

New Players of Indian Banking Industry–Small Finance Bank, Universal Bank Payment Bank

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Abstract—The banking system in an economy is analogous to the heart in the human body structure and the capital it provides can be linked to blood that circulates in it. As long as blood remains in circulation, all the organs in the body will remain sound and healthy. If blood is not adequately supplied to any organ or part of the body, then the part will be starved of nutrients and oxygen and will become useless and effect whole body similarity if finance is not provided to any economic sector, it will suffer and that sector will eventually fail and effect whole economy however, the ability to provide the relevant financing is dependent on the ability of the "Banks" to mobilize adequate amount of deposits in the economy and will be able to remain successful and meet the credit needy of the economy. As the majority of the rural population is still not included in the growth that's why India is still developing Country not develop for the development RBI and Indian government Introduce financial Inclusion but the Impact of there did not yet yield satisfactory result. To get financial Inclusion's result RBI and Indian Government present a set of new players of Indian Banking Industry. This is for the first time in the history of India's banking sector that RBI is giving out differentiated licenses for specific activities. RBI is expected to come out with a second set of such licenses – for small finance banks and Payment banks the process for those is in its final stage. The move is seen as a major step in pushing financial inclusion in our country. It's a step to redefine banking in India. The RBI expects payment banks to target India's migrant laborers, low income households and small businesses, offering savings accounts and remittance services with a low transaction cost. It hopes payments bank will enable poorer citizens who transaction only in cash to take their first step into formal banking. It could be uneconomical for traditional banks to open branches in every village but the mobile phones coverage is a promising low cost platform for quickly taking basic banking services to every rural citizen. The innovation is also expected to accelerate India's Journey into a cashless economy. India's domestic remittance market is estimated to be about Rs. 800-900 billion and growing, with money transfer made possible through mobile phones, a big chunk of it, especially that of the migrant labour, could shift to this new platform, 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. 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 bank etc. are contemplated to meet credit and remittance needs of small

businesses, unorganized sector, low income households, farmers and migrant work force.

These categories of new banks have important roles to play as India has a very large untapped market. New banks will complement the existing banking system and there will be opportunities for players to identify mutually beneficial partnerships. We will explore opportunities in this regard. All these initiative will contribute to higher economic growth, translating into additional growth for the Indian Banking sector

1. INTRODUCTION

The banking system in an economy is analogous to the heart in the human body structure and the capital it provides can be linked to blood that circulates in it. As long as blood remains in circulation, all the organs in the body will remain sound and healthy. If blood is not adequately supplied to any organ or part of the body, then the part will be starved of nutrients and oxygen and will become useless and effect whole body similarity if finance is not provided to any economic sector, it will suffer and that sector will eventually fail and effect whole economy however, the ability to provide the relevant financing is dependent on the ability of the "Banks" to mobilize adequate amount of deposits in the economy and will be able to remain successful and meet the credit needy of the economy. As the majority of the rural population is still not included in the growth that's why India is still developing Country not develop for the development RBI and Indian government Introduce financial Inclusion but the Impact of there did not yet yield satisfactory result. To get financial Inclusion's result RBI and Indian Government present a set of new players of Indian Banking Industry.

After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in private sector in the current financial year. RBI will create framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment bank etc, are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households famers and migrant work force RBI has received 72 application for small

finance banks and 41 for payment banks. The new differentiated banks permits come after the RBI last year selected 21 companies to operate two categories of niche banks payments banks and small finance banks to improve financial inclusion.

Payment Bank is a brain child of Nachiket Mor committee which was set up last year by RBI Payment banks means "Digital wallet or mobile currency" which can be used to book movie tickets, pay utility bills, do shopping etc". Doesn't it sound similar to PPI or what existing banks offer 2 but here is the difference, the payment banks could be supermarket chain, mobile service provides, non banking financial companies, post offices, agril dairy type cooperatives etc. Payment banks is based on the concept of PPI (Pre Paid Instrument) that is to load cash into mobile and use it to do various transactions such as transferring money using your mobile to another mobile phone holder or to another bank account or to point of sale terminals at large retailer and take out cash.

On 19th August, 2015 following is list of the players, who have received RBI's "In-Principle" nod as payment banks are :-

1. National Securities depository Limited (NSDL)
2. Reliance Industries
3. Aditya Birla Nuvo
4. Airtel M Commerce
5. Department of Posts
6. Fino Paytech
7. Tech Manindra
8. Vodafone m-pesa
9. Cholamandalam Distribution services
10. Paytm
11. Sun Pharma

Small finance banks are a types of niche banks in India Banks with a small finance bank license can provide basic banking services of acceptance of deposits and lending. The aim behind these to provide financial inclusion sections of the economy not being served by other banks, Such as small business units, small are marginal farmers, micro & small industries and unorganised sector entities.

