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Payment Banks and Its Role in Indian Banking Sector and its Impact Study on Traditional Banking in India

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ABSTRACT

Any contemporary economy's backbone is the banking industry. It is one of the most crucial financial pillars of the financial system, and it has a significant impact on an economy's success or failure. The paper focuses on the study which implies the impact of payment banks on the traditional banks. The data for the study is gathered from the secondary data like journals, websites. The paper talks about the services, benefits, activities and the challenges faced by the payment banks. It is found that in various ways payment banks have affected the working of the traditional banks. Whereas Payment Banks is a key value proposition and would be really a game change in Indian Banking System.

Keywords: *Payment Banks, Traditional Banks, financial inclusion.*

I. INTRODUCTION

Payments Bank was established in response to the Nachiket Mor Committee's suggestions to function on a smaller scale with little credit risk. The major objective of it is to promote financial inclusion by providing banking services and financial services to the underbanked and unbanked areas, as well as to assist migrant workers, small businesses and low-income households.

Payment banks are incorporated under the Companies Act of 2013, but are subject to a slew of laws, including the Banking Regulation Act of 1949, the RBI Act of 1934, the Payment and Settlement Systems Act of 2007 and the Foreign Exchange Management Act of 1999. Fino, Airtel Payment Bank, Paytm Payment Bank, Jio Payment Bank, India Post Payment Bank, NSDL Payment Bank, and are the six payment banks currently operating in India.

(A) Services offered by payments bank:

- They are allowed to accept deposits of up to Rs 2,000,000. It accepts demand deposits

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such as savings and current accounts.

- Only in the form of Statutory Liquidity Ratios may the money received as deposits are invested in safe government securities (SLR). It must be at least 75% of the amount in the demand deposit. The remaining 25% will be placed on a regular basis in time deposits with other commercial banks. Personal payments and cross-border transfers will be allowed on current accounts by payment banks.
- It is able to provide debit cards to customers.

(B) Some activities that Payments banks cannot be functioned are:

- Payment banks are granted a 'differentiated bank' license by the RBI, which prevents them from lending.
- It does not take time deposits or deposits from non-resident Indians.
- It is unable to establish subsidiaries to engage in non-banking financial operations

(C) Challenges faced by Payments Bank:

- Lack of public information about how to use these services.
- There aren't enough incentives for agents to participate in the activities.
- Operational resources and infrastructure are lacking.
- Obstacles of technology

(D) Expected benefits of Payment Banks:

- Because practically all transactions would be digital, it will aid in combating the problem of counterfeit currency.
- Because there would be less money in circulation and most transactions will take place online, the government will be able to keep track of black money.
- Payment banks will guarantee that more money enters the banking system and that consumers in outlying areas are served. As a result, larger financial inclusion rates are possible.
- Payment banks will provide zero-balance savings accounts as well as other banking services at exceptionally cheap rates.

II. TRADITIONAL BANKING

Banking has been an outmoded sector for a very long time. Given that banks have existed for hundreds of years, this seems obvious. Traditional banking refers to banks with a physical presence and a domestic banking license in the United Nation.

Banks, in particular, provide deposit accounts, which are safe places for consumers to put their money. Banks lend money from deposit accounts to other persons or businesses. In exchange, the bank receives interest payments from borrowers on those loans. These include well-known financial institutions such as ING, Bank of America, and Banco Santander, to name a few.

It includes both benefits and its disadvantages.

(A) Benefits:

- Having the ability to stroll into a local branch and chat with a live person;
- Generally regarded as safe;
- Positive influence on client and supplier perceptions;
- Service tailored to your needs;
- Cash payments and withdrawals are easier to manage;
- There are more financial items to choose from.

(B) Disadvantages:

- Accessibility is restricted (KYC/AML standards are more stringent). Certain conventional banks are risk-averse;
- some nations are unable to do business with them;
- Online banking may be obsolete;
- account opening may take longer;
- banking must take place during business hours;

Traditional banks have extended their virtual activity in recent years, it should be highlighted. Over the next ten years, banking will almost certainly be entirely digital. This means that, in the long term, opening a traditional bank account today might lead to a completely online banking solution from a reputable, top global bank. This makes the prospect of opening a traditional bank account in 2022 intriguing.

III. COMPARISON BETWEEN THE ROLES OF TRADITIONAL BANKS AND PAYMENT BANKS

Role / Responsibility	Traditional Banks	Payment Banks
Issue of Financial Products	All kinds of financial products are available.	Only risk-free such as insurance, would be given.
Money Remittances	Cost of transfer is higher.	NEFT, RTGS, IMPS available.
Bill Payment	Option to pay your utility bills online.	Option to pay utility bills online.
ATMs	Present	Present
Credit/ Debit Cards	All kinds of cards are issued	<ul style="list-style-type: none"> • Only Debit / ATM cards will be issued • No Credit
Loans	Its most important aspects.	Cannot lend loans.
Accounts	<ul style="list-style-type: none"> • Various types of accounts • To create an account, have a certain level of income. • Keep a certain balance amount. 	<ul style="list-style-type: none"> • Bank Accounts (Current and Savings) • no minimum income requirement • No need to keep a certain balance.

Deposits	Customer deposits up to Rs 1,000,000	Deposits are not restricted.
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Payments banks will allow impoverished persons who currently exclusively interact in cash to make their first foray into formal banking. Traditional banks may find it uneconomical to build branches in every hamlet, but mobile phone coverage offers a promising low-cost platform for swiftly bringing basic financial services to every rural population.

IV. DATA COLLECTION

This is an exploratory paper. The data is collected through the secondary data for the study. The secondary data includes journals, websites, government reports that have been published.

V. FINDINGS AND CONCLUSION

How payment banks will affect traditional banks-

- While, small and medium-sized public sector lenders may face considerable pressure and private sector banks may see little impact.
- However, the profits were short-lived in a depressed market, emphasizing their irrational character. Nonetheless, while the path ahead is fraught with uncertainty, the reality remains that the RBI's clearance for the beginning of the payment banks that would pave the way for financial inclusion through the use of a digital platform and the combination of branches.
- What will happen to universal banks as a result of this? Because private sector banks have already made significant investments in technology, the impact on them will be small.
- However, there may be an effect on medium-sized public sector banks and small banks since payment banks have an influence on additional deposit growth and market share, particularly in semi-urban and rural regions. The public sector banks are also facing a slowdown in their (CASA) current and savings account deposit share and a massive a slew of bad loans, both of which are impacting capacity to grow their profitability.
- India is only the place which is far from the technology equipped with financial applications is posing a threat to traditional institutions. In China, mobile applications have proliferated and begun to pose a challenge to the slow and inefficient traditional

banks, to the point that many clients have converted to directly mobile apps from cash transactions to banking.

The establishment of Payment Banks is a huge step forward in achieving the government's long-cherished goals of financial inclusion. Despite numerous worries and obstacles, these new differentiated banks, together with previously announced Payment Banks, represent a viable plan for deepening the financial inclusion drive. Whereas Payment Banks is a key value proposition and would be really a game change in Indian Banking System.

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