



## ULTIMATE FOOL PROOF SYSTEM FOR RECOVERY OF LOANS THROUGH PAYMENTS BANKS-A MODIFIED VERSION

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### **Introduction**

With the rapid changing world and its needs the business or the individuals are having more and more opportunities and thus more money for investments. With the introduction of concepts like globalization, liberalization, the face of the banking and lending loans to the needy is also changed drastically. Central government introduced the welfare schemes like Mudra Loans without any collateral security for the same. Even RBI has recently took up the initiative of setting up payments banks to pave way for the revolutionizing cashless payment services across the country. The very concept of payment banks has the potential to change the banking habits of the people, which in terms will act a game changer in economy. With the payments bank license will pave a way for building a more comprehensive portfolio of banking a network are likely to change the entire landscape of the economy. The payments banking concept will enable for the introduction of financial products and services, which will help in acceleration of economy and thus transformation of India. Payments bank will make people less dependent on cash even for a small amount since a mobile wallet could serve as a bank account itself.

### **Role of Payments Banks**

Typically a payments bank is a type of non-full service niche bank and a bank licensed as a payment bank can only receive deposits and provides remittances according to the requirements of the customer. It cannot carry out any type of lending activities, unlike a normal bank. The main intention of payments bank is to reach the financial inclusion targets of the country and meant for people who migrate mostly from low income groups and other unorganized sectors. Payments banks created mainly with the Financial Inclusion is the base so the one can be included in Financial services.

### **Roots of Payments Banks**

The seeds of payments banks were sowed in the year 2013. When RBI identified that there is a need for specialized banks in India and differentiated licensing could be a desirable step in this regard , especially infrastructure financing and wholesale and retail banking. With the finance minister announcing with the suitable changes to current framework a structure will be put in place for continuous authorization of universal banks in the private sector. RBI started creating a framework for licensing small banks and other differentiated banks. Differential banks service niche interest, local area banks, payment banks etc are contemplated to meet credit and remittance needs of small businesses , unorganized sectors, low income groups , farmers and migrant workforce.

### **Payments Banks Licenses**

#### ***There are a few licenses of payments banks***

Aditya Birla Nuvo, Airtel m-Commerce Services, Cholamandalam Distribution Services , Department of posts, Fino Paytech, NSDL, Reliance Industries, Tech Mahindra, Vodafone m-pesa, Dilip Shanghvi, Vijay Shekhar Sharma and regulations on these payments banks are the banks should be fully networked from the beginning. The minimum capital requirement is Rs.100 Crore. It cannot form subsidiaries to undertake non-banking activities. Initially the deposits will be capped at Rs.1 Lakh per customer, but is may be raised by RBI based on performance. The banks cannot undertake lending activities. The payments banks must have at least 25% of its branches in the unbanked rural areas. The bank must use payments bank as part of its title to differentiate from other banks. The banks should be registered as a public limited company under Companies Act,2013. Promoter stake for the first five years must be at least 40%. Foreign share holding will be allowed, subject to the FDI rules for private banks. The voting right will be regulated by the Banking Regulation Act,1949. Shareholder voting rights is capped at 10% which can be raised to 26% by RBI. Any acquisition of more than 5% will be require RBI approval. The majority of the Bank's board of directors should consist of independent directors appointed as per RBI guidelines. The vital ideal behind payments banks is to bride the gap between bank branches and remote customer, living in a rural region. Technology plays a key role in connecting all the customers using Mobile Banking as Vehicle.

