Tier 5 and 6) center that do not have a (Core Banking System) CBS-enabled 'Banking Outlet' of Scheduled Bank, a Small Finance Bank, a Payment Bank or a Regional Rural Bank nor a branch of Local Area Bank or licensed Co-operative Bank to carryout customer based banking transactions. The earlier guidelines for the opening of branches with a mandate of 25 percent of 'branches' be opened in URCs. Branches may be of any sort i.e., full-fledged branches, specialized branches, satellite offices, mobile branches, extension Counters, off-site ATMs, administrative offices, controlling offices, service branches (back office or processing centre), etc. Similarly, the requirement still ensures adequate outreach of banking facilities. The revised Branch Authorization Policy of 2017 has a provision for calculating the fulfillment of the 25 percent requirement for even part-time outlets on a proportion basis.

5.4 Facilities offered

Payments bank generally offers a variety of products and services but not all payment banks do the same and it is found that PBs decide services that are rendered considering the business and societal reasons which are mentioned as per table 4 below.

Table 4: Comparison of facilities of services offered by various Payments banks

Facilities offered	Airtel PB	IP PB	Fino PB	aytm PB
Savings Account	✓	✓	✓	✓
Current Account	✓	✓	✓	✓
Sweep Account Facility		✓	✓	✓
Debit Card	✓		✓	✓
Wallet	✓		✓	✓
Payments	✓	✓	✓	✓
Cash Management Services	✓		✓	
Insurance	✓	✓	✓	
Doorstep Banking		✓	✓	
BC Lending			✓	

Source: websites and catalogs of Payments Banks

6. COMPETITIVE FACTORS BETWEEN PAYMENTS BANKS:

A further attempt has been made to study the competitive aspect for PBs with respect to the two primary banking functions deposits and payments and presented in the following paragraphs.

6.1 Interest Rates as competition factor: Deposits in PBs serve as a store of funds like a wallet for easy access through which quick transactions can take place. The interest rates offered on the savings accounts are between 2.75 percent to 3 percent as mentioned in table 5and averaging at 2.875 percent presently.

Table 5: Interest rates of basic savings account of leading Payments Banks

Payments bank	Savings Bank account Interest Rate (in percent)
Airtel	3.00
IPPB	2.75
Paytm	3.00
Fino	2.75

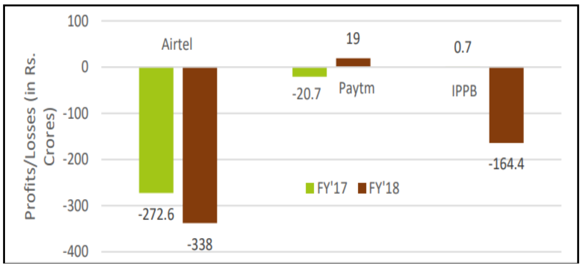
On the other hand, two new license-holder full-service banks, IDFC First Bank and Bandhan Bank have kept the savings account interest rates at 6 per cent and 4 per cent per annum in order to widen the customer base. The total deposits with PBs over the last three financial years has growth in deposits is 321 per cent (Source: Report on Trend and Progress of Banking in India, 2018-19.).

6.2 Number of Transactions as a factor of competition: Digital payments have seen drastic changes due to the moderately high growth in usage of prepaid payment instruments (PPIs) and unified payments interface (UPI) as payment modes. While PPI is a wallet provider, whether it be a closed system, semi-closed or open-system wallets, UPI is an immediate real-time payments system provided by the National Payments Corporation of India (NPCI). From the data of RBI DBIE, the use of PPIs saw a significant increase from late-2016 onwards, especially due to the immediate push after demonetization. While the post demonetization growth rates have been declined, the share of PPI volumes to total retail payments have increased at an average annual growth of 44 per cent between FY 2013-14 and FY 2018-19. (RBI DBIE, Volume of PPI transactions) Hence any transactions by Payments bank which uses digital payments mode will benefit PBs and will be an important criterion for the success of any PBs.

6.3 Profitability:

The profits are necessary for sustaining any economic activity, however, financial inclusion is an important objective for setting up of PBs, profits are secondary from viewpoint of society and the government. However, each PB can survive only when it earns a profit. Figure 3 depicts the profits/losses for FY'17 and FY'18 of selected PBs. As mentioned earlier, Paytm started earning profits in its second year of operations. IPPB reported a profit of approximately Rs.69 Lakhs in the first year of its operations but went into losses in FY'18, the other two continue to incur losses during the initial years of their operations as is clear from data presented here.

Figure-3: Profits/Losses of PBs



Source: Annual reports of Payments Banks (2017 to 2019)

Comparing the profit and loss statements of two financial years of IPPB, there has been a significantly high expense in the operating area like salary and technological peripherals. As for Airtel PB and Paytm PB, the unavailability of annual reports was a limitation in analyzing the exact causes of profits/losses for these banks.

CONCLUSION

The principal objective for the formation of Payments bank is financial inclusion which will further improve the well-being of grass-root population as an economic ladder. From the study, it is observed that only six Payments Banks have started operations out of eleven to whom granted permission. Out of these six PBs which have initiated operations since getting permission have grown by different extent and have adopted a varied model of expansion in terms of use of technology and opening of the physical branch network. It is observed that two PBs are Jio and NSDL are the slowest in the process of initiating operations. PBs of Airtel and Paytm are using the mobile application while IPPB and Fino are more dependent on physical branches for expansion of their clientele.

