Journal of Management Engineering and Information Technology (JMEIT)
Volume -5, Issue- 3, June. 2018, ISSN: 2394 - 8124
Impact Factor :4.564 (2015) | Index Copernicus - ICV 2016 = 51.4
Website: www.jmeit.com | E-mail: editorjmeit@outlook.com | jmeit@outlook.com

# A Change in Indian Banking System, Turning Microfinance Entities, NBFC and Telecoms into Small Finance Banks and Payment Banks in India: a Study to Understand the Impact of these New Financial Inclusions on Indian Banking and Associated Sectors

DOI 10.5281/zenodo.1302421

**Pawan Kalyani**, MRES
*pawankalyani@gmail.com*

**Abstract: Microfinance, or micro-credit, typically comprises very small-sized loans of about $100 extended to an individual or a group of individuals, which are called self-help groups (SHGs). Borrowers are generally from the weaker sections of society. The Reserve Bank of India (RBI), the country's central bank, has urged banks to opt for the SHG model to lend to over 30 million small and micro units, to ensure they have easy access to funds. The Indian microfinance industry comprises NGOs, trusts or societies working on a not-for-profit model, and even bigger players – like Spandana, SKS, Basix, Share Microfin in Andhra Pradesh, Cashpor in Uttar Pradesh, Grameen Koota in Karnataka – which work on a for-profit model. The microfinance industry is estimated to cover about 10 per cent of poor households in need of credit. MFIs first emerged in the late 1990s to raise social and commercial funds for lending to the underprivileged. Today there are over a thousand Indian MFIs, most of which service the rural poor. In this paper, the author is trying to understand on the basis of the study of Turning Microfinance Entities, NBFC and Telecoms into Small Finance Banks and Payment Banks in India and the Impact of these New Financial Inclusions on Indian Banking and Associated Sectors.**

**Keywords: Microfinance, India, Small Financial Banks, Payment Banks, RBI, Impact on banking and rural sector.**

## I. INTRODUCTION

Microfinance, or micro-credit, typically comprises very small-sized loans of about $100 extended to an individual or a group of individuals, which are called self-help groups (SHGs). Borrowers are generally from the weaker sections of society. The Reserve Bank of India (RBI), the country's central bank, has urged banks to opt for the SHG model to lend to over 30 million small and micro units, to ensure they have easy access to funds. The Indian microfinance industry comprises NGOs, trusts or societies working on a not-for-profit model, and even bigger players. These players are big or small some of them are into new banking financial system like small banks and payment banks. RBI had recently issued the license to some NBFC, telecos and Microfinance institution to work like a bank to cater the demands of rural sector. The Microfinance caters the needs of small businessman thus has a significant role in improving the economic growth and development in India. The microfinance sector has evolved from being a development focused activity into a sub-sector of the mainstream retail financial services industry with focus on social as well as economic development. According to Professor C.K. Prahlad, renowned management expert, the bottom of the pyramid is the market of the future. And if the pot of gold is buried under the pyramid, then MFIs are best placed to dig out this treasure that has been overlooked for far too long. Bringing this theme into a practical approach RBI has issued license to Turn Microfinance Entities, NBFC and Telecoms into Small Finance Banks and Payment Banks in India and the Impact of these New Financial Inclusions on Indian Banking and Associated Sectors is estimated big as it is targeted to the bottom of the pyramid and the population to cater is maximum at the bottom and the number game always count.

## II. MICROFINANCE IN INDIA

Microfinance- The Need: Microfinance can be described as an umbrella under which financial services including microcredit are provided to the low income group. The need for the unfolding of microfinance began in the developing nations more than 30 years ago. With organized financial sectors like the banks not having anything on their platter to offer the unsalaried and low income group, mushrooming of money lenders and chit fund owners was inevitable. Financial crimes and default became common place in such a scenario. While it was not always the money lenders who were at fault, the borrowers themselves had little choice in the matter. This led to a world-wide movement that culminated in the making of the Microfinance Institutions, or the MFIs.

The History and Evolution: The poor and needy have a frequent need for cash and hence save in highly liquid assets like jewelry, livestock, etc. These assets are both the livelihood of the poor and their savings. In times of need they are faced with a catch-22 like situation. If they do not sell the asset, they will not be able to repay the loans and if they did, they would not have a livelihood. This scenario encouraged a host of Non-governmental Organizations to start the movement which caters, in a micro level to the financial needs of the poor. The micro loans are given to these people and they are allowed the freedom to choose a livelihood.

The basic issue being constant, issues like size, diversity, taxation, reach and sustainability affected the transformation of Microfinance over the years. It is safe to assume that current day microfinance started in India sometime around 1980. It started as small groups formed to help themselves or the self-help groups (SHG). Slowly the movement picked up momentum and national bodies like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) jumped into the band wagon. They have been devoting significant time and financial resources to microfinance. This has ushered in a sense of coming of age of this sector. The microfinance organizations (MFOs) in India have evolved over time and their strength lies in their diverse approach.

The process of transformation: Though the basic aim of providing small, unsecured loan to the poor remains the same, with the advent of Microfinance the intent of such as loan has assumed a laudable intention. These types of loans therefore have lent themselves an organized and institutional connotation, erasing with it, the exploitative undertone of the previous model.

The microfinance is seen targeting the poor women who need the funds to establish in their chosen fields. Pottery, Agriculture and the like have women who can perform better with a little financial assistance. They have defaulted much lesser than their male counterparts.

In Bangladesh, for example, it has been proved that women default on loans less often. The credit extended to women has a positive impact on household consumption thereby improving the quality of life for children.

Setbacks of Microfinance: The operability of such a massive small scale project is always under the scanner. Though microfinance has a far greater reach than the banks, its sustainability is questionable.

For e.g. Bhartiya Samruddhi Finance Ltd. (BSFL), India's oldest microfinance institution, promoted by Vijay Mahajan went through a rough patch when the borrowers in Andhra Pradesh refused to pay threatening to close down the MFI (BASIX, as it is known) due to bad loans.

In an enthusiasm to grow big, some of the rural poor are getting over-indebted and find it difficult to repay the loan. This was demonstrated in the recently concluded initial public offering in 2010 by SKS. This Andhra Pradesh based program, brought about serious charges regarding the borrowers taking on multiple loans, the aggressive collection strategies employed by the microfinance staff that even spurred suicides. All these have brought in major setbacks for microfinance in India.

Top Microfinance Institutions in India:

Shri Kshetra Dharmasthala Rural Development Project (SKDRDP)
Bhartiya Samruddhi Finance Limited (BSFL)
Cashpor Micro Credit (CMC)
Asmitha Microfin Ltd (AML)
Spandana Sphoorty Financial Ltd (SSFL)

This policy of financial inclusion has seen a reasonable growth trend in the recent past with more than 3000 MFIs and NGOs sharing the market. With CRISIL coming up with the list of top 50 MFIs and organizing seminars, this sector is all set to grow in the right direction. The increasing geographic diversity in recent years is an indicative parameter of the development in this sector.

## III. ROLE OF MICROFINANCE IN INDIA

Successful microfinance operations demonstrate that the poor repay their loans and are willing to pay higher interest rates if they can access credit. The poor also save, and hence, microfinance should provide them savings facilities. Attaining financial viability and sustainability is, however, a major institutional challenge. Microfinance should:

Mobilize deposits in order to expand outreach;
Be grounded on market principles;
Contribute to solving the problem of inadequate housing and urban services;
Provide multi-purpose loans for income generation, housing improvement and consumption support;
Conduct research on demand for finance and savings behavior of borrowers to determine the mix of multipurpose loans;
Enhance creditworthiness of the poor and enable them to qualify for long-term credit from the formal sector;
Build financial discipline among borrowers and educate them about repayment requirements.

Eventually, it would be ideal to enhance the creditworthiness of the poor to enable them to access credit from the formal sector. MFIs can contribute towards this by building financial discipline and educating borrowers.

The role and contribution of microfinance institutions (MFIs) is very important in development. Microfinance is a very important source of financial services for people and microenterprises that do not have easy access to banking and related services. The objective of this chapter is to assess empirically the impact of MFIs on development of India. This study aims to fill a gap in econometric assessments of microfinance institutions. Using data of MFIs operating in India and using savings of client as proxy for development, this chapter found empirical evidence for significant positive impact of microfinance institutions on development. While development in rural regions generally lags behind urban areas, this chapter found no statistical evidence for differences in the marginal impact of microfinance institutions subject to geographical positions. It can therefore be concluded that impact of MFIs on development in rural areas is positive and independent of environment.

Microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that

Journal of Management Engineering and Information Technology (JMEIT)
Volume -5, Issue- 3, June. 2018, ISSN: 2394 - 8124
Impact Factor : 4.564 (2015) | Index Copernicus - ICV 2016 = 51.4
Website: www.jmeit.com | E-mail: editorjmeit@outlook.com | jmeit@outlook.com

could make it match the multiple credit requirements of the low income borrowers without imposing unbearably high cost of monitoring its end-use upon the lenders.
Now as a step ahead turning into small banks and payment banks, there could be more reach into the sector.

## IV. TRANSACTION OF MICROFINANCE AND TELECOMS INTO SMALL FINANCIAL BANKS, PAYMENT BANKS & RULES AND REGULATIONS FROM RBI

The Reserve Bank of India (RBI) has granted 23 banking licenses to new players - two were given universal banking licenses (April 2, 2014), 11 were issued payments banks licenses (August 19, 2015) and 10 were given licenses for small finance banks (September 16, 2015).

The niche banks - small finance and payments banks -have been set up to further the regulator's objective of deepening financial inclusion. Going ahead, RBI is planning to come up with "on tap" licenses which means there will not be any cut-off date for applying for the licenses.

UNIVERSAL BANKS

Kolkata - Bandhan

PAYMENTS BANKS

- Aditya Birla Nuvo
- Fino PayTech
- National Securities Depository
- Reliance Industries
- Dilip Shantilal Shanghvi
- Tech Mahindra
- Vodafone M-pesa
- Airtel M Commerce
- Department of Posts
- Cholamandalam Distribution

SMALL FINANCE BANKS

- Au Financiers
- Suryoday Micro Finance
- Capital Local Area Bank
- Disha Microfin
- Equitas Holdings
- ESAF Microfinance and Investments
- Ujjivan Financial Services
- Janalakshmi Financial Services
- Utkarsh Micro Finance
- RGVN (North East) Microfinance

REGULATORY REQUIREMENTS

UNIVERSAL BANKS

Eligibility

Companies in the private and public sectors and non-banking financial companies (NBFCs) will be eligible to set up a bank through a wholly-owned non-operative financial holding company (NOFHC). These applicants need to meet the criteria set by RBI. The players will also need to have a sound and successful track record of 10 years

Capital requirement

The initial minimum paid-up voting equity capital for a bank needs to be at least Rs 500 crore (Rs 5 billion). The bank will need to be listed within three years of starting business

Scope of activity

The bank can accept deposits and carry out lending activities without limitations in the area of operations. Also, the banks will have to work towards achieving financial inclusion and 40 per cent of their lending should be towards the priority sector.

Promoter's contribution

The NOFHC and the bank will not have any exposure to the promoter group. The bank will not invest in equity / debt capital instruments of any financial entities held by the NOFHC

Foreign shareholding

The aggregate non-resident shareholding in the new bank will not exceed 49 per cent for the first five years, after which it will be according to the existing policy - 49 per cent under the automatic route and 74 per cent under the approval route

Other conditions

The bank's board should have a majority of independent directors. It needs to open at least 25 per cent of its branches in unbanked rural centers (population of up to 9,999, according to the latest census). Also, banks promoted by groups having 40 per cent or more assets/income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond Rs. 1000 crore or for every block of Rs. 500 crore.

PAYMENTS BANKS

Eligibility

Prepaid payment Instrument issuers, individuals/professionals, NBFCs, corporate business correspondents, mobile telephone companies, super-market chains, real sector cooperatives that are owned and controlled by residents, and public sector entities are eligible to apply for payments bank licences. The promoter should be able to meet the 'fit and proper' criteria with a sound track record of five years.

Capital requirements

**Journal of Management Engineering and Information Technology (JMEIT)**
**Volume -5, Issue- 3, June. 2018, ISSN: 2394 - 8124**
Impact Factor :4.564 (2015) | Index Copernicus - ICV 2016 = 51.4
**Website: www.jmeit.com | E-mail: editorjmeit@outlook.com | jmeit@outlook.com**

The minimum paid-up equity capital for payments banks shall be Rs 100 crore.

Scope of activity

Can accept deposits of up to Rs 1 lakh a customer and issue debit cards. It can also carry out payments and remittance services and is allowed to distribute insurance and mutual fund products. Payments banks can also serve as a business correspondent of another bank.

Promoter's contribution

The promoter's minimum initial contribution to the paid-up equity capital should be at least 40 per cent for the first five years from the start of its business.

Foreign shareholding

The foreign shareholding in payments banks would be according to the foreign direct investment (FDI) policy for private sector banks - 49 per cent under the automatic route and 74 per cent under the approval route.

Other conditions

The operations of the bank should be fully networked and technology-driven from the beginning and it should also have a high powered customer grievances cell to handle complaints

SMALL FINANCE BANKS

Eligibility

Resident individuals/professionals with 10 years of experience in banking and finance, companies and societies owned and controlled by residents, existing NBFCs, microfinance institutions, and local area banks can apply for small finance bank licenses.

All entities should be owned and controlled by Indian residents and should be able to meet the 'fit and proper' criteria stated by RBI

Capital requirements
The minimum paid-up equity capital required is Rs 100 crore.

Scope of activity

They will primarily undertake basic banking activities of accepting deposits and lending to unserved and underserved sections, including small business units, small and marginal farmers, micro and small industries and unorganized sector entities.

There will not be any restriction in the area of operations of small finance banks.

Promoter's contribution

The promoter's minimum initial contribution to the paid-up equity capital of small finance bank should be at least be 40 per cent and needs to be gradually brought down to 26 per cent within 12 years from the start of operations.

Foreign shareholding

Foreign shareholding in small finance banks would be according to the FDI policy for private sector banks- 49 per cent under the automatic route and 74 per cent under the approval route.

Other conditions

The small finance bank will be subject to all prudential norms and regulations of RBI, as applicable to existing commercial banks, including requirement of maintenance of cash reserve ratio and statutory liquidity ratio.

Apart from this, they will be required to extend 75 per cent of adjusted net bank credit to the priority sector. Also, at least 50 per cent of its loan portfolio should comprise loans and advances of up to Rs 25 lakh.

List of pre-paid payment instrument providers in India:

| Sr. No. | Entity Name | Description |
|---|---|---|
| 1 | Aircel Smart Money Limited | Prepaid Payment Instruments (PPI) |
| 2 | Airtel M Commerce Services Ltd. | PPI as Stored Value Card Wallet (SCW) 'Airtel Money' |
| 3 | Atom Technologies Limited | PPI as 'Atom Wallet' and 'Aquapay' |
| 4 | Card Pro Solutions Pvt. Ltd. | PPI s |
| 5 | Citrus Payment Solutions Pvt. Ltd. | PPI as 'Citrus Cash' |
| 6 | Delhi Integrated Multi-Modal Transit System Limited | PPI |
| 7 | DigitSecure India Private Limited | PPI e-wallet known as 'HotRemit' |
| 8 | Edenred (India) Private Limited | Meal and gift paper vouchers, meal and cafeteria cards, gift cards. The products are mainly under the brand name 'Ticket/Ticket Restaurant/Ticket compliments' |
| 9 | Eko India Financial Services Private Limited | PPI |
| 10 | Fino Paytech Ltd. | PPI |
| 11 | FX Mart Pvt. Ltd. | PPI as 'PhonePe' |
| 12 | GI Technology Private Limited | PPI Card known as 'I Cash' |
| 13 | Idea Mobile Commerce Services Ltd. | PPI as 'Idea Money' |
| 14 | India Transact Services Limited, | PPI as 'Ongo' |
| 15 | Itz Cash Card Ltd. | PPI as 'Pay on web', 'Mobile Wallet' and 'Itz Cash BSNL trust Card' |
| 16 | Kedia Infotech Ltd. | PPI as 'Etran Wallet' |
| 17 | MMP Mobi Wallet Payment | PPI as 'mRupee' Systems Limited |
| 18 | Mpurse Services Pvt. Ltd. | PPI as 'mpurse wallet' |
| 19 | Muthoot Vehicle & Asset Finance Ltd. | PPI e-wallet known as 'Muthoot Money' and m-wallet known as 'Muthoot wallet' |
| 20 | My Mobile Payments Limited | PPI as 'MOM' |
| 21 | One97 Communications Ltd. | Mobile based PPIm-Wallet known as 'Paytm wallet' |
| 22 | One Mobikwik Systems Private Limited | PPI known as 'Mobikwik Wallet' |
| 23 | Oxigen Services (India) Pvt. Ltd. | PPI as 'Oxigen Wallets' |
| 24 | Paul Fincap Pvt. Ltd. | PPI |
| 25 | PayMate India Pvt. Limited | PPI known as 'Paymate Wallet' |
| 26 | Pay Point India Network Private Limited | PPI known as 'Pay Pointz' |
| 27 | Premium eBusiness Ventures Private Limited | PPI |
| 28 | Pyro Telecommunications Ltd | PPI m-wallet known as 'SpeedPay' |
| 29 | QwikCilver Solutions Pvt. Ltd. | PPI , Co-branded gift card known as 'Issued by QwikCilver' |
| 30 | Reliance Payment Solution Limited | PPI known as 'Jio Money' |
| 31 | Smart Payment Solutions Pvt. Ltd. | PPI known as 'PayCash' |
| 32 | Sodexo SVC India Pvt. Ltd | Paper based vouches known as Meal, Catering, Gift Gold, Gift Exclusive and Gift Advantage. Electronic based vouchers, gift passes known as Meal Card, Premium E Gift Exclusive E gift and Say Rewards. |
| 33 | Spice Digital Ltd. | PPI |
| 34 | Tech Mahindra Limited | PPI (m -wallet) known as 'MoboMoney' |
| 35 | Transaction Analysts (India) Private Ltd. | PPI known as 'Transaction Assured' |
| 36 | TranServ Private Limited | PPI |
| 37 | UAE Exchange & Financial Services Ltd. | PPI m – wallet known as 'X-Pay |

Journal of Management Engineering and Information Technology (JMEIT)
Volume -5, Issue- 3, June. 2018, ISSN: 2394 - 8124
Impact Factor : 4.564 (2015) | Index Copernicus - ICV 2016 = 51.4
Website: www.jmeit.com | E-mail: editorjmeit@outlook.com | jmeit@outlook.com

38 UTI Infrastructure Technology and Services Ltd PPI known as National Common Mobility Card (NCMC)
39 Vodafone m-pesa Limited PPI known as 'Vodafone M- pesa'
40 Weizmann Impex Service Enterprise Limited PPI
41 Y-Cash Software Solutions Private Limited PPI m-wallet known as 'Y-Pay Cash'
42 ZipCash Card Services Pvt. Ltd PPI known as 'ZipCash Coupons'
43 AGS Transact Technologies Ltd. Installation and operation of WLAs
44 BTI Payments Pvt. Ltd. Installation and operation of WLAs
45 Hitachi Payment Services Pvt. Ltd. Installation and operation of WLAs as 'Money Spot'
46 Muthoot Finance Ltd. Installation and operation of WLAs
47 RiddiSiddhi Bullions Limited Installation and operation of WLAs
48 SREI Infrastructure Finance Ltd Installation and operation of WLAs
49 Tata Communications Payment Solutions Ltd. Installation and operation of WLAs
50 Vakrangee Limited Installation and operation of WLA

## V. MICROFINANCE WORKING SECTOR AND EXPANSION

Firstly, the formulation of more effective policies to support and facilitate the provision of a wider range of financial services that are easily accessible, that meet the demands of clients and that are suitably priced. Secondly, the establishment of a framework for policy-making and legislation that creates an economic environment conducive to growth and development and that ensures the commitment of government, civil society and the private sector to the alleviation of poverty. Thirdly, it specifies the actions to be taken and the role of each of the stakeholders in supporting the development of microfinance institutions and in creating the necessary supportive infrastructure.

The microfinance industry has seen tremendous growth over the past five years, growing at a 45% CAGR. It has witnessed rapid evolution with regulatory reforms post the Andhra Pradesh crisis in 2010 to regulate product, pricing and protection of customer interest. This included the growth of regulated NBFC MFIs - a special class of RBI regulated entities carrying out microfinance, the formation of the first ever Self-Regulatory Organizations (SROs) of the RBI, Aadhar based lending by NBFC MFIs and transformation of some of the entities into universal and small finance banks.

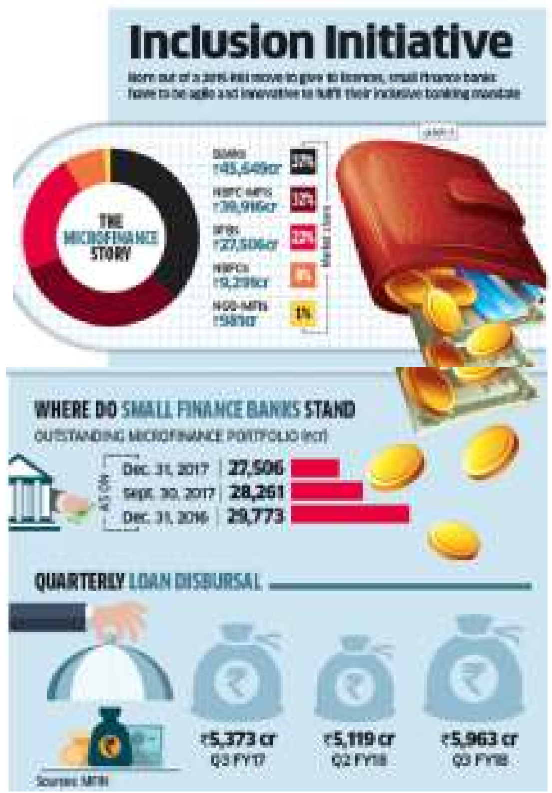
Today, with over 45 million end clients with a loan outstanding of over Rs 1 lakh crore across the private JLG (Joint Liability Group) and the public SHG (Self Help Group) programmes, employing over 120,000 people across 10000 branches in 28 states of India, it is a key force for financial inclusion in the country. However, this level of progress is still lower than 25% of the demand across India and indicates the future potential for growth.

The USPs of the sector have been microloans, door step delivery and frequent repayments. The business thrives on a very high level of customer connect before, during and after the credit approval with all clients being met face to face in a weekly, fortnightly or a monthly meeting for about 30-45 minutes in a group setting. Unfortunately, the business is still highly cash oriented - both on disbursements and repayments.

With demonetization, this proved to be an Achilles heel for the sector. Lack of availability of new notes hit the informal cash intensive economy of the low income groups served by microfinance in the weeks following the old Rs. 500 and Rs. 1000 notes being declared illegal tender. Microfinance institutions were forced to ask customers to get new notes or repay their loan amounts in other denominations.

The presence of Vodafone M-Pesa in Kenya, where 68 percent population don't have bank accounts but has financial inclusion of 70 percent due to M-Pesa. Situations like no bank accounts, minimum balance in accounts, demonetization severely affects lower income groups where technology like m-pesa and other newly formed payment banks and small banks can be a great help to the users of small income group.

## VI. IMPACT OF NEW MICROFINANCE ENTITIES




Household level

- Microcredit leads to an increase in household income. The use of loans and deposit services can result in a diversification of income sources (e.g., Uganda) or enterprise growth (e.g., Eastern Europe).
- Access to financial services enables clients to build and change their mix of assets. Microcredit can be used for land acquisition, housing construction or improvements, or the purchase of animals and consumer durables. Clients can also use loans to make important investments in human assets, such as health and education.
- Poor people are very vulnerable and move from one crisis to another. Access to microfinance enables them to manage risk better and take advantage of opportunities. In Bolivia, many Pro Mujer clients use loans to protect their level of consumption when crises occur, avoiding large dips in material wellbeing.

Individual level

• For women, money management, greater control over resources, and access to knowledge leads to greater choices and a voice in family and community matters. Economic empowerment is accompanied by growth in self-esteem, self-confidence, and new opportunities. In 2002, 103 women clients from Activists for Social Alternatives (ASA) were elected to local councils in India.

• Microfinance clients tend to have higher levels of savings than no clients, which is very important for building assets. In Zimbabwe, microfinance clients opened accounts in banks or post offices; in Peru, mistrust of formal institutions translated into savings in construction materials and inventory.

Enterprise level

• Enterprise revenues rise as a result of microfinance services, but not always where expected. Loans are fungible and are used where the perceived need or return is highest. Between 1997 and 1999, an overall increase in revenues was observed among all enterprises managed by households in India and Peru. But the same studies showed no impact on the specific enterprises for which loans were presumably taken.

• Job creation in single-person enterprises appears negligible. However, when the total number of enterprises is combined, client households often create work for others. For example, in Peru, each microfinance client created three additional working days per month for non-household workers.

How could financial services achieve greater impact?

