



# A PROMISING NEW APPROACH TO FINANCIAL INCLUSION THROUGH PAYMENTS BANKS IN INDIA

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## ABSTRACT

*Among the various financial inclusion initiatives introduced by the government and the RBI over the years, Payment banks (PBs) were introduced by the RBI in 2014 to further the motive of financial inclusion in the unbanked areas across the country targeting the poor households, small businesses and migrant workers. The study is of descriptive nature and is analyzed using tables and charts. The paper discusses the importance of PBs in financial inclusion by comparing with the commercial banks and PPIs, and highlighted their contributions in financial inclusion. The paper also analyzed the achievements of PBs in the cashless revolution by comparing with other entities providing the same type of services.*

**KEYWORDS:** Banking Services, Customers, Financial Inclusion, Online Transactions & Unbanked areas

## 1. INTRODUCTION

The government of India and the Reserve Bank of India (RBI) had introduced many initiatives in the recent years to promote financial inclusion in the country. Financial Inclusion has been 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 cost (RBI, 2008). (Sarma, 2008) defined Financial Inclusion as a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. (Aggarwal & Klapper, 2013) defined Financial Inclusion as the ownership and use of a checking or savings account at a formal financial institution such as commercial bank, microfinance institution, credit union, cooperative or post office.

Majority of the financially excluded population are from the rural areas where they have no access to any formal financial institutions. So, the RBI in 2014 introduced a new type of bank called Payments Banks (PBs) which will cater to the unbanked areas including the poor households, small businesses and migrant workers who were ignored by the formal financial institutions. A PB is a differentiated bank which combines the features of a PPI model and commercial banks but with no credit facilities. It is like any other bank but operating on a smaller scale with a maximum deposit limit of up to Rs. 2 lakh per individual customer (RBI, 2014). The deposit limit was set at Rs.1 lakh initially but raised to Rs. 2 lakh in 2021 (Motiani, 2021). PBs will fill the gap where the traditional banks failed to penetrate due to their profit motives.

The present study attempts to highlight the importance of PBs in the financial inclusion drive. The paper also presents a brief picture of the achievements of the active PBs and the contributions made so far in the financial inclusion of the country. The rest of the sections are structured as follows. Section 2 will present the literatures available related to my study. Section 3 includes the objectives of the study. Section 4 will explain the Research Methodology for the study. In section 5, the Data Analysis and discussions will be presented. Section 6 will conclude the study.

## 2. REVIEW OF LITERATURES

### 2.1. Evolution of Payment banks

Taking into account the success stories of other countries like Kenya (Vyas et. al., 2016), EU, Japan, Brazil, South Africa, etc., in allowing non-banks participation in the payment mechanism and the need of an innovative approach to develop financial inclusion in the country, the RBI formed a committee on 23 September 2013 which was headed by Nachiket Mor to devise a good strategy on financial inclusion. The Committee recommended the formation of a new type of bank called Payment bank which will have all the features of a PPI model and in addition, provide the basic banking services similar to a commercial bank (RBI, 2014). The Committee submitted its report on 7 January, 2014.

On 27 November 2014, the RBI released the final guidelines for PBs. The minimum capital requirement to open up a payments bank is INR 100 crore. The RBI would grant full licenses under section 22 of the Banking Regulation Act, 1949, if the conditions laid down are fulfilled. On 19 August



2015, the RBI gave ‘in-principle’ license to 11 entities to launch PB out of 41 applicants (RBI, 2014).

**2.2. The Active Payment Banks at Present**

Out of the 11 licensed players, 5 of them had surrendered their licenses. Cholamandalam Distribution Services, Sun Pharmaceuticals and Tech Mahindra have surrendered their licenses even before starting their operations owing to doubts of profitability due to the stringent regulations by the RBI (Bhakta, 2016). On July 15, 2019 Vodafone M-Pesa had shut shop due to regulatory curbs and stress in the sector (Kurup, 2019). Aditya Birla also discontinued their services from July 28, 2020 due to unanticipated developments in the business landscape which have made the economic model unviable (PTI, 2020). There are 6 active PBs currently which are Airtel PB, FINO PB, India Post PB, Paytm PB, NSDL PB and Jio PB.

Taking the cases of other countries where non-banks participation in the payment mechanism were quite successful (Goel & Manrai, 2016; Sakpal & Soni, 2019; Vyas et. al., 2016) and considering the various drawbacks of the PPI model (RBI, 2014), the RBI had introduced PBs where large customer-based non-bank companies were given licenses to fulfil the purpose of financial inclusion in the country. The main advantages of these PBs over the traditional banks are the higher interest rates on savings deposits offered, no minimum balance maintenance requirements, ease of opening bank accounts and providing banking services through their outlets which are available in nearby stores in every localities (Shivnani & Siwach, 2017). The customers can also open accounts and avail all the banking services of these banks through their mobile phones without having to go out from their homes (Sidkar & Kumar, 2017).

Despite the various benefits and prospects available for PBs to thrive in the financial inclusion drive, there are also many challenges faced by these niche banks. The regulatory frameworks and the stringent guidelines imposed by the RBI

**5. ANALYSIS OF DATA**

**5.1. Importance of Payments banks**

**Table 1: Comparison between PBs, commercial banks and PPIs**

| Mode of Comparison          | PBs   | Commercial banks  | PPIs   |
|-----------------------------|---|---|--|
| <b>Services Provided</b>    | Saving A/Cs, Current A/Cs, withdrawals, online purchases, transactions, PPIs, bill payments through their online apps or nearby local stores and third-party products through their partner banks | Deposits, Loans, withdrawals, Investments, PPIs, Insurance and Pension products, online transactions through net banking or apps of the particular banks etc. | Purchases of goods and services through cards or digital wallets, withdrawals and transactions.  |
| <b>Deposits</b>             | PBs allows deposits of up to Rs. 2 lakh per individual customer.  | Commercial banks have no limit on deposits.   | The maximum amount that can be stored in a prepaid card is up to Rs. 50,000. However, the amount that can be stored also varies depending on the type of PPIs. |
| <b>Interest on deposits</b> | Pays interest on deposits.  | Pays interest on deposits.  | Does not pay interest on deposits.   |
| <b>Loans</b>                | PBs are restricted from providing credit cards and loans.   | Provides loans and credit cards.  | No loans are provided.   |

on PBs, the large investments required to grow the business and the nature of the business model makes it difficult for the PBs to survive and compete with other financial institutions (Goel & Manrai, 2016; Pramani & Iyer, 2022; Sakpal & Soni, 2019). In fact, there are still many unbanked people who are unaware of the services or reluctant to adopt the services provided by PBs due to low awareness level, low education, low income, trust issues and availability of low-cost alternatives (Kuriakose & Johnson, 2021; Pramani & Iyer, 2022).

The study attempts to highlight its importance, contributions and achievements made so far in the financial inclusion drive. The study also attempts to give some suggestions on how to improve the system to further thrive in the field which will be helpful for the policy makers and executives of PBs.

**3. OBJECTIVES OF THE STUDY**

The objectives of the study are:

- I. To highlight the importance of PBs in the financial inclusion drive of the country.
- II. To present a brief picture of the contributions made by the PBs in financial inclusion.
- III. To analyse the achievements made so far by the PBs in the cashless revolution with regard to financial inclusion of the country.

**4. RESEARCH METHODOLOGY**

The data have been collected from various secondary sources like Journals, Company Websites of the PBs, newspaper articles and RBI website related to the subject of the study. The study uses quantitative data and is analyzed using charts and tables. Data have been collected with regards to 6 active PBs. The analyses of data are grouped under three main heads- Importance, contributions and achievements of payments banks in financial inclusion.



|                 |                                   |                                |  |
|-----------------|-----------------------------------|--------------------------------|--|
| <b>Examples</b> | Airtel PB, Fino PB, PayTm PB etc. | SBI, HDFC, Bank of Baroda etc. | PhonePe, Amazon Pay, Oxigen etc. are non-bank PPIs. Banks issuing PPIs includes Airtel PB (e.g., Airtel money wallet), Paytm PB (e.g., paytm food wallet), HDFC bank (HDFC prepaid cards) etc. |
|-----------------|-----------------------------------|--------------------------------|--|

