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ANALYSIS**

TOPIC

**Need for new business models
for Payments Banks**

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NEED FOR NEW BUSINESS MODELS FOR PAYMENTS BANKS

In Context

The RBI's recent supervisory action on Paytm Payments Bank has sent ripples across fintechs

- The latest move was after an audit report had revealed "persistent non-compliances with regulatory guidelines and continued material supervisory concerns in the bank".

About Payments banks

- Payments banks as a category of banks were introduced in **2015** by RBI, to bridge the gap between traditional banking services and the unbanked population, particularly in rural areas.
- These banks were envisioned to leverage technology to offer basic banking services, focusing on financial inclusion and digital transactions.
- According to the rules of the payment banks, these cannot lend any money and can accept deposits only up to Rs 2,00,000.

Scenario In India

- India has been having a fantastic journey on mobile payments over the last decade.
- It started off with IMPS (Instant Mobile Payment System) by NPCI during 2010.
- Launch of UPI in 2015 took mobile payments to a global scale.

Importance

- Payment Banks would play an important role in bringing the unbanked masses into the realm of general banking.
 - ◆ Because it is not feasible or economical for banks to open branches in many areas.
- Payment banks can also play a **crucial role in implementing the government's** direct benefit transfer scheme, where subsidies on healthcare, education and gas are paid directly to beneficiaries' accounts.
- The payment banks through the mobile phones will be promising a low cost platform for providing basic banking transactions, particularly; payment for services and subsidies.
- It accelerates formalisation of the informal economy besides deepening financial inclusion for credit and insurance.

Challenges faced by Payments Banks

- **Operational** : Payment banks are not allowed to lend and they may only distribute and collect loans online in partnership with other regulated lenders.
 - ◆ They just **cannot generate enough revenues** and prosper merely on the revenues from payment services .
 - ◆ Most of the payment banks are **struggling to be profitable**.
- **Competition with existing players** : As **banks already have infrastructure** for mobile banking in place with low cost remittance alternatives, payment banks on the other hand find it difficult as they would have to start establishing everything from scratch.
 - ◆ The success of UPI and launch of AEPS (Aadhaar Enabled Payment systems) had disrupted the payment ecosystem .
- **Awareness issues: Most of the population in India** vastly resides in **rural and semi- urban areas** who are mostly less educated with limited knowledge of using technology and literacy constraints for availing services.
- The other issue relates to its **governance structure** and related party-transactions
 - ◆ There is irregularity in digital infrastructure.

Conclusion and Way Forward

- India is an emerging growing market where the usage of smartphones is rapidly increasing and here Payment Banks can play an important role in emphasizing the growth of **financial inclusion** and tapping all the corners of the country progressively.

- It is also expected to accelerate India's journey into a cashless economy.
- People should be encouraged to join the digital economy by migrating cash-based customers into digital networks .
- The Reserve Bank expects payment banks to target India's migrant labourers, low-income households and small businesses, offering savings accounts and remittance services with a low transaction cost.
 - ♦ It hopes payments banks will enable poorer citizens who transact only in cash to take their first step into formal banking.
- The RBI needs to design a new framework for payment banks and there is also a need to look at issues and challenges of payments banks in general and explore the way forward.

Mains Practice Question

Payments banks are a step in the right direction to bring India's unbanked and underserved segments into the formal finance structure. Comment on this statement .

