

Genesis of Payment Banks: It's Stimulus on the financial inclusion in India

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Abstract: India is facing challenges of achieving financial inclusion with 1.25 Billion of population where 64% of population is still unbanked or do not use any formal financial services where large number of people belong from rural India. To study aspect of financial inclusion in India Nachiket Mor Committee is established in 2013. The Committee has proposed to set up of Payments Banks whose primary objective is to provide small savings accounts, payments and remittance services to a migrant labour workforce, low income households, small businesses, and based on recommendation RBI grants "in-principle" approval to 11 Applicants for Payments Banks to provide financial inclusion based on banking penetration, deposited penetration, infrastructure, popularity, technology and past experience which includes organization from different domain like telecom service provider(TSPs), mobile wallet, banking services, consumer goods, postal offices, business correspondence. Our paper reviews the parameter for financial inclusion and business model of existing system and payment bank and issues faced by traditional banking system includes Business correspondent (BC), ATM, mobile banking, Basic Saving Bank Deposit and pre-paid instrument (PPI) which can be overcome using payment bank. It also includes analysis and study of 11 Applicants for Payments Banks received in-principle and capability to penetrate rural India to provide financial inclusion. Payment banks are a good way of reaching the masses for the even the smallest of payment at the odd hours, which defiantly makes the payment systems viable for the masses. Also as Indian system is that the masses majorly deal in cash and this system becomes the pseudo cash handling system and so it is this that digitally captures even the smallest transactions.

Index Terms: Payment Bank, Financial Inclusion, Rural banking, Indian economy, Small savings accounts.

1 INTRODUCTION

India, with population of 1.25 Billion lacking in financial inclusion with 21 per cent of the world's unbanked adults[1] . As on Mar 2014 there are 1,15,082 bank branches, with 1,60,055 ATMs out of this 43,962 branches(38.2%) and 23,334(14.52%) of ATM are in rural area. In rural 1,40,000 Business correspondent(BC)1 covers over 72.2 million of household [2] but still banking penetration in India is too low as only 36% of all India level(46% urban,32%rural) [3] having bank account as on 2013 i.e. 64% of population is still unbanked. Banking penetration in India is too low as compared to other country as branch per 1,00,000 adult in India is only 747 as on 2010 which impact economic growth of country [4].

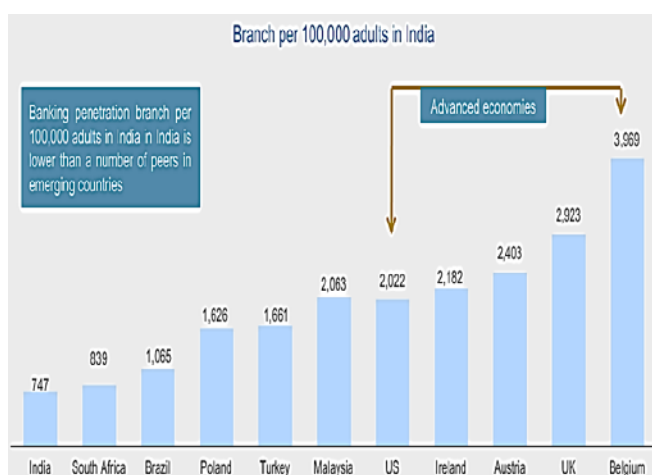


Figure 1: Branches per 100000 Adults Comparison |Source[4]

Design principle of Financial inclusion are Stability, transparency, Neutrality and Responsibility. On 23 Sept 2012 Committee on Comprehensive Financial Services for Small Businesses and Low Income Households(Nachiket Mor Committee) Setup by Reserve Bank of India(RBI) [3] to study aspect of Financial inclusion in India. According to which Reserve bank of India should not give more licence to open *prepaid payment instruments (PPI) to non-banking financial companies(NBFCs) they can permitted only for closed and semi closed financial instruments which do not permit cash withdrawal or redemption* but still if anyone is interested it should apply through Payment Bank Licence [5]. For example Airtel money.