Source: RBI website

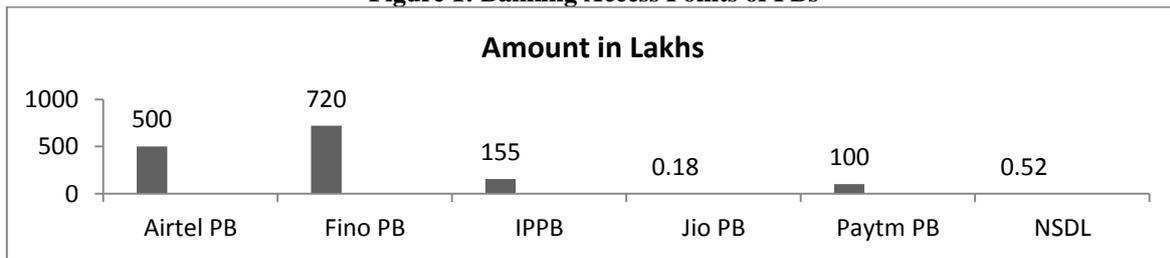
PBs provides all the services given by the commercial banks and PPIs. Interests are paid on the deposits unlike the PPIs. PBs does not provide credit services or loans unlike the commercial banks. So, PBs are a mixed model of the PPIs and commercial banks which sets it apart from other financial intermediaries. These banks can also partner with other traditional banks to provide third-party services such as mutual funds, pension and insurance products, sweep account facilities etc. These banks can act as business correspondents for the commercial banks. What sets PBs apart from PPIs and commercial banks is that PBs has outlets in almost every store in the local areas where formal banks are not available. Customers can avail basic banking services from the local

stores or through their mobile phones without having to travel to a bank.

A Commercial bank provides all the services of deposits, lending and interest payments but since it is a profit seeking entity, it fails to deliver the purpose of financial inclusion to the poor segments of the society. PPIs has so many drawbacks regarding KYC issues, customer authentication issues, non-payment of interest on deposits, contagion risk etc. So, to ease the drawbacks and limitations of PPIs and penetrate the segments where the traditional banks ignored, PBs were introduced to fill the gap.

### 5.2. Contributions of Payments banks in Financial Inclusion

Figure 1: Banking Access Points of PBs

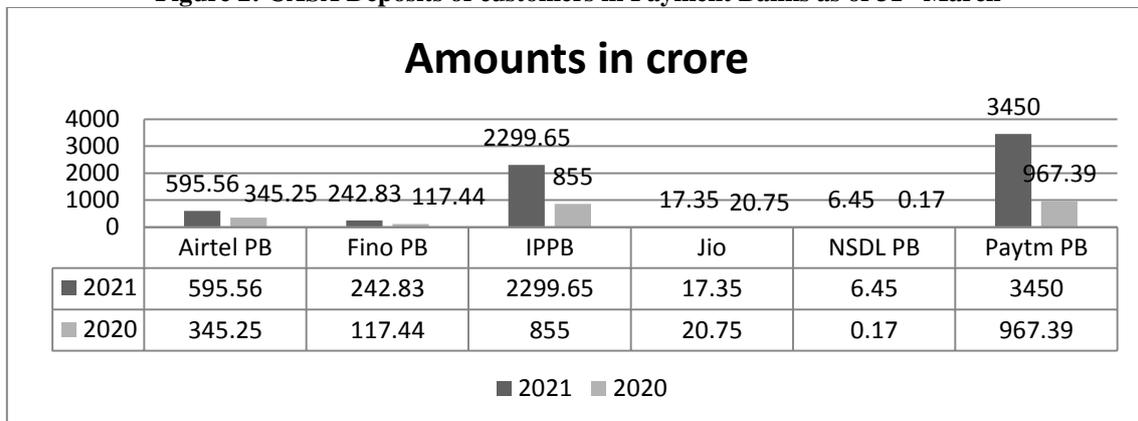


Source: Websites of the PBs

Banking access points are any places where transactions or basic banking services can be availed either through agent outlets or branches of the PBs. Fino PB has the largest banking access points which are 720 lakhs followed by Airtel PB which has 500 lakh banking points. Jio PB and NSDL PB

have the lowest banking points as compared to their rivals which are 0.18 lakh and 0.52 lakh respectively. In addition to 155 lakh banking points in the post offices across the country, IPPB also has 1.9 lakh Postmen and GDS who enables doorstep banking to the customers.

Figure 2: CASA Deposits of customers in Payment Banks as of 31<sup>st</sup> March

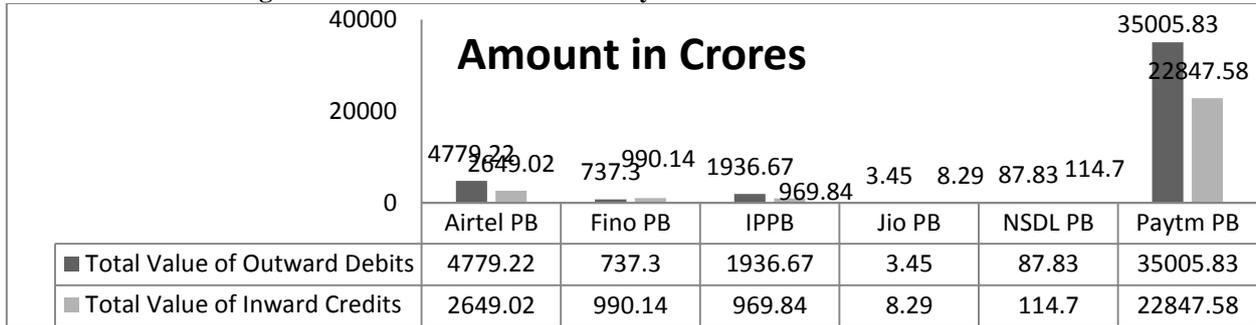


Source: Annual reports of the PBs, RBI Data Releases

Figure 2 shows the CASA (Current Account Savings Account) deposits of PBs by the customers for the FY2021 and FY2020. Paytm PB records the highest CASA deposits of

customers in both the financial years of 2020 and 2021 which was followed by IPPB and Airtel PB respectively.

**Figure 3: NEFT Transactions of Payment Banks as of December 2022**

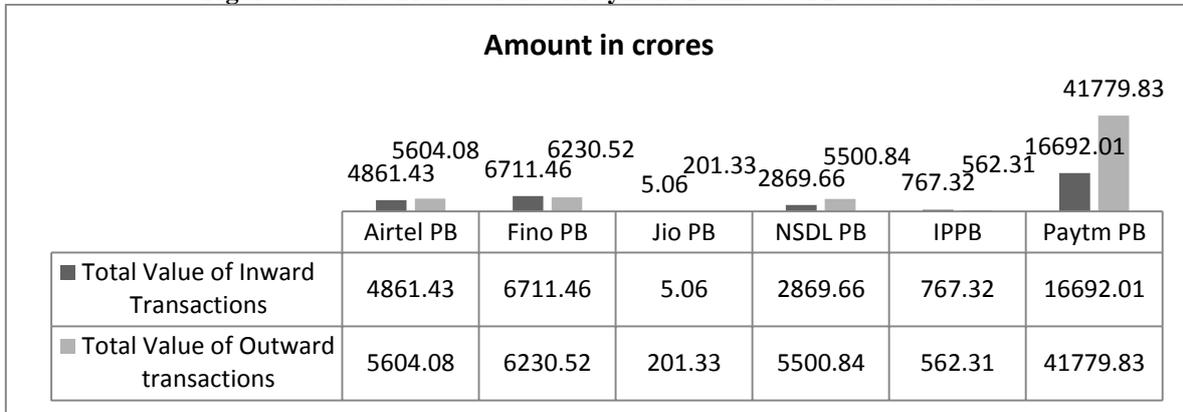


Source: RBI Data Releases

Paytm has the highest value of both inward and outward NEFT transactions which stands at Rs. 22847.58 crore and Rs. 35005.83 crore respectively. Jio PB has the lowest NEFT transactions with an outward debit of Rs. 3.45 crore and an

inward credit of Rs. 8.29 crore. Though Jio PB has not yet launched debit cards for its customers, it provides platform for transaction through its online Jio payments bank app for NEFT and RTGS transactions.