It is observed that the performance of PBs is quite encouraging in comparison of full-fledged commercial banks inaugurated during the same time. Out of six PBs IPPB is undertaking strong strides and has emerged as a leading player. It is further revealed that IPPB is expanding its operations through leveraging infrastructure and manpower reach to every nook and corner of India Post, its parent promoter entity. IPPB has opened its branches in every district of the country and has been successful in garnering growth in deposits, indicating success in achieving further financial inclusion of the targeted population. In terms of the number of savings accounts and current accounts with the number of transactions, the PBs are performing very well however profitability of PBs is an issue that needs to be addressed by each one of them to sustain in long run.

Within a short span of time, Payments Banks have shown their merit in areas of new customers and access points to enable high volumes of transactions. However, the promise of the Payments Bank is yet to be fulfilled with huge unmet potential. Trust is the major factor in rural areas where technological change has been the major challenge due to illiteracy. Additionally, unorganized sector has a very strong root in villages where people majorly choose to avail various financial services and credit from known moneylenders. Due to which small banks and organized sector entities have to put enormous efforts to earn trust and get them on the track of banking procedures.

IPPB is in a good position to make considerable advancements in terms of financial inclusion by focusing on its existing large human resources and physical infrastructure. Besides, the IPPB has an advantage of age old trust and people consider it a reliable reckoning service of so many years by its ever faithful personnel particularly the postmen.

IPPB is considered a strong and leading operator in PBs space. However, In upcoming years, Jio Payments Bank which has been formed through a joint venture between Reliance Industries and State Bank of India is likely to emerge as one of the strongest players in this fraternity. Jio can leverage both the advantages of having an MNO promoter with a well-established payments bank within its group of companies. Another example of the potential partnerships is displayed by Fino PB working with BPCL. Using petrol pumps as banking outlets may enable the bank to encash the value of a big brand and also can serve a portion of the underserved population such as migrant laborers. Hence in the future, more partnerships are possible with PBs to provide services like third-party products, insurance, investments and loan origination for banks as BCs.

In a comparison of each other, all functioning payments banks have their pros and cons. Fino Payments bank provides all sorts of facilities to consumers but reach is very limited and required stringent measures to cover their part of market shares. Paytm has sufficient reach and therefore has shown a significant gain in the second year but still, in terms of Payments banks, it lacks popularity in comparison to its wallet and payment facility. Airtel has incurred losses and even deeper on the second year, the reason being its poor coverage, branch absence and improper positioning of its financial services as consumers are believed to be unaware about their Airtel Payments Bank.

Hence, PBs are indeed a promising and bold initiative to have a positive impact on the objective of financial inclusion and further improving the wellbeing of population.

REFERENCES

https://www.bbc.com/news/world-asia-india-52268601

https://officechai.com/stories/govt-owned-india-post-going-beyond-indias-fight-covid19/

https://www.financialexpress.com/industry/india-post-provides-rs-720-cr-cash-at-doorsteps-via-aeps-since-march-25/1950639/

Daily report and references from The Times of India.

Reports of Postal Divisions under southern Gujarat.

Statista.com/statistics/740315/india-number-of-bharti-airtel-customers/ accessed on July, 3rd, 2021.

Chandulal, G. A. (2016). A Comparative Study on Financial Performance of Private and Public Sector Banks With Special Reference To Affecting Factors and Their Impact on.

Iyer, G. M., Bhansali, S., Bhatt, anmayee, Deshpande, A., & Chhatwani, M. (2018). Role of Payment Banks in India: Opportunities and Challenges. International Journal of Advances in Management and Economics, 7(1), 1–16. Https://doi.org/10.31270/ijame/07/01/2018/01.

Thenuan, P., Raval, J., & Damle, M. (2016). Payments Bank: A Disruptive Innovation, (August).

Thomas, R. (2017). Unified Payment Interface (UPI): A Catalyst Tool Supporting Digitalization – Utility , Prospects & Issues, 4(2), 2–5.

Http://www.mca.gov.in/mcafoportal/companyllpmasterdata.do

Https://www.researchgate.net

Https://scholar.google.co.in

Https://www.airtel.in/airtel-annual-report-2016-17/index.html

Https://www.google.com

Https://www.moneycontrol.com

Http://www.grasim.com

Https://www.investopedia.com

https://www.rbi.org.in/Scripts/NEFTView.aspx

https://www.slideshare.net/KomalNalawade/an-indepth-analysis-of-payment-banks

https://www.jetir.org/papers/JETIR1902995.pdf

https://www.ippbonline.com/documents/31498/0/Annual+Report-IPPB_+2019-20_English+%283%29.pdf/41b1587a-7f73-e345-7506-243602a06bef

https://www.ippbonline.com/documents/31498/0/Annual+Report-IPPB_+2019-20_English+%283%29.pdf/41b1587a-7f73-e345-7506-243602a06bef

KYC Requirements, Operating Guidelines for Payments Banks, October 6, 2016, RBI Notifications. https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=10635

***