1.1 Prepaid Payment Instruments (PPI)

One of the early trend setter as the prepaid payment instruments (PPI) was Airtel money has the following model for payment, refer figure 2.



Figure 2: Process of Prepaid Instruments (PPI)

1 Business Correspondane (BC) means person will act as intermediaries between the rural people and the banks.

Digital wallet is electronic wallet with the help of which user or individual can make electronic transaction like

bills, e-commerce payment bills or any purchasing item through computer or smartphone device.

The main problem with this PPI is customer do not earn interest rate on money saved on it, Customer can put maximum of Rs.50,000 in it and major problem is customer cannot pull out money from it i.e. customer have to spend that money they cannot withdraw from wallet or account so the payment bank model is introduced.

2 ABOUT PAYMENT BANK:

According to Nachiket mor committee report Payment bank refers same features as traditional banking system. Payment bank target is focuses on small business and poor people with low income. On 19 Aug 2015 RBI gives "in-principle" approval to 11 Applicants for Payments Banks where they have provided 18 month to comply all the condition laid by RBI [6]. These payment bank have to keep CRR (Cash Reserve Ratio) just like other commercial bank, hold maximum of Rs. 1,00,000 per individual customer, can issue ATM/Debit card but cannot issue credit cards, can provide remittance services through various channels but cannot involve in credit risk and cannot give loans[7]. These Payment bank cannot give load but they can permitted to invest in statutory liquidity ratio (SLR) approved securities i.e. Payment bank can make profit in investing government bond.

To achieve the stability in the economic growth, each and every section should contribute towards the economy and should be brought into main stream the government is working with the adoption multi direction approach, but lack of basic infrastructure, awareness and financial literacy among the rural population act as a major hindrance in economic growth[10]. The deeper study carried out by CRISIL2 (Credit Rating Information Services of India Limited). On the the financial inclusion in different part of India shows growth in different section.

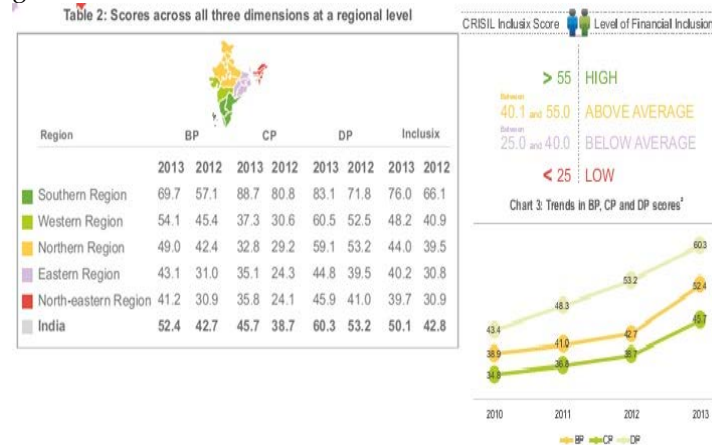


Figure 3:Indias regional Level for Financial Inclusion [Source[11]

SYSTEMS	Give Loans	Accept Deposit	Make Cash payments	Give Interest
Payment Networks (visa master cards)	No	No	Yes	No
Commercial Banks (Private/Public)	Yes	Yes	Yes	Yes
White label ATM (Tata-Indicash)	No	No	Yes	No
Digital Wallet (Airtel money, m-pesa)	Yes	Yes	No	No
Payment Banks	No	Yes	Yes	Yes

3 FINANCIAL INCLUSION:

As per World Bank there 38% of world Adult population approx. 2 Billion of people do not use any formal financial services. 73% of world poor population are unbanked so there are need to bring these population in the main stream [8]. Whereas India Consist of world 21% of unbanked population [9]. There are uneven distribution of resources all over the world where poor may not have proper access to financial services.

3.1 Definition of Financial Inclusion:

- 1) As per The Committee on Financial Inclusion: "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable"[12].