### **Financial Inclusion through Payments Banks**

To include those poor sections of the society the path is Payments Banks Financial Inclusion is the main goal. With payment banks it is easy and accessible for a customer to have a bank account. Payments banks also serves as a model for transactions and savings for the under privileged people. Transactions cost can be reduced using payments banks. The basic purpose of setting up payment banks is to financial inclusion through small savings accounts and payments to the migrant labor



workforce, low income household, small businesses and other unorganized sectors, by enabling high volume-low value transactions in deposits and payment services in a secure, technology driven environment. Payments banks are permitted to set up its own branches, ATMs, business correspondents and similar things to undertake only certain restricted activities, with the following restricted permission, i.e payments banks can accept demand deposits, current deposits and saving bank deposits from an individuals, small businesses and others as permitted. NRI deposits can be accepted. Payments banks are permitted to issue ATM/Debit cards but it cannot issue Credit Cards. Payments banks are permitted to issue pre-paid payment instruments according to instructions issued from time to time under the Payments and Settlements Systems Act, 2007. However the outstanding balances in Pre-Paid Payment Instruments will be deployed as per the relevant pattern of funds. The banks may offer internet services, since internet is now part of every day's life. They are expected to leverage technology to offer low cost banking solutions. They are allowed to function as business correspondents of other banks, subject to RBI guidelines. Payments banks can accept remittance to be sent to or receive remittances from multiple banks under approved RBI mechanisms like RTGS, EEFT, IMPS and other modes. Payments banks will be permitted to handle international fund transfer in the nature of personal payments on the current account. All facilities for such transactions are subject to approval of RBI. Payments banks can undertake other non-risk sharing simple financial services that do not require any commitment of their own funds.

These include distribution of Mutual Fund units, insurance products, pension products and others with prior approval of RBI and after due compliance. The payments banks are allowed to undertake utility bill payments on behalf of customers and the general public. Payments banks cannot set up subsidiaries to undertake non-banking financial activities. The other financial and non-financial services activities of the promoters, if any, should be kept ring-fenced and not involved with the banking and financial services business of the payments bank. As per the dynamic and dashing RBI Governor Shri Raghuram Rajan, payments banks will serve as add-ons to the existing banks and not as competitors. As per his opinion, payments banks will be feeders into the universal banks, Payments banks cannot do something universal banks can do. Payments Banks will complement the existing banking system. Payments banks will boost the existing banking processing and will pave way for more competitive and interesting to transact with. One of the important objectives for the introduction of the Payments banks is that the Government welfare schemes such as LPG, food and other subsidies can be routed through Payments Banks, thus eliminating corruption and thus common man will get his real share of the fruit offered by the Government.

### **India Financially Included**

With the Peoples development as the primary objective of Payments banks is that it will enable the Financial Inclusion of those who are excluded from financial products. Technology will play a vital role in the successor of the Payments Banks. With the Mobile Technology expanding day-by-day and which formed the part of every bodies lives. Now a day a Mobile is acting as a Bank branches, offering all the transactions paperless. Banking costs would come down as intense competition driven by the expected proliferation of payments banks. The limitation of cash transaction through ATM, cheque books, minimum balance etc. Since, payments banks offer mostly through paperless mechanism, the cost will be reduced. As stated earlier Government Schemes will reach the common man if these funds are routed through Payments Banks. In fact corruption will be reduced if all the transactions are routed through Payments Banks. Payments banks are considered to as a tool for eliminate black money from the financial system. The government will gain from payments banks, since very transaction is recorded which can be used to Tax calculation purpose.

### **Interlink of Payments Bank with Loan repayment System**

The slight amendment to the current Payments Bank so the whoever avails the loans, the respective loan repayment has to be done through Payment Bank so the income of the individual can be linked to this which enables the system to track the income of the individual who already availed the loan from the scheme. It is easy for the banks to distribute the money unlike the current system, where huge bad debts are pending. With such a reform to the Banking System, those who availed the loans cannot escape their liability, hence development will be put on a fast paced track. To be precise deducting at the source of income of an individual is the key to this system.

### **Conclusions**

One of the most troubles some fact that is haunting Banks is the recovery of the loans. Payments banks basically meant to include small, excluded customers. Payments banks are a different product market from the current way in which existing banks operate. Of course there is criticism from some Bank Unions, but still the advantