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A Study on Airtel Payment Bank a Step Towards Digital India

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Abstract: *Banks are the main source of development for any economy because every country's economy depends on their banking and financial system. In today's scenario banking system has become the backbone of modern business. Country's economic development depends upon the functioning of the country's banking system. Thus, banking sector has been modernized by adopting new technology and computerization to reach to each person of the country for providing banking facilities. More burden has been induced on commercial banks regarding the economic transactions and lending activities, due to which a committee of persons headed by Nachiket Mor was formed for providing finance to small business and low income households under the new concept of differentiated banks. Payment banks are one of its types.*

The Payment banks have been in operation from 19th August 2015 but still more people were not aware about these banks. So, Reserve Bank of India (RBI) decided to provide license to famous and efficient working companies which already have a huge platform of customers. A payment bank is a differentiated bank which will provide facility of deposit, transfer and savings but will not lend money. These Payment banks have been introduced to expand the financial inclusion targets. Under the payment banks plan Airtel payment bank came into operation on 13 January 2017. Airtel is one of the largest telecom service providers in India, which have customers of more than 580 million. So, for that purpose many operations have been undertaken. The motive of the study is to know how different the functioning of these payment banks from commercial bank and whether this banks will we accepted by public.

Keywords: Airte*l, Bank, Financial Inclusion, Payment, Digital, Accepted, License.*

1. INTRODUCTION

Indian commercial banks have been classified into scheduled and non-scheduled banks. Payment banks are categorised as scheduled banks under the section 42 (6) (a) of the RBI act 1934. RBI has provided license to payment banks under section 22 Banking Regulation Act 1949.

As it noticed large population of India is not availed with banking facilities due to geographical reach, regional disparities, lack of connection. So, with the motive of providing banking services and facilities for all areas which are not connected with banking facilities, payments banks were introduced. On 23rd September 2013, a committee was formed for solving the financial problems of small business firms and low income households, which was headed by Nachiket Mor, formed by RBI. On 4th January, 2014 the committee submitted the final report and the new concept of Payment banks was introduced. Payment banks are totally new concept of banking system. Payment banks are restricted to accept deposits up to INR 1 lakh till now and can increase further. Payment banks cannot issue credit cards as well as loans services. They can only issue services like ATM cards, debit cards, online banking, and mobile banking. Both current and savings account can be opened in payment banks. On February 2015 the RBI received list of 41 applicants. On 19th August 2015 the RBI gave license to 11 companies, which are Airtel M Commerce Services, Aditya Birla Nuvo, Cholamandalam Disrtibution Services, Department of Posts, FINO PayTech, National Securities Depository, Sun Pharmaceuticals, Reliance Industries, Paytm, Tech Mahindra and Vodafone Mobile Pesa (M-PESA), in which three companies Cholamandalam Disrtibution Services, Sun Pharmaceuticals and Tech Mahindra surrendered their license to RBI. But, in today's scenario only two companies are providing online payment facilities i.e. Airtel and Paytm. But, are the new payment banks a threat to the existing commercial banks in the country. The Reserve Bank of India gave "in-principle" license to 11 potential entities to launch payment banks. The idea of launching new stripped banks is to reach the customers of all over India through cell phones. They are technology driven and more advanced in comparison to old banks. They are not going to be the branches of the traditional branches.

1.1 The objectives of creating Payment Banks

i) The objective of creating payment banks is to meet the target of financial inclusion.

ii) These banks will be highly useful for low income households, migrant labourers, small businesses, and other unorganised sector entities.

iii) They will provide remittances/ payments services to low income groups.

iv) They will provide facilities of deposits, transfer and savings.

1.2 Functions of Payment Banks

i. The Payment banks will provide banking facilities to migrant labour workforce, low income households, small businesses, and unorganised sector entities.
ii. Payment banks can accept deposits from public with a limit of INR 1 lakh. They can issue ATM and debit cards.
iii. The Payment banks can sell financial products like insurance policies and mutual funds.
iv. Money collected from deposits can be either utilised either for investing in government bonds or depositing in other commercial banks.
v. The Payment banks have to be connected to every corner of the country; they should provide banking services to the remote unbanked areas where currently no bank branches exists.
vi. The Payment banks must be purely networked and technological driven.
vii. The Payment banks must have high powered customer care cell so that it can handle customer complaints.
viii. The Payment banks will provide forex services to customers at lower cost in comparison to other commercial banks.

1.3 Regulations for Payment Banks

i) The payment bank should be full networked and technology based from the date of its commencement.

ii) These banks must use the term "payment bank", so that they can be differentiated from commercial banks.

iii) These banks must be registered as public limited company under the Companies Act 2013.

iv) 25% of its branches must be in unbanked rural areas.

v) Under the strict notice of RBI the bank need to have a high powered 'Customer Grievance Cell' to handle customer complaints and concerns.

vi) The Minimum capital required for the payment banks must be INR 100 crore.

vii) For any acquisition of more than 5% will require approval from RBI.

viii) Except from promoters, other entities will not be allowed shareholding of more than 10%.

ix) The majority of bank's board of directors must be independent directors, which must be appointed by RBI's guidelines.

1.4 The following are the activities which cannot be performed by the payment banks:

i) Payment banks will not be able to provide loans to the customers.

ii) As they cannot lend money on credit to customers they can't issue credit cards.

1.5 How will Payment Banks perform its activities

Payment banks will carry on their operations through agent, vendor, mobile phones and web. Payment banks are stated with motive of providing banking services to each and every person of the country. The main motive is to provide banking facilities to rural people as they carry all their transaction in cash. In payment bank a person can open an account on the basis of unique mobile number. They can conduct a transaction or payment through internet or mobile app or through IVR/USSD gateway to registered merchant or user. The user of the account in payment bank can withdraw cash or deposit cash in their accounts through retail shop, vendors, agents or ATM which are registered under the payment bank service provider.

1.6 Challenges and Opportunities faced by the Payment Banks

Challenges:

The payment banks has given two aspects which will affect the Indian financial system i.e. first the initiative of financial inclusion by providing banking to all with help of digital banking infrastructure and second the FinTech culture in the Indian banking system. The following are the challenges which are to be faced by Payment Banks:

i) Selling of insurance and mutual funds: Generally the selling of securities is done by the regulatory authorities i.e. Insurance Regulatory and Development Authority (IRDA) and Securities and Exchange Board of India (SEBI). For reducing the chance of mis-selling they require certified and well trained employees. This will increase the expense of the banks to train them. And further it is difficult for the banks to take risk in this cross selling as there is difficulty in judging the ability of the borrower that whether he will pay the loan back.

ii) Restrictions in the payment model: The payment banks are restricted to offering service of deposit up to 1 lakh. The customer can't raise more funds in deposits. Further without any lending service it is a big challenge for the payment banks to earn money. They have decided to provide 7.25% interest on the saving accounts.

iii) Restrictions in the fund deployment: Payment banks have to mandate 75% investment in their CASA balances Statutory Liquidity Ratio in the government bonds or treasury bills. This is for the safety purpose but will restrict their ability to optimize treasury operations.

iv) Earning of profit without lending: The most challenging factor in the concept of payment bank is that if they will not lend money then how they will earn and run its operations. As they will not receive any loan interest or IRR like the other banks, it is difficult to make profit. Other commercial and scheduled banks earn 4-10% of loans on working capital and up to 30% on the business loans. Payment banks are not allowed to lend so they can only from government securities or cash withdrawals.

v) Threat of competition: Due to the effect of Digitisation commercial and scheduled sector banks have also adopted the banking services through mobile and web. The services of these banks are also provided through electronic transactions. The threat to the payment banks is that, the services which are going to be provided by them are also being provided by the other existing banks to its customers.

Opportunities:

i) Sheer size of the market: The part of the population in India lives in the villages. They are hardly aware regarding the modern banking concepts. According to the census report 2011, 833 million of the population lives in the rural area and 233 million populations is unbanked. So the major opportunity of payment bank is this area of population. Moreover it is set with the objective of financial inclusion and digitisation in banking sector.

ii) Simplification: Payment banks are likely to carry the banking services for all with simple ways. As it is difficult for the uneducated people to operate services in the mobile banking so they hesitate to use them. So payment banks have to come with simplifications in the services providing. They will render services through merchants who will transact the banking operation of customer's electronically i.e. Financial Technology (FinTech) technique.

2. PAYTM

Paytm received license to run payment bank by RBI in 2015. Paytm is intended to serve with the facilities like issuing debit accounts, savings accounts, online banking and transfers, to enable a cashless economy.

3. AIRTEL PAYMENT BANK (APB)

Indian Finance Minister formerly launched Airtel Payment Bank Ltd. on 13 January 2017. Airtel payment bank is the first payment bank to go live in the country. Its first working operation was held in Rajasthan. APB Ltd. is the

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subsidiary of the Bharti Airtel Limited ("Airtel") which is formed by the collaboration with Kotak Mahindra Bank. Airtel is the largest telecom service provider in India. It has more than 580 million customers. Airtel payments bank has launched payment app on both android and mobile phones. The bank has launched card with collaboration with Master Card. Airtel payment bank is the first payment bank to start its operations. Airtel payment banks are fully digital and paperless banks. The main motive of Airtel payment bank is to fulfil the aim of financial inclusion and banking for all. Airtel payment banks are started with the objective to take banking services to all the unbanked areas in India in quick, efficient and effective way. Airtel Payment banks went alive with 250000 banking points. Airtel payment banks offer only one bank account to the customers. The users of Airtel can open and operate the bank account. In Airtel payment banks is through Internet Banking, mobile app or through small shops that are aligned with this payment bank. This is been a process towards digitalisation- Digital India. Airtel Payment Bank is fully with the vision of the Government's plan of financial inclusion and banking operations for whole country. The objective of this payment bank is to reach every corner of the state in the vision of Digital India and Financial Inclusion.

3.1 Key features of Airtel Payment Bank

i) Digital Banking: Airtel payment bank allows quick and paperless account opening using Aadhaar based E-KYC (Electronic-Know Your Customer). A customer's Aadhaar number is required and no other document is required.

ii) Free Talk time: Airtel provide one minute of talk time with every one rupee of deposit while opening an account.

iii) Account No.: Customer's Airtel mobile number will be his/her bank account number.

iv) Interest Rate: Airtel provides interest rate of 7.25% p.a. on deposits in savings accounts, the highest rate of interest in India.

v) Money Transfer: Airtel payment banks allow free money transfer from Airtel to Airtel numbers within any bank account in India.

3.2 Advantages of Airtel Payment Bank

i) Personal Accidental Insurance of Rs. 1 lakh with every savings account.

ii) Wide Network: Airtel payment bank provides easy deposits and withdrawal facility across a wide network of Airtel retail outlets.

iii) Banking Points for cash deposits/withdrawals: For encouraging people to deposit money in Airtel Payment banks, Airtel has announced new offer in which Airtel will provide free talk time on their Airtel number with deposit/withdrawal of one rupee in their account.

iv) Interest Rate: Airtel payment bank is offering interest rate of 7.25% on their savings account to all the people, which is highest rate of interest compared to other banks.

v) Transaction limit: Airtel payment bank allows the user to transact amount up to 1 lakh, while other payment apps have the limit up to Rs. 20000.

vi) Free talk time: As discussed earlier, Airtel payment bank provides free talk time of one minute for every one rupee of deposit and withdrawal of money.

vii) Accidental insurance: Another benefit of Airtel payment bank is that it offers accidental insurance of Rs. 1 lakh, while other payment apps do not provide this facility.

viii) Works on all handsets: Airtel payment banks collaborate with all set of handsets i.e. android or simple handset. While other payment banks does not provide facilities on all handsets.

ix) O.T.P. based secure transactions: The transactions are secure and consist of two way verification process. The transaction done through Airtel payment banks are secure O.T.P. based.

3.3 How will Airtel Payment banks make profit

Payment banks have already came into existence with a platform of huge customers. This is said to be the inherent benefit to the payment banks. Now let's take the example of AIRTEL.

The Airtel has launched payment bank with the target of 2.5 lakh retail outlets which the pre-paid recharges all over the country to provide its banking services. These retail outlets will function as bank branch for the deposit and withdrawal of cash of customers. These retail outlets will be provided commission of 0.15% on every cash transaction. As said by the chairman of Bharti Airtel, Sunil Mittal that everyday about 25000 payment banks account are being opened and in the future it will increase to 1-2 lakh accounts. The plan of AIRTEL is to convert his all customers to payment bank customers. Airtel payment bank is offering many benefits to its customer to attract them. They are offering 7.25% as interest on the savings bank account while it 4-6% in other commercial banks. They will not charge anything to the payment to merchants by the payment bank account.

But in the cash withdrawal they will charge 0.65% as fee. The Airtel payment bank has to invest 75% in the government securities with maturity of up to one year. They are going to provide mutual funds and insurance services. As they are providing loans they have no need keep reserves for the NPAs. They can also money from the huge amount of cash withdrawals. Further they will earn about 7.0% from the government securities.

3.4 Benefits of Airtel Payment Banks

Bharti Airtel has launched payment bank with a punch line of "Bank hai par alag hai" with providing the following benefits to the customers

i) In comparison to other banks Airtel payment bank offer 7.25% interest on savings bank account. This feature can attract number of customers from small sectors and rural areas.

ii) The bank also offers personal accidental insurance with every savings account. This is the feature of modern banking concept of BANKASSURANCE.

iii) This is a step towards digitisation that will connect the customers to the banking services. And it also offers talk time with every single deposit. For example- if the customer opens account in the Airtel payment bank by the deposit of Rs. 500 he will get talk time of 500 minutes, on his registered mobile number.

iv) As it a step towards demonetisation as it will lead to cashless economy. The banking services will be provided to the customers by the merchants through mobile phones.

v) The payment bank will not charge any processing fee neither to the customer nor to the merchant. This service is totally free.