² CRISIL, A Standards and Poor's Company. It is a global analytical company providing Ratings, Research and Risk & Policy Advisory services. CRISIL's majority shareholder is Standard & Poor's, a division of McGraw-Hill Financial and provider of financial market intelligence

- 2) As per The Committee on Financial Sector Reforms: "Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products" [13].
- 3) As per World Bank: "The proportion of individuals and firms that use financial services"[14].
- 4) As per Mandira Sarma JNU: "Financial inclusion is the process that ensures the ease of access, availability, and usage of formal financial system for all members of an economy" [15].
- 5) As per CRISIL: "The extent of access by all sections of society to formal financial services such as credit, deposit, insurance and pension services" [11].

3.2 Dimensions of Financial Inclusion:

Financial Inclusion basically depends upon three tangible and critical dimensions: .

Branch Penetration:

Branch Penetration measure in number of bank branches per lakh of population. CISIL rating is 52.4. Larger the branch penetration provide larger opportunity to transition and circulation of money

Credit Penetration:

Credit penetration includes number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

Deposit Penetration:

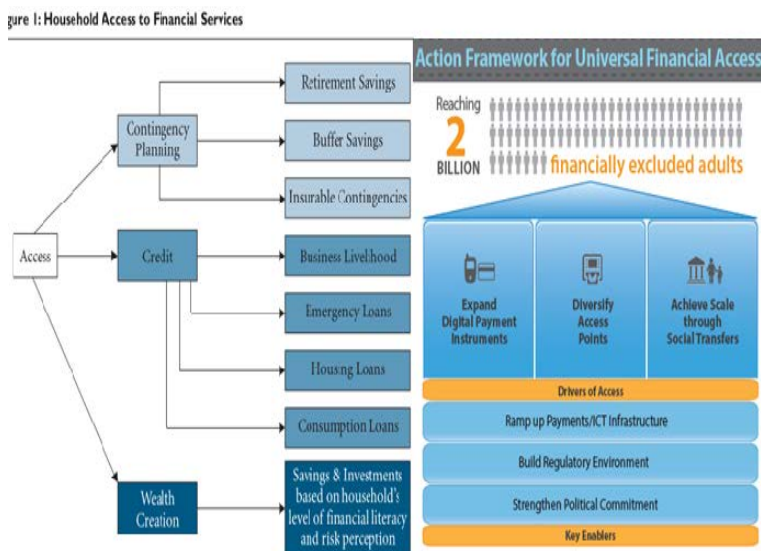
Deposited penetration includes number of saving deposit accounts per one lakh population. Over a period of time



branch, credit and deposit penetration increases

Figure 4: Show the financial Inclusion with Branch penetration, Deposit Penetration dn Credit Penetration [Source[11]]

Figure 5:Financial Access [Source[13][9]]



As per the World Bank to increase financial inclusion 3 area need to be focus: expanding digital payment instrument, diversify access point and achieve scale

Figure 5:Financial Access [Source[13][9]]

Through social transfers. As there are 2 billion population around world which need to be included in main stream.

4 PAYMENT BANKS SERIES OF EVENT:

23 Sep 2013:

Committee on Comprehensive Financial Services for Small Businesses and Low Income Households(Nachiket Mor Committee) Setup by Reserve Bank of India(RBI) to study aspect of Financial inclusion in India[3].

31Dec 2013:

Nachiket Mor Committee Has submitted its final report includes Major recommendation[3]:

- 1) Wide-spread payment network and universal access to savings.
- 2) Priority Sector Lending: The Committee suggested that investment by banks in bonds and equities and provision of guarantees to PSL beneficiaries be counted towards meeting the banks' PSL targets. It recommended the removal of the cap on interest rate on loans at the base rate plus 8% per annum. It also recommended that the PSL target be revised from 40% to 50% of credit provided.
- 3) The Committee has proposed to set up of Payments Banks whose primary objective to provide payments services and deposit products to small businesses and low income households. Bank required minimum entry capital to Rs 50Cr and restricted to maximum balance Rs. 50,000/ Customer.
- 4) Sufficient access to affordable formal credit.

10Jul 2014:

The Finance Minister Arun Jitley talked about Payment Banks in the Union Budget 2014-15[16].“ After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal

banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force" [17].

17Jul 2014:

Reserve Bank of India (RBI) releases draft guideline for licensing of Small Bank and Payment bank. It also Open for suggestion up to 28Aug 2014 [17].

27Nov 2014:

RBI releases Guidelines for Licensing Payment Bank considering feedback and asking for applications for payment banks (extended last date 2 Feb 2015)[7].

4Feb 2014:

RBI release list of 72 applicant in small financing bank and 41 in Payment bank which would be evaluating by External Advisory Committee[18].

19Aug 2015:

RBI grants "in-principle" approval to 11 Applicants for Payments Banks which includes[6]:

<input type="checkbox"/> Aditya Birla Nuvo Limited	<input type="checkbox"/> Reliance Industries Limited
<input type="checkbox"/> Airtel M Commerce Services Limited	<input type="checkbox"/> Shri Dilip Shantilal Shanghvi
<input type="checkbox"/> Cholamandalam Distribution Services Limited	<input type="checkbox"/> Shri Vijay Shekhar Sharma
<input type="checkbox"/> Department of Posts	<input type="checkbox"/> Tech Mahindra Limited
<input type="checkbox"/> Fino PayTech Limited	<input type="checkbox"/> Vodafone m-pesa Limited
<input type="checkbox"/> National Securities Depository Limited	

5 PAYMENT BANK: BUSINESS MODEL

5.1 Existing System: Mobile Payment:

Mobile Payment is also called as payment via mobile or mode of payment using mobile phones. Instead of using mode of payment like cheque, cash, and credit card, debit card, a customer can use to transfer money via mobile or to pay for goods and services that it had. In India 40% of population is still unbanked to touch those people mobile payment was launched but after this long year we find they are still uncomfortable with this banking system. In which customer can transfer money or pay for goods and services by sending SMS, using application or any other mobile communication technology. Due to high penetration of mobile subscriber which is 980.81mn of which 417.85mn of rural mobile subscribers it going to be being driving force of this method. In India main challenges are literacy rate, local language. Mobile handset which enable use of local language may reduce the problem but problem was still there in terms of usability, cost, interoperability, and security of transaction[19].

To use this service customer need to follow below steps:

- 1) Registered mobile phone account with any network operator in country.
- 2) Open Bank account in nearer available banks.
- 3) Register them self with mobile Payment Banking service

Key Features of this services:

- 1) Immediate Payment Service
- 2) Instant Fund Transfer
- 3) Any Time any Day Availability
- 4) Simple and easy to use
- 5) Inexpensive , Fast and Safe to use
- 6) Accessible across world

5.2 Shifting to Payment Banks:

Main reason of launch of mobile payment is provide financial inclusion, ease of payment services but due to low literacy rate and lake of awareness in consumers mobile money didn't provide platform. Another factor behind payment banks requirements is due to weaken KYC norms.

5.3 Proposed Payment Bank System:

Key objective of setting up the payment banks is to further financial inclusion by spreading the payment services to unbanked section of the population with greater access to small business, low-income house hold, labour workforce and remittance services. There are particular guideline to be follow which is given by RBI to set up payment bank.[7].

- 1) "Payment Bank can offer accept demand Deposits but only accept demand deposits to extent Rs.1,00,000"
- 2) "Can Issue ATM /Debit Cards /Pre-Paid payment instruments under the payment and settlement system act 2007"
- 3) "Can offer Internet banking service."
- 4) "Can offer payment and remittance services through various channels, including branches and ATMs."
- 5) "Can handle cross-border remittance of personal payments."
- 6) "Can offer payment of utility bills."
- 7) "Payment Banks cannot undertake lending activities ,issue credit cards and they cannot be Branchless bank."
- 8) "The Minimum paid up equity has been fixed at Rs.100 Cr. With minimum CAR of 15% on the RWAs. The promoter's minimum initial contribution to be paid-up equity capital shall be at least 40% for the first 5 years."
- 9) "Payment banks should maintain leverage ratio of not less than 3%."
- 10) "At least 25% of payment bank's physical access point have to be in rural location."
- 11) Foreign shareholding has been allowed up to 74%(automatic up to 49% & need to take approval for beyond 49% to 74%)."

12) "The operations of the bank should be technology driven from the beginning, conforming to generally accepted standards and norms; while new approaches (such as for data storage, security and real time data update) are encouraged, a detailed technology plan for the same should be furnished to the RBI."

5.4 Revenue Generation model for Payment Banks:

Payment banks currently focusing on generating revenue through transaction which is primary product for them to earn money [20].

6 APPROVED COMPANIES FOR PAYMENT BANKS

6.1 Reliance Industries Limited:

Reliance Industries Limited is an conglomerate holding company. Reliance Industries Limited having revenue of 70.75 billion as of July 2015. Reliance Industries limited has planned roll out of Reliance Jio services across pan India on December 2015. RIL holds major subsidiaries which includes Reliance retail ,Reliance life science, Reliance Institute of life science, Reliance logistics ,Reliance clinical research services ,Reliance solar ,Reliance Industry Infrastructure limited and Reliance Jio infocomm limited.

RIL owns telecom operator Reliance Jio which targets to providing not just advanced voice network and broadband network but also great ecosystem on which range of rich digital services will be facilitate. Reliance Industries Limited got a "in-principal" approval of the Reserve Bank of India to set up Payment Bank on Aug 19. RIL has tied up with SBI bank to create most expensive distribution of network in India. As we all know State Bank of India(SBI) is India's largest bank network , will hold up to 30% stake in non-lending payment bank of RIL. RIL and SBI has applied for payment bank licence together in which RIL work as promoter.

RIL chairman Mukesh Ambani said this payment bank will leverage Reliance Jio pan-india network and Reliance retail online and offline business model which might be the main reason behind participating in business. RIL Jio has planning to roll out 4G services and 4G enable handsets so network infrastructure and devices can be jointly used for success of banking services and SBI can work as a backup provider.

H Srikrishnana is likely to head the RIL-SBI Payment Bank which is cleared by the RBI earlier this year[21].

6.2 Vijay Shekhar Sharma(Paytm):

Vijay shekhar sharma got individual "in-approval" licence from the RBI for payment bank. Vijay shekhar

sharma founder of Paytm is an Indian e-commerce shopping website launched in 2010. Paytm said it have 100million wallet users and 75 million transaction per month. Paytm have large scale network to reach out people and they entered in business to enhanced their network to provide financial inclusion[22].

6.3 Dilip Sanghvi ,IDFC and Telenor:

Dilip Sanghvi is an founder of an sun pharmaceuticals. He applied for the licence with telecom partner Telenor. Earlier Sudhir valia also director of Sun pharmaceuticals in past has worked with Telenor. On other side IDFC has announce 19.99% stake in Dilip Sanghvi's Payment Bank. All three major in their respective are now hunting for payment bank service and they got "in-approval" licence from RBI [23].

6.4 Fino Paytech Limited:

Fino Paytech is a banking technology platform. Fino Paytech as an alternate banking channel enables end-to-end customers sourcing and servicing. Among elven other player Fino Paytech Limited is another player who got "in-approval" licence from RBI. Fino Paytech Limited is backed by multiple organization including World Bank's IFC, Blackstone and acquired Nokia money in 2012. Fino Paytech Limited announced 300 crores investment in the payment banks business and planning to break even in the next 3 years. Fino Paytech Limited currently have more than 28 lakhs of transacting customers[24].

6.5 Airtel M commerce Service Limited:

Airtel M Commerce is mobile money business owned by telecom operator Bharti Airtel. Airtel is going to be the major player in Payment banks as they got "in-approval" licence from RBI. India's biggest player with 23.52% market share is going to preform major role for providing financial inclusion across India. Airtel has partnered with Kotak Mahindra Bank for the payment Banks licence. Kotak Mahindra Bank is expected to pick up 19.99% stake in it.

Earlier Airtel has acquired Mumbai-based mobile payment start-up YTS and started their Airtel money services as per the last available data Airtel Money had 38 million transactions and 1.7 million active customers and all the transactions are of 1238.30 crore.

6.5 Aditya Birla Nuvo Limited:

Aditya Birla Nuvo Limited being Conglomerate Company from Aditya birla group. Aditya Birla Nuvo limited holds "in-approval" licence from the RBI for payment banks. Aditya Birla group also holds telecom major company Idea cellular and had applied for licence in a 51:49 joint venture with Aditya Birla Nuvo. Aditya Birla Financial services has generated USD 1.3 billion revenue in FY15 year. Idea cellular also had partnership with Axis Bank to offer mobile money transfer that relationship might continue to provide Payment Banks

service[25]. If we see customer base Aditya Birla Financial service has 7 million customers and with Idea cellular covers 16.53% telecom service market share both can provide different way for financial services to provide financial inclusion in remote areas[26].

6.6 Vodafone M-pesa Limited:

Vodafone M-pesa provides operator enabling mobile payment service launched by Vodafone. Vodafone M-pesa Limited as on December 14 had 78,000 transactions per day with 2.1 million registered users and 0.37 million active users. In India Vodafone India reported that they have 3.5million registered users. Vodafone claims that they have 1.5million outlet and 8000 exclusive outlet out of which 50% are in rural. With this strong network distribution and mobile penetration they have ability to provide banking service. Vodafone M-pesa payment bank currently got "In-approval" licence from RBI and they are planning to start services from earlier next year with strong network penetration and more than 85,000 banking agent Vodafone is looking stronger in this business[27].

6.7 Tech Mahindra Limited:

Tech Mahindra Limited told Payment Bank will lead by Tech Mahindra and Mahindra Finance. On other side Tech Mahindra Finance are in talk with IFC for the venture to provide payment bank services. Tech Mahindra are planning to use "click and brick" model for the payment bank service. The ultimate vision of the company is to provide technology led-Payment bank services that will reach each customer in India. Earlier in this field Tech Mahindra has provided mobile wallet solution services to the ICICI bank. Tech Mahindra currently have revenue of more than 22 crores [28].

6.8 Department of Posts:

Department of posts is among the eleven applicants who received the "In-approval" licence from the RBI for the payment banks. Department of Posts is in talk with 20 commercial bank for the strategic tied up with its proposed India Post payment bank. Department of Post received 20 proposal including SBI and IDBI. Department of post has a network of 1.55 lakh branches across India of which 1.39lakh are in rural areas which provide fact that India post is present in many widespread areas of the country, where even nationalized banks do not have branches. The only problem with the Department of post is lack of technology driven, once the all the branches are connected by the technology that may be the India's largest Payment bank for the poor people[29].

6.9 Cholamandalam Distribution Services Limited:

Cholamandalam is another added in list who got "in-approval" licence for the payment bank. Cholamandalam distribution service limited is 100% subsidiaries of Cholamandalam Investment and finance company.

Company has revenue of more than 2000 lakhs and have 540 branches in order to get success in Payment bank business[30].

6.10 National Securities Depository Limited:

National Securities Depository Limited is largest depository in India, as per the November '15 NSDL have more than 1.40 Cr. Investor account and more than 19 K service centres. While IDBI bank is in talk with NSDL which has received "In-approval" licence from the RBI, IDBI bank will work as funding promoter with 30% stack in NSDL payment Bank.

7 RESEARCH METHODOLOGY:

This review includes a critical discussion on the inclusion of innovation in the development theories. While there is an exploratory element to this research as it addresses a new approach, it embarks upon the study of theories being applied to a new context which has a greater fit in the explanatory design. Neuman (2006) states that explanatory research is research in which the primary purpose is to explain why events occur and to build, elaborate, extend or test theory.