To date, microfinance has mostly offered microcredit designed for high-turnover microenterprises. Most impact assessments have focused on this type of microcredit. But evidence shows that clients adapt these rather rigid loans to use them for a variety of purposes like medical expenses, funerals, and school fees. Microfinance could achieve greater impact if it offered a broader range of financial services that better met the varied needs of the poor, including deposit services, micro insurance, and transfer payments.

How can donors increase the impact of financial services for the poor?

1. Prioritize large scale outreach. Support financial institutions with potential for sustainability and growth.
2. Invest in a range of promising financial institutions to ensure that diverse clients at many income levels are reached, extending outreach both outwards and downwards as far as possible.
3. Promote the twin goals of sustainability and impact; monitor MFI progress against both goals.
4. Encourage market research to better understand client preferences and the constraints that prevent the poor from taking best advantage of financial services (i.e. literacy, land titles, etc.).
5. Support proactive institutions that develop delivery mechanisms and products to meet client needs. [1]

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.

Cost of banking will come down due to competition from payment banks and small banks. Currently, private banks like ICICI, HDFC, Axis, etc. are making huge profits by collecting funds at lower costs from savings accounts & current accounts (CASA deposits account for 40% of bank deposits) and lending it to small borrowers at higher rates. But payment banks and small finance banks get big chunk from this by providing higher interest rate on deposits and giving credit (small finance banks only) at lower rates. This will increase competition and lower-income group and small businesses will be benefitted the most.

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, especially women.

Payment bank will reduce dependency on cash and will increase m-commerce, as mobile wallets will be used as payment option. It will also transform our subsidy and social welfare schemes. With the troika of Aadhaar card, Jan Dhan Yojana and payment banks will enable government to provide direct subsidy.

Today, there is a large unmet need for those at the bottom of the pyramid not just to have a bank account but also to get loan to run their small businesses and get out of poverty. Various models of rural and cooperative banks have failed to deliver these. But organizations that are selected for small financial banks have successfully done this job of giving small and know their borrowers' needs. So they have high chance of success.

Small financial banks will extend formal financial access to small enterprises that are currently dependent on high-cost unorganized sector lending. According to RBI estimates 90 percent of small enterprises do not have access to formal financial institutions. So it will be a huge step towards full financial inclusion.

## VII. FUTURE SCOPE OF NEW MICROFINANCE ENTITIES

According to census data 2011 only 59% of households have access to banking services. While the mobile phone penetration is around 77%. Also most villages in India do not have a bank branch, making it difficult for the rural population to make proper use of banking services. This is where payment banks can prove to be a game changer. The payments banks are expected to reach customers mainly through their mobile phones rather than traditional bank branches. Payment banks would offer easy transfers and remittances through mobile phones. These banks will also provide another advantage over PPIs and mobile apps like Paytm and FreeCharge which is interest payment on the money deposited in the Payments bank. The payment banks can issue ATM and debit cards.

Payment banks are important from government point of view as the payment banks will play a crucial role in implementing the government's direct benefit transfer schemes, where subsidies on healthcare, education and gas are paid directly to beneficiaries' accounts.

Payment banks like M-Pesa have already proved to be a huge success in countries like Kenya, Tanzania and Afghanistan. In Kenya more than 75% of the population has a M-Pesa account. So payment banks have a good chance of being a success in India viewing the population and growing mobile & internet penetration.

India's domestic remittance market is estimated to be about 800-900 billion and growing. With money transfers made possible through mobile phones, a big chunk of it, especially that of the migrant labor, 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.

Penetration rate of Banks among India's paid working population :

| Workforce Category | Total | Rural | Urban |
|---|---|---|---|
| **All earners aged 18-59 years** | 42% | 30% | 62% |
| Shopkeepers | 72% | 65% | 79% |
| Dairy farmers | 58% | 56% | 62% |
| Traditional farmers | 46% | 46% | 51% |
| Street vendors | 38% | 35% | 45% |
| Semi & skilled wage labourers | 34% | 32% | 37% |
| Artisans & craftsmen | 28% | 20% | 37% |
| Home-based workers | 28% | 20% | 38% |
| Agricultural wage labourers | 14% | 14% | 12% |
| Other daily wage labourers | 18% | 15% | 28% |

Source: Invest India Incomes and Savings Survey 2007(IIISS07)