**Figure 4: RTGS Transactions of Payment Banks as of December 2022**



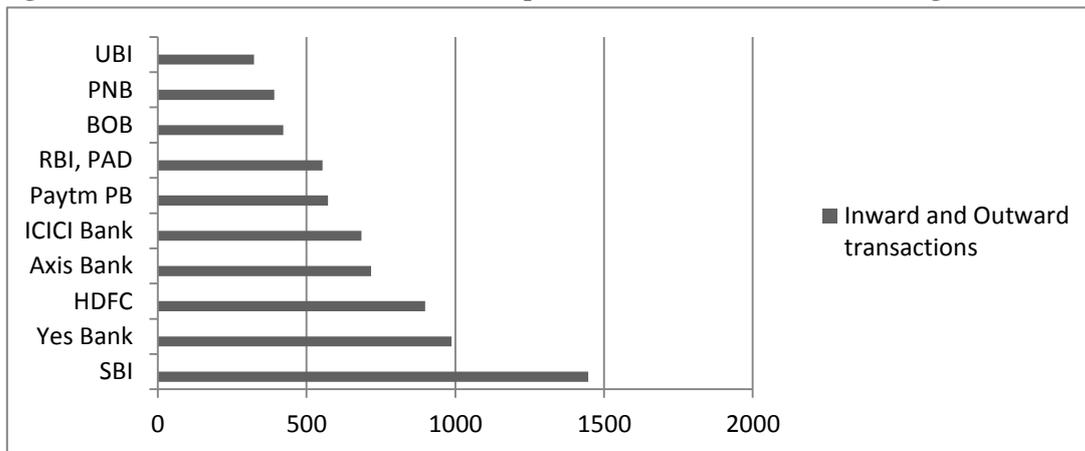
Source: RBI Data Releases

Paytm PB has the highest value of RTGS transactions with an inward of Rs.16692.01 crore and an outward of Rs. 41779.83 crore. Jio PB has the lowest transaction value in inward and

outward RTGS transactions which are Rs. 5.06 crore and Rs. 201.33 crore respectively.

**5.3. Achievements of Payments banks in Financial Inclusion**

**Figure 5: Volumes of NEFT transactions of top 10 banks as of December 2022 (Figures in Lakhs)**

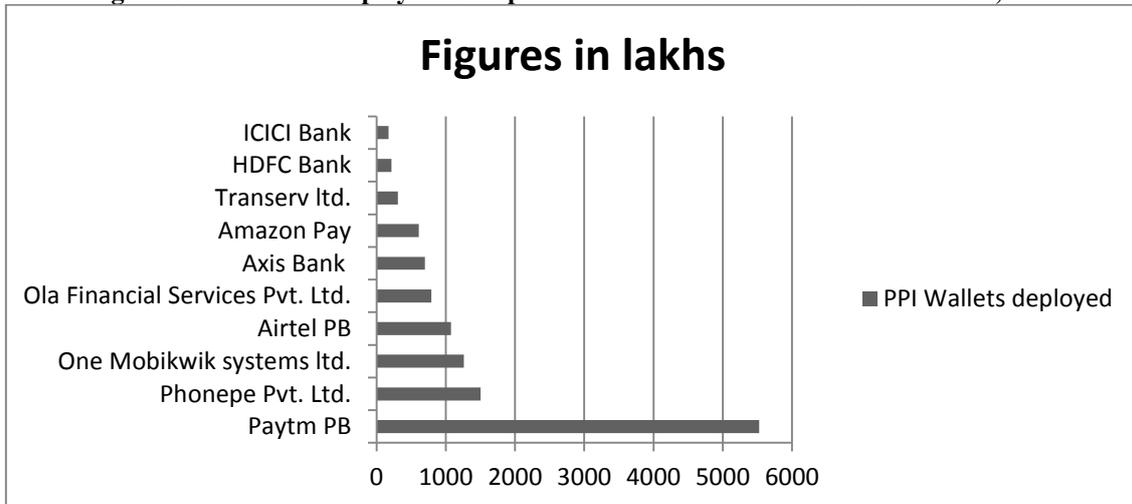


Source: RBI Data Releases

Among the top 10 banks in volumes of NEFT transactions, Paytm PB ranks 6<sup>th</sup> from among the banks that facilitate NEFT transactions with 572.19 lakh volumes of outward and inward

NEFT transactions. This ranking is done among a total of 229 banks that supports NEFT transactions.