8 ANALYSIS OF COMPANY:

Objective of the setting up payment bank is further providing financial inclusion to labour workers, low income house hold, small business and others. According to the RBI guidelines potential candidate to run the payment banks are mobile firms, Telecom service provides, Supermarket chains and other individual small business. RBI has taken few steps to achieve this objective like RBI lifted its prohibition against establishing agents within 30 kms near by the bank branch, RBI also removed requirement that customer provide proof of current and permanent address for opening a bank account, TRAI issued guideline which required operators to provide USSD channel access for mobile banking. Following can be the parameters based on which "In-approval" licence had given to the companies.

8.1 Higher Customer/Penetration

Having higher customer base help you to reach people very easily. RBI selected few companies having higher customer base such as Paytm have 100 million wallet user and more than 75 million transactions. Same as applicable for the operator Aditya birla group(Idea) having 16% of market share, Airtel having 23% and Vodafone 18% market share in industry. Higher customer base help payment banks and RBI to achieve financial inclusion by providing services to the low income hose hold people.

8.2 Infrastructure

As per the RBI guidelines for payment banks 25% of total branches need to be in rural areas. For these companies needs infrastructure like Department of Post have 1.55 lakh branches across India and out of which 1.35 lakh branches are in rural areas. Same applicable to the operators and industries Airtel, Idea, Vodafone, Reliance Jio having 62k, 25k, 30k, and 70k respectively 3G cell sites that infrastructure may help payment bank system to reach across pan India and for seamless payment system. Mobile companies in particular telecom operators have large distribution throughout India, even in rural locations that help people to convert the cash in virtual money and vice versa. Cholamandalam and NSDL also have 540 and 19 K branches across India that may help consumers to avail services through nearest point.

8.3 Popularity

Company like Paytm, Reliance and Fino Paytech have large number of popularity in terms of users and consumers Paytm is India's only successful online payment company having 100 million wallet users, Reliance earlier low cost mobile business have not forgotten and now Reliance Industry this time coming with Reliance Jio operator services across pan India to launch next generation 4G services. This few are the factor that help them to get through the licence of payment bank.

8.4 Technology

Technology is one of the measure that need to be achieve for successful payment bank model. Payment bank is not supposed to be a branchless model but connecting consumers or users through technology and encouraging virtual cash is one of the reason for setting up payment bank. Tech Mahindra earlier provided high end solution to the ICICI bank for the payment wallet. Paytm also currently totally driven on technology. Department of Posts still do not have that much of technology to work out with but with the help of available infra they have to connect all in to one to get successful payment bank model.

8.5 Past Experience

Consumer usually trust based on the what company had done earlier, in some cases some co-operative banks may held fraud to the people that may not happen again RBI might had scrutinize companies past track so such incidence don't happen again. Giving licence to the big companies like reliance and other top operator is one reason they have massive amount of money to put it into Payment bank business and are capable to run business efficiently. Fino Paytech has promised 300 Cr. Investment in business and planning to break even the amount in 3 years.

8.6 Wealth of company

According to RBI guidelines capital requirement to set up payment bank is minimum Rs. 100 crore. Wealth of the company should be stable so that they can provide service to the user for long time. Reliance Industry (70 billion), Cholamandalam (2000 lakhs), Tech Mahindra(22K crore), Vodafone(42K crore), Airtel(238 million), Aditya Birla(1.3 billion). It seem all approved company have great wealth to put money in Payment bank business and that also signs that how long company may stay into service or survive in market.

The companies that have been received "in-approval" licence seems to be suitable for this business. In some cases like Paytm(Vijay Shekhar Sharama), Finotech, Reliance, Airtel, Vodafone, and Idea(Aditya Birla Nuvu) connections are clear for the payment banks business. Paytm's wallet is already having more than 100million users and tied up with Uber and many other telecom operator to pay different bills like phone, DTH and electricity, e-commerce bills with some discount or offer given on it. But now once the payment banks operate you could earn interest on the money that you have stored in wallet and you can use that for small transactions. The above parameter might be measured before providing licence to the company from the applied 41 companies.