4. OBJECTIVES OF THE STUDY

i) To study the functioning of payment banks is different from commercial banks.

ii) To study whether this payment banks can be disrupters to existing banks.

iii) To identify the various benefits, challenges and opportunities grab by the APB.

5. DIFFERENCE BETWEEN FUNCTIONING PAYMENT BANKS AND COMMERCIAL BANKS

Commercial banks can accepts all types of deposits such as savings, current, fixed deposits, recurring deposits etc. on the other hand Payment banks can take deposits only on current & savings account. Payment banks cannot give loans but can invest in General securities (as most of the depositors are poor people). So, there are various differences between Payment Banks and Commercial Banks, which are as follows:

Table 1: *Difference between functioning of Payment and Commercial Banks*

Basis of Difference	Payment Banks	Commercial Banks
1. Function of lending	The major difference of these banks is that payment banks cannot lend money on loans and credit.	While, commercial and public sector banks lend money on loans and credit.
2. Acceptance of deposits	Payment banks are restricted to accept deposits up to Rs. 1 lakh till date and may increase in future.	Commercial and public sector banks do not have such restriction in acceptance of deposits.
3. Issue of credit and debit cards	Payment banks can issue debit cards and ATM cards but cannot issue credit cards.	Commercial and public sector banks can issue ATM cards, debit cards and credit cards.

4. Interest on saving account	Payment bank provides 7.25% interest on saving bank account.	While commercial banks provide 4-6% of interest.
5. Accounts	In payment banks customer can open current and saving Account.	In commercial banks a person can open current account, saving account, FD account.
6. Money remittance service	Payment banks offer remittance services online through NEFT, IMPS and RTGS mechanism. The transaction cost is low.	Commercial banks provide mobile banking services with high cost in comparison to payment banks.

Table 1 reveals that payments banks provide additional low cost services in comparison to other commercial banks to the customers. [Real Time Gross Settlement (RTGS), National Electronics Funds Transfer (NEFT) and Immediate Payment Service (IMPS)].

6. PAYMENT BANKS AS DISRUPTERS TO THE EXISTING BANK

It can't be predicted exactly whether this payment banks will prove to be a disrupter to the existing public sector and private banks. Some believe that they will be a disrupter to the public and private banks. The Governor of RBI stated that the payment banks will complement the existing banks rather than competing them. It further added that public and private sector banks can provide all banking facilities but payment banks cannot. Thus as a result, the public and private banks have to bring some changes in their working process by making some technological advancement to provide similar facilities to retain and satisfy their customers.

These banks will increase competition among public and private sector banks. These payment banks will be providing the needs to people, who have limited funds at their disposal. Payment banks with more advanced facilities and availability of resources can focus on high net worth of clients.

The interesting part in this scheme is that RBI has issued "in-principle" license to 11 companies which include Airtel, Idea and Vodafone; which are telecom service providers.

The "in-principle" license is valid for 18 months, within which the companies must meet the requirements. You may not enter into any banking transactions within the period. Under Section 22 of the Banking Act, 1949, the RBI will issue a complete license after it has satisfied itself that the conditions are fulfilled.

The benefit to these telecom companies is that they have already ground set of their customers. These companies have already 580 million potential customers which can be a threat to other payment banks and commercial banks.

Payment banks are including companies like Reliance, Airtel, and Paytm etc., which are already big players with potential customers. The only objective of these companies is not to serve the people of rural and remote area with banking services through mobile banking; but also to have a large sphere of urban customers with low cost deposits and high saving interest rates.

Secondly, the cost structure of payment banks will be lower in comparison to the universal banks. And to compete with the payment banks the existing banks have to make many changes and opt new technology which will raise the cost of running operations.

So they can be a threat to existing banks and can be an extension to the existing banking system as their primary objective is of financial inclusion and growth of the economy.

7. CONCLUSION

"Banks are true reflection of economy". Banks maintained money market and financial sector. Economy depends upon banks and financial institutions. India's economy is closely related with the growth of the banking industry. India is one of the fastest growing economies in the world and is set to remain on that path for many years to come. A well unionized and efficient banking system is an essential for economic growth. With the aim of expanding banking services in the country, RBI is responsible for the Nachiket Mor Committee to explore the development of a specific category of banks and provide recommendations to provide small businesses to small businesses and low-income families. One such recommendation was to create payment banks primarily to facilitate financial inclusion. Airtel payment bank is a differentiated bank created with motive of financial inclusion with providing banking services. Airtel is the largest telecom service provider and therefore it has a platform created of customers. It provides banking services like deposits, withdrawal but do not lend money on credit. This banking revolution leads to the phase of digitisation and a step towards demonetisation. Payment banking is a way to cashless economy and connecting Indians to banking and at last to technology driven country.

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