



Digital Banking for Sustainable Development

Vol.II

*Dr.G.Parimalarani
Dr.G.Jayabal*

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MISSION DIGITAL BANKING: ROLE OF PAYMENT BANKS IN INDIA

Mr. V. Francis Xavier

*Research Scholar- Reg.No:19233041271005, Department of Commerce
Holy Cross College (Autonomous) Nagercoil*

Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamilnadu, India

Dr. S. Sahaya Selvi

*Assistant Professor, Department of Commerce
Holy Cross College (Autonomous) Nagercoil*

Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamilnadu, India

Abstract

*Digital India is an initiative taken by Government of India for its citizens to avail government services digitally and electronically. As a part of digital India initiative, Indian Government has taken many steps to change the economy as cashless economy and make it as a digital paperless economy over a period of time. Due to this, banking and financial services are also undergoing massive transformation in digitization and digital payments. Recent development in Banking Financial Services and Insurance industry are Payment banks, which has become the most popular medium for digital transactions. The objective of this research paper is to study the role of various payment banks in India towards building digital banking mission. It focusses more on how payment banks develop digital payment eco-system by offering various product suite to the target customers across the country and leverage sustainable growth in digital economy.
Keywords: Digital Banking, RBI, Payment Banks, Cashless Digital Payments, Rural development,*

Introduction

Digital banking is a buzzword in India today to create a cashless future. Post successful acceptance of demonetization, Indian Government is predominantly pushing digital transactions. There are various types of banks in the Industry which offers services to the customer segments based on their nature of entity, size of business, target customers, product line and technology.

Digital Banking is an emerging paradigm which offers various benefits to banks also in terms of productivity and profitability. Banks in India are more focused in transforming from a traditional banking to a convenient banking using advanced technologies. The accelerating rate of technological

change, combined with shifting customer preferences and an evolving regulatory landscape, have dramatic implications for the ways in which financial services are designed, delivered and disbursed.

Today the new arena of banking is Payment banks conceptualized by Reserve bank of India which are becoming the most popular medium for digital transactions. The system has been structured in such way with the current artificial intelligence and machine learning platform.

Payment banks offer unique products and services from other commercial banks and the key focus is to capitalize the rural under banked and unbanked market where other banks were not able to penetrate more into it.

Aadhaar has been made as a key trump to these payment banks, as Government of India has ensured every citizen gets an aadhaar number. Introducing unique e-kyc based paperless banking and QR based digital transactions, payment banks serves as a key for change towards digital economy.

Objective

1. To know about the origination of payment banks in India.
2. To explore the unique features of payment banks.
3. To know how payment banks develop digital payment eco-system by offering various product suite to the target customers across the country.
4. To study the role of payment banks in India towards building digital banking mission.

Origination of Payment Banks: Reserve Bank of India

The payments bank will be registered as a public limited company under the Companies Act, 2013, and licensed under Section 22 of the Banking Regulation Act, 1949, with specific licensing conditions restricting its activities mainly to acceptance of demand deposits and provision of payments and remittance services. It will be governed by the provisions of the Banking Regulation Act, 1949; Reserve Bank of India Act, 1934; Foreign Exchange Management Act, 1999; Payment and Settlement Systems Act, 2007; Deposit Insurance and Credit Guarantee Corporation Act, 1961; other relevant Statutes and Directives, Prudential Regulations and other Guidelines/Instructions issued by RBI and other regulators from time to time. The payments bank will be given scheduled bank status once it commences operations, and is found suitable as per Section 42 (6) (a) of the Reserve Bank of India Act, 1934.

The payments bank will be set up as a differentiated bank and shall confine its activities to further the objectives for which it is set up. Therefore, the payments bank would be permitted to set up its own outlets such as branches, Automated Teller Machines (ATMs), Business Correspondents (BCs), etc. to undertake only certain restricted activities permitted to banks under the Banking Regulation Act, 1949, as given below:

Unique features of Payment Banks

1. Acceptance of demand deposits, i.e., current deposits, and savings bank deposits from individuals, small businesses and other entities, as permitted. No NRI deposits should be accepted. The eligible deposits mobilized by the payments bank would be covered under the deposit insurance scheme of the Deposit Insurance and Credit Guarantee Corporation of India (DICGC). Given that their primary role is to provide payments and remittance services and demand deposit products to small businesses and low-income households, payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.
2. Issuance of ATM / Debit Cards. Payments banks, however, cannot issue credit cards.
3. Payments and remittance services through various channels including branches, Automated Teller Machines (ATMs), Business Correspondents (BCs) and mobile banking. The payments / remittance services would include acceptance of funds at one end through various channels including branches and BCs and payments of cash at the other end, through branches, BCs, and ATMs.
4. Issuance of PPIs as per instructions issued from time to time under the PSS Act. However, the outstanding balances in PPIs will be deployed as per the pattern of deployment of funds indicated at paragraph 5 below.
5. Internet banking - The RBI is also open to payments bank offering Internet banking services. The payments bank is expected to leverage technology to offer low cost banking solutions.
6. Functioning as Business Correspondent (BC) of another bank - A payments bank may choose to become a BC of another bank, subject to the RBI guidelines on BCs.
7. As a channel, the payments bank can accept remittances to be sent to or receive remittances from multiple banks under a payment mechanism approved by RBI, such as RTGS / NEFT / IMPS.

8. Payments banks will be permitted to handle cross border remittance transactions in the nature of personal payments / remittances on the current account. All facilities / approvals incidental to undertaking such transactions in foreign exchange will be enabled by RBI on application made to it.
9. Payments banks can undertake other non-risk sharing simple financial services activities, not requiring any commitment of their own funds, such as distribution of mutual fund units, insurance products, pension products, etc.
10. The payments bank may undertake utility bill payments etc. on behalf of its customers and general public.
11. The payments bank cannot set up subsidiaries to undertake non-banking financial services activities.
12. The payments bank will be required to use the words "Payments Bank" in its name in order to differentiate it from other banks.

Product suite of Payment banks used to develop digital payment ecosystem

A payment bank is a small scale bank operating without any credit risk. To be precise, a payment bank can function with most of the banking operations but can't offer advance loans or issue credit cards. It can accept demand deposits, offer remittance services, mobile payments, transfer/purchases and other banking services like ATMS, Net banking and third party fund transfer.

A. Success rate of Payments Bank in India

Initially RBI gave an "in-principle" licenses to 11 entities to launch payment banks Intended to widen financial inclusion and ride on low-cost digital payment systems to chip away at the physical cash transactions. But with only 3 out of the originally 11 intended players operational currently.

1. Aditya Birla Nuvo Ltd - Aditya Birla Payments Bank,
2. Airtel M commerce services - Airtel Payments Bank
3. Department of posts - India Post Payments Bank
4. FINO paytech - Fino Payments Bank
5. National securities deposits- NSDL Payments Bank
6. Reliance Industries - Jio Payments Bank
7. Paytm - Paytm Payments Bank
8. Vodafone M-pesa
9. Fino Payments Bank, India Post Payments Bank and Paytm Payments Bank are operational and Jio Payments bank is yet to start operations PAN India. Among the banks which are operational, only Paytm, Fino Payments Bank and India Post Payments bank are much focused in developing digital business across the country.

Paytm Payments Bank

Paytm was founded in August 2010 by Vijay Shekhar Sharma in NOIDA, a region adjacent to India's capital New Delhi.

- It started off as a prepaid mobile and DTH recharge platform, and later added data card, post-paid mobile and landline bill payments in 2013.
- By January 2014, the company launched the Paytm Wallet, Indian Railways and Uber added it as a payment option.
- It launched into E-commerce with online deals and bus ticketing. In 2015, it unveiled more use-cases like education fees, metro recharges, electricity, gas, and water bill payments. It also started powering the payment gateway for Indian Railways.
- In 2016, Paytm launched movies, events and amusement parks ticketing as well as flight ticket bookings and Paytm QR. Later that year, it launched rail bookings and gift cards.
- In 2017, Paytm became India's first payment app to cross over 100 million app downloads. The same year, it launched Paytm Gold, a product that allowed users to buy as little as ₹1 of pure gold online.
- It also launched the Paytm Payments Bank and 'Inbox', a messaging platform with in-chat payments among other products. By 2018, it started allowing merchants to accept Paytm, UPI and Card payments directly into their bank accounts at 0% charge.
- It also launched the 'Paytm for Business' app, allowing merchants to track their payments and day-to-day settlements instantly. This led its merchant base to grow to more than 7 million by March 2018.

Paytm offers banking services like

- Savings account,
- Current account,
- Debit Cards,
- Mobile Banking,
- E-wallet
- NACH facility
- FASTag toll payment options.
- It also accepts deposits of upto Rs 1 lakh per customer in a Savings Account.
- Balance amount in excess of Rs 1 lakh will be moved to a Fixed Deposit with Paytm Bank's partner bank.

- There is no minimum balance requirement in a Paytm Payment Bank Savings Account.
- Customers can maintain zero balance in their account and enjoy all banking services with no account related service charges.
- Though Paytm Bank cannot offer financial products of their own as a business entity, it can act a business correspondent and partner with other financial institutions and banks to offer Loan Products, Fixed Deposits, Insurances etc.
- Customers will get a Digital Rupay card which is linked to their Paytm Payments Bank Savings Account. They can view the card details in your Paytm app under 'Passbook' option.
- Deposits that customers make, will earn interest of 4 percent p.a. on the daily balance of their Savings Account.
- Interest earned will be added to their Savings Account on the last date of every month.
- Every customer who registers with Paytm is being given with a wallet feature by default.
- Transfer money from Paytm to bank account as low as 2.04%.
- Get Cashback on most of the store using Paytm wallet
- Good wallet limit for KYC customer (25k) & Non-KYC customer (20k) both.
- Easy & automatically refund to Paytm wallet in case of product cancellation at partners' store.
- Transfer money to the bank at any time at nominal charges (currently 2.04%)
- Government this year launched BharatQR code. This is Integrated code for all banking payments including Visa and maestro card payments.
- UPI based payments will be the major payment platform.
- Paytm payment bank is now linked to UPI platform, the takeaway is that those 2-3% transaction charges can be done away with now and this will boost small payments.
- Paytm QR code is now linked to a bank, through this code one can pay directly from Paytm payment bank. On other hand, the business people, small traders will be able to transfer money (received from customers) directly to their bank account with help of Paytm payment bank.
- The need of the hour is to make micro payments digital and this can be done with help of Paytm payment bank ecosystem

India Post Payments Bank

India Post Payments Bank has been incorporated as a public sector company under Department of Posts with 100% Government of India equity and it is governed by the Reserve Bank of India.

IPPB is the third largest entity to receive payments bank permit from RBI and it has the largest network of 650 head quarter branches in each district and 1,55,000 post offices, which will be the access points for the bank which offers various banking products and services to its customers.

The new model of banking allows mobile firms, super market chains and others to cater to banking requirements of individuals and small businesses. It will be set up as a differentiated bank and will confine its activities in acceptance of deposits, remittance services, Internet banking and other financial products.

With simple, diverse and growth oriented offerings, IPPB aims to give every Indian an access to efficient banking services which capitalize the Financial inclusion in rural and rural unbanked markets with customized services like Door Step banking, Biometric Aadhaar enabled and Digital payment banking services to every citizen of the Country.

India Post has an excellence and legacy of 150 + years in Indian market, which has built trust among the citizens of India by offering wide range of financial and non-financial products under Ministry of Communication and Ministry of Finance.

India Post offer Savings and Deposit products for all type of population, it has also grown its customer base by offering customized services like POSB, RD, FD, TD, SSS, Selvamagal, APY, PLI, RPLI over a period of time. They have currently 50 Crs + live customers in their kitty.

India Post has 1.55Lakhs Post offices with 3.5Lakhs of employees working across the country which is again a huge strength in terms of network and human capital.

The main reason made India Government to think about opening a bank through India Post is to extend banking services to financially weak and excluded population.

Financial inclusion and Digital economy made Indian Government to approach RBI seeking license to start up a bank through Post Office

RBI has given a leverage to open up a small bank which will be unique in nature to serve the customers and prove the excellence over a period of time. That made India Post to start up a bank in the name of India Post Payment Bank.

1. India Post Payments Bank offers services like

IPPB provides a comprehensive suite of product and services, through its own product portfolio and also in partnership/alliances with best in class financial service providers, to its customers. IPPB, as a one-stop Financial Services point, offers below key benefits to its millions of customers:

- Superior Zero Balance Savings Accounts with 4% interest rate.
- Current account for small merchants with minimum balance Rs.1000.
- Digital account opening facility for the customers.
- Hassle Free and Paperless Account Opening; Aadhaar based eKYC, Instant onboarding.
- QR card for each customer; No requirement to remember account number.
- Preferred initial deposit of INR 100/-; No minimum balance requirement.
- Multiple Channels of Account Operations; Mobile app for Tech savvy customers to Assisted Banking at access points (post office counters) along with doorstep services through Grameen Dak Sevaks/ Postmen.
- Free cash transactions at Post offices; Enhanced proximity to banking access points compared to far away banks.
- Doorstep banking facility with nominal doorstep charges; Toll free number for scheduling doorstep.
- 24x7 customer service support.
- Facilitating a Less-Cash economy for IPPB customers by enabling capability for online payment of bills (utility/DTH/recharges) to 100+ billers Pan-India
- Digital payments capability at nearby merchant outlets using QR Codes, UPI
- Fund transfers from IPPB accounts through NEFT/RTGS/IMPS/ assisted UPI to any account in the country
- Complete suite of inter-operable banking services and proposed third party products (loans/insurance/investments)
- online real-time CBS integrated delivery channels viz. Counter/desktop, Agent App, Mobile Banking App and Merchant App
- Integrations with PFMS, NACH, ABPS, Bharat Bill Payment System (BBPS) & Payment and Settlement systems like IMPS, Assisted UPI, NEFT and RTGS
- Recently on 1st September 2019 the bank on its 1st year anniversary launched a new feature of Aadhaar Enabled Payment System to the customers across the country.

Fino Payments Bank

Fino Payments Bank comes from an institution that has served the country's banking needs for over a decade. The first payments bank to go live with 410 branches and more than 25,000 banking points on day one. The bank was incorporated on 4th April, 2017 with the name Fino Payments Bank Limited. Erstwhile parent company Fino Paytech Limited is a thought leader, innovator and implementer of technology solutions for institutions like banks, governments and insurance companies. The banking technology platform combined with extensive services delivery channel. Alternate banking channel, enable end-to-end customer sourcing and servicing. Their business model derives its strength from robust in-house technology, versatility of operations, scale of the channel, and customer know-how. The challenges of serviceability and scalability of the traditional banking channels have been addressed by way of innovation. In ten years the bank has touched the lives of over 100 million customers through over 25000 touch points in 499 districts across 28 states in India

Anytime Banking: Fino Payments Bank's extended banking hours, enable you to do banking transactions at your convenience.

Anywhere banking: With 25000+ touchpoints, 410 bank branches and fleet of doorstep bankers, Fino Payments Bank enables banking transactions at your convenience and place of choice.

Instant Money Transfer: Transfer money instantly to any bank account across India.

Paperless Banking: With biometric/OTP, doing banking transactions is now even easier.

Easy Shopping and Withdrawal: The Fino Payments Bank debit card enables you to withdraw from ATMs across the country and, shop at online and offline merchants.

Free Insurance upto 2 Lakhs: The Fino Payments Bank debit card offers a complimentary insurance cover for accidental death or permanent disability.

Mobile Banking: Download BPay app on mobile phone to enjoy the ease of fast, secure and reliable payments.

Fino Payments Bank offers services like

Fino Payments Bank offers wide range of products to simplify banking by availing various benefits that are

- Savings account
- Current account

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- Merchant account
- BPay
- Cards
- Taking digital initiative forward, Fino created another customer engagement layer to announce that Fino Payments Bank is now digital and launched 4 digital products that facilitate customer convenience:
 - *Unified Payments Interface (UPI)*
 - *Net Banking*

Online account opening

- *FasTag* - for making digital payments at national highway toll plazas
- *Health Insurance*
- *General Insurance*
- *Life insurance*
- *BC lending - Short term loan*: Fino Payments Bank helps facilitate your monetary requirement by arranging for microfinance loans from other banks, as a third party. These are short-term loans for small amounts ranging from Rs 18,000 to Rs 35,000. These loans are group-based where five or more people come together to take a loan, individually. Each member in the group guarantees the other group member's loan. These joint liability loans are specially tailored for carrying out income-generating activities like starting a business or expanding it.
- Fino Payments Bank offers a unique proposition to clients through its ability to mobilize funds via a secure lending mechanism. This unique differentiation comes from its processes that leverage upon technology that significantly cuts down costs and manual errors and at the same time reduces the requirement for physical documents. Fino Payments Bank's technology effectively works in varied environments to capture information and acquire customers at the convenience of their doorstep.

Findings: Role of Payment Banks in India towards building Digital Banking Mission.

- Payment Banks play a vital role in building digital banking mission across the country by offering banking services at an affordable cost.

- The primary objective of introducing payment bank in India is to ensure cash less economy and capitalize the financially excluded segment.
- Extending digital banking services to the rural market which unbanked and underbanked through financial inclusion.
- To capitalize Small merchant business, unorganized sector, low income households, farmers and migrant labors largely as these people usually require transactions of small amounts and payment bank address this needs.
- Payment bank has also become a platform through which customers get their benefits from the government paid through their bank account and the cash transactions are getting nullified.
- Direct Benefit Transfers, transferring wages, subsidies or other social welfare scheme benefits through Payment bank accounts helps the Government to ease the process and avoid cash totally.
- Ekyc and Aadhaar enabled services are the primary focus for Payment Banks, which efficiently reduces time consumption and ease the process to the customers.
- School, College students will get a bank account at an affordable cost, whereas scholarships and other benefits can be credited in the savings accounts. It also acts as learning platform for students about banking from childhood.
- It increases the saving power of individual, predominantly rural market of the country as they get the basic banking at an affordable cost which will effectively assist in growth and development of these areas.
- They will not bring more money into the banking system, but also increase the competition among banking
- Institutions. The increased competition among banks would lead to further improvement in the efficiency.
- Customers gets enabled to a payment system, mostly utility bill payments like gas bill, EB bill, Landline bills, mobile recharge, DTH recharge, NACH, insurance payments etc which avoids cash transactions and helps to build a digital economy.
- RTGS, IMPS, NEFT, UPI services of Payments bank offered through mobile banking helps the customers to perform their basic online transfers on an affordable cost which enables digital transformation.

- Small merchants are enabled with a current account with less minimum balance maintenance and Cheque book facility helps the merchants to perform their regular business transactions through bank accounts and make them avoid cash transactions.
- QR based retail and merchant transactions helps the customers to perform digital transactions without charges, QR scanning payment mode through Pull money and Push money option will be an easy self-operational digital service.
- Digital Banking services offered at door steps to the customers enables a convenient banking platform to the citizens to avail banking services at their house hold.
- Acquiring all the house hold accounts and merchant accounts of a village enables the digital eco-system and declare the village as digital village.
- AEPS, aadhaar enabled payment systems introduced in Payment banks helps the customers and non-customers to withdraw money from any of their aadhaar enrolled bank accounts at any rural area of the country is a unique feature for convenient banking in India.
- Other commercial banks may also get motivated to rely technology based low cost payment system and bring an exponential growth in banking inclusion services. This would certainly increase the cashless economy and build digital banking.
- The competition for state owned banks will intensify as payment banks are backed by digital platforms, adequate capital, zero legacy issues and higher rate of interest on deposits in near future
- Low cost, innovative and convenient services would compete heavily for business in rural and semi-urban areas where eventually the ultimate beneficiary would be the common man.
- Since payment banks are allowed to invest in government securities only, the risks are minimized when compared to other financial institutions as the investments are lying with government bonds and securities at a safer and secured sign.

Conclusion

Banks in India are more focused in transforming from a traditional banking to a convenient banking using advanced technologies. Technology is overturning workflows and processes in the financial services industry. Tasks once handled with paper money, bulky computers, and human interaction are now being completed entirely on digital interfaces. Almost

every type of financial activity from banking to payments to investment and more is being technology driven. Those days when banking was a chore, a frustrating activity which in many cases needed you to take at least a day to accomplish the task. Advancement in Internet and Mobile phone technology has virtually enabled banks to be where the customer is and enabled to connect to the bank at a time with more convenience. Present scenario we would be able to bank from any phone round the clock and accomplish most of the banking transaction less than a minute. Payment banks are technology driven banks and helps to establish digital banking throughout the country by unique products and its benefits. It plays a vital role in building "Mission Digital Banking" in India.

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