**Figure 6: PPI wallets deployed for top10 entities that issue PPIs as of December, 2022**

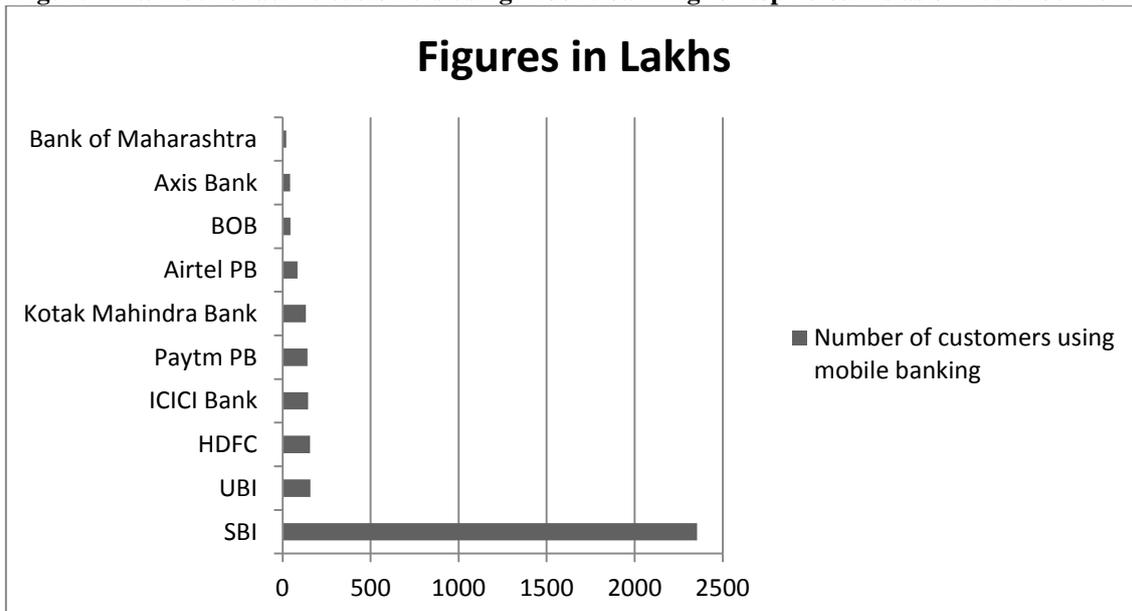


Source: RBI Data Releases

Out of 75 entities that issue PPIs, Paytm PB deployed the highest number of PPI wallets which is 5523.95 lakhs wallets

as of December, 2022. Airtel PB ranks 4<sup>th</sup> among the highest number of PPI wallets deployed.

**Figure 7: Number of active customers using Mobile banking for top 10 banks as of December 2022**



Source: RBI Data Releases

Out of 483 banks, the top 10 banks which have the highest number of customers using mobile banking are presented in figure 7. Paytm PB ranks 5<sup>th</sup> while Airtel PB ranks 7<sup>th</sup> from among the banks which provide mobile banking facilities.

## 6. CONCLUSION

Payment banks (PBs) are still in their developing stages as their operations started only few years ago. It will take some few more years for these PBs to recover from the expenses as these banks are prohibited from lending and they can earn only through service charges and by selling third-party products. The study was done on the 6 active PBs to present a brief scenario of financial inclusion through PBs. The analyses of data are done under three major heads viz., Importance, contributions and achievements of PBs in financial inclusion.

PBs has come a long way since its introduction in 2014 by the RBI. These banks have contributed tremendously in the financial inclusion drive in terms of savings, online transactions, utility bill payments etc. and most importantly, in the cashless revolution. The PB model is a great initiative to ease the banking experiences of the unbanked areas and it could achieve more if the rules laid down for these banks are eased and modified to meet their demands rather than shifting them into small finance banks. Most of the PBs are planning to shift to small finance banks due to the tight regulations imposed by the RBI, the low scope of earnings and the excessive expenditures required to run the businesses. It is time for the regulators to rethink and ease the regulations so that the intended purpose of PBs will be met. For the PBs to



thrive and survive in this competitive industry, the RBI should increase the deposit limit cap up to the demanded amount of Rs. 5 lakh per individual. The executives of the PBs should also focus on the remote areas where formal banks are not available instead of the urban and semi-urban areas where formal banks are available to fulfil the intended purpose of introducing these banks.

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