9 DISCUSSION & ANALYSIS OF FINANCIAL INCLUSION PROVIDED BY PAYMENT BANK:

Financial inclusion can be achieved with the help of three main structure of pyramid Financial Education, Financial Stability and Financial Inclusion. In India RBI continuous focusing on providing banking services and working toward financial inclusion objective from 2005 and results are improved. According to government of India census availability of banking services has been increased in rural areas from 30.1% to 54.4% from 2001 to 2011. CRISIL financial inclusion index increased from 35.4 to 40.1 from march 2009 to march 2011. All this figures shows improvement in financial inclusion [12]

Because of RBI's determined effort ever since 2005 number of schedule banking branches are increased from 67,697 in March 2006 to 1,02,343 in March 2013, in rural areas number of branch increased from 30,572 in March'06 to 37,953 March'13. With this total banks outlet in villages increased from 67,694 in March'10 to 2,68,454 in March'13. BSBD accounts, KCC issues, GCC issues and ATM network also grows rapidly [12]

Still there are issues/problems which is faced by the traditional banking system and giving approval to payment bank system may decreases issue/problems & increases in financial inclusion.

Few major issue faced by the traditional banking system are as follows:

9.1 Business correspondents:

- 1) Business correspondents are having problem in making enough income due low income customers with low volume transaction.
- 2) Business correspondents are having problem in getting the poor village, and they are not sufficiently compensated, to promote financial inclusion BCs have to be adequately incentivized.

9.2 Technology applicants:

- 1) ATM network: ATM Network in rural areas accounted for only 10.1% of total ATMs in the country as on March 31, 2013. Banks should enhance their ATM network in rural and un-banked areas to serve poor villagers.
- 2) Mobile banking: In rural India, there are 563 million mobile subscribers as on 30 Jun 2015 [31]. To examine the options/ alternatives, including the feasibility of using encrypted SMS based funds transfer using an application that can run on any type of handset for expansion of mobile banking in the country, RBI constituted a committee.
- 3) Technology service providers: There are a number of issues involving TSP through banks

9.3 Basic Saving Bank Deposit (BSBD) accounts:

- 1) It is understood that nearly half of the Basic Saving Bank Deposit accounts are inactive. Economic activity needs to be improved for effective use of BSBD accounts.

9.4 Human resources at Banking:

- 1) Banks need to initiate training programmes to their employee and frontline officer, staff and managers because they have to deal with poor village people which don't know anything about banking system and each employee must know about local language to communicate effectively with them.

9.5 Infrastructure development:

- 1) To increase financial inclusion, suitable infrastructure such as digital and physical connectivity, uninterrupted power supply etc. are required. In India out of six lakh villages in India, around 80,000 villages have no electricity and the constraints of electricity directly impact the working of banks[12].
- 2) One of the major reason behind including private sector industry into banking system is that they help in solving above issue as they have large customer penetration, Technology supportive and high market wealth. It's important to remember that RBI has said it will use the learning it gains from these first set of new payment banks to improve its process, and will give licence more regularly. With that in mind, it appears that licence have been given to some fairly different companies to see what approaches will be successful.
- 3) Payment banks can play crucial role in implementing government's different direct benefit transfer scheme to reach to the poor people directly or their accounts with other benefits like are healthcare, education and gas subsidies. This is the first time where RBI has given banking services licence to the private sector.

Payment banks are a good way of reaching the masses for the even the smallest of payment at the odd hours, which defiantly makes the payment systems viable for the masses. Another aspect of Indian system is that the masses majorly deal in cash and this system becomes the pseudo cash handling system and so it is digitally capturing even the smallest transactions. And this may be the way to be seamless for transaction and a first step for integrating the banking system and operators. Many facets of the new models will unfold as the system settles down. And for a country like India it definitely will change the velocity of money parameters which is topic for further exploration.

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