The 10 entities that received the nod for small banks include,

1. Au Financiers (Jaipur)
2. Capital Local Area Bank (Jalandhar)
3. Disha Microfin (Ahmedabad)
4. Equitas Holdings (Chennai)
5. ESAF Microfinance and investments (Chennai)
6. Janalakshmi Financial Services (Bengaluru)
7. RGVN (Northeast)
8. Microfinance (Guwahati)
9. Suryoday Micro Finance (Navi Mumbai)
10. Ujjivan Financial Services (Bengaluru) (Uttakashi)

2. REVIEW OF LITERATURE

In order to expedite financial inclusion, Finance Minister Arun Jaitley in his last budget speech (July,2014) had said " RBI will create a framework for licensing Payments Banks / Small Banks and other differentiated banks. These local area banks, payment banks and Small Banks are expected to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force."

RBI Governor Raghuram Rajan said "new payments banks would not pose any competitive threat to the existing banks and these new entities would rather serve as 'feeder' for the universal banks. The small finance banks can provide basic banking services like accepting deposits and lending to the unbanked sections such as small farmers, micro business enterprises, micro and small industries and unorganised sector entities. The payments banks would be allowed to provide payments and remittance services, but can not issue credit cards or accept deposits beyond Rs 1 lakh. They can issue ATM and debit cards and also distribute mutual fund and insurance products. introduction of Payments Banks will revolutionise banking, make it very exciting for customers and existing lenders will have to improve service to retain depositors."

Co-founder and chairman of Exfinity venture capital fund Balakrishnan said "Technology is changing all the industries and we believe that banking industry is also ripe to take part in this technology transformation. The idea is to start a technology-driven bank with less physical branches and people. It will be similar like virtual bank but with much lesser physical touch points. We want to really make a differentiation in the banking industry; that's the idea"

Rajashekara V Maiya said "The broad-basing of banking services in India received a shot in the arm from the Committee on Comprehensive Financial Services for Small Business and Low Income Households, which recommended the creation of Small Finance and Payment Banks as a formal banking delivery arm targeted at the underserved. A quick definition: Small Finance Banks come with obligations of rural branch presence, priority lending targets and minimum paid up capital, but may take deposits and give loans, whereas Payment

Banks, which aren't subject to these conditions, are allowed mainly to participate in payment transactions"

In a U-turn from her earlier stated position on the entry of payments banks, SBI chief Arundhati Bhattacharya on Tuesday said" there is nothing negative about them and there is a huge opportunity for the entire banking system. I want to very clearly say that there is nothing to be negative about the payments banks. Because whenever you have challenge, the other side of coin is an opportunity. And I think if we don't realise it then nobody else would do so, With this new competition, I think there is a huge opportunity out there for

the entire banking sector. And this opportunity is for us to take"

3. CONCLUSION

Inclusion of both payment banks and small finance bank will mark biggest revolution after the nationalization of banks in the Indian banking section. It will make banking more competitive and more inclusive for both borrowers and depositors thus making

The move of giving licenses to payment banks and small financial banks will be the major step towards pushing financial inclusion in the country. The main target for payment banks and small finance banks will be small businesses and low-income household by providing them financial services at low transaction cost. It is uneconomical for banks to open branches in every village, but with mobile phones which have wider penetration can provide low-cost platform for taking banking services to every citizen. It will include people who mainly transact in cash to take their first step into banking system and also accelerate India's journey as a cashless economy. Of the two sets of new, differentiated banks, payment banks are probably going to do more in the initial stages, since they can dramatically increase the reach of banking by using mobile-based technology. And the biggest players in this game are all well-funded and credible. Payment bank and small finance bank are an innovative model of bringing unbanked population into the formal banking fold. All the new licence holders, would make financial services accessible for this innovative route. Need for payment banks erupted because India has around 94 crores Mobil subscribers which is approx 75% of the population of 125 crores but if we see the numbers of bank accounts this figure comes down to 60 crores only this is around 50% of the population. Most of the unbanked people lives in the rural area and poor people or small business man, so from financial inclusion point of view these new banks seems to be sound concept. For customers, the real attraction will not be higher interest rates, but the convenience of carrying out banking transactions at fingertips. Also, as payment banks will mainly have government as a borrower, there is very less chances of defaults. Government is also get benefitted as a borrower, as payment banks will expand access to cheap funds. As payment banks can only invest in short-term government bonds, government can borrow more at cheap rates.

We can also eliminate black money from large part of financial system by reducing cash transaction and encouraging people for use of e-money. This is achievable within 5-10 years with investment in financial literacy and educating rural citizens,

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