## VIII. CONCLUSIONS AND SUGGESTIONS

SMALL FINANCE BANKS WOO DEPOSITORS

| | 6-12 MONTHS | 12-24 MONTHS | 24-36 MONTHS |
|---|---|---|---|
| Suryoday | 8.25-8.50 | 9.00 | 8.75 |
| Equitas | 7.5-8.25 | 8.50-8.75 | 8.88 |
| Utkarsh | 7.50 | 8.40-8.50 | 8.35 |
| Ujjivan | 7.50 | 8.00 | 7.50 |
| Capital | 6.50-6.75 | 7.10 | 7.10 |
| SBI | 6.75-7.00 | 6.90-6.95 | 6.85 |

BloombergQuint

While some services offered by payments banks and small finance banks will be similar, there are some key differences. Here is a look at what they will offer.

| PAYMENTS BANK | SMALL FINANCE BANK |
|---|---|
| Can accept deposits, but only up to ₹1 lakh per individual customer | Allowed to take deposits of any amount |
| Can't lend in any form | Can lend but the focus will be on small lending |
| Can open small savings accounts | Can finance small business units, small and marginal farmers, micro and small industries and unorganised sector entities |
| Can provide remittance services | Can provide remittances as well as credit cards |
| Allowed to issue automated teller machine (ATM) or debit cards | Allowed to issue ATM or debit cards |
| Not allowed to issue credit cards | Has to ensure that 50% of loan portfolio constitutes advances of up to ₹25 lakh |
| Can distribute products such as mutual funds, insurance and third-party loans | Can distribute financial products such as mutual funds, insurance and pension |

Source: RBI website

The main purpose behind having small finance banks is to expand access to financial services in rural and semi-urban areas. These banks can do almost everything that a normal commercial bank can do, but at a much smaller scale. It will offer basic banking services, accept deposits and lend to underserved sections of customers, including small business units, small and marginal farmers, micro and small industries, and even entities in the unorganised sector.

While both payments banks and small finance banks may have some overlap in purpose—mostly in increasing access to banking facilities—there are many key differences.

One such difference is that a payments bank has a limit of Rs.1 lakh on deposit per account; small finance banks do not have limit. Payments banks cannot lend, while small finance banks can give loans. The main purpose behind having small finance banks is to expand access to financial services in rural and semi-urban areas. These banks can do almost everything that a normal commercial bank can do, but at a much smaller scale. It will offer basic banking services, accept deposits and lend to underserved sections of customers, including small business units, small and marginal farmers, micro and small industries, and even entities in the unorganized sector.

While both payments banks and small finance banks may have some overlap in purpose—mostly in increasing access to banking facilities—there are many key differences.

One such difference is that a payments bank has a limit of Rs.1 lakh on deposit per account; small finance banks do not have limit. Payments banks cannot lend, while small finance banks can give loans. From the facts and figures shown above in the article, it seems that the new era in the banking sector has been begin the reasons could be any, demonetization or successful model from another country, digital currency promotion, etc. the effect will be seen in a positive direction as small banks and payment banks are targeting to the base of the pyramid, they are having the benefit of volumes and the loan required is not in crores for a single individual and people who are taking the loan and other banking activities are for real business purposes, like due to demonetization small vendor to the street chaat everyone was accepting payment through Paytm and other e-wallet. They are not depositing the money weather cash or digital but they are circulating the same for the business. Other positive thing to the small banks they are giving higher rate of return on fixed deposits to attract customers for setting their base. The era of large customer base and large service providers is begin where there will be win – win situation for both the parties.

## REFERENCES

[1.] https://www.cgap.org/sites/default/files/CGAP-Donor-Brief-The-Impact-of-Microfinance-Jul-2003.pdf
[2.] http://www.rediff.com/business/report/special-how-23-new-banks-will-make-an-impact-in-india/20150918.htm
[3.] https://www.livemint.com/Money/PuQ6tbCp3IiYHWxd1MH5CP/What-to-expect-from-small-finance-banks.html
[4.] https://www.livemint.com/Money/PuQ6tbCp3IiYHWxd1MH5CP/What-to-expect-from-small-finance-banks.htm
[5.] https://economictimes.indiatimes.com/small-biz/money/indian-microfinance-industry-will-continue-to-demonstrate-sustainable-growth/articleshow/58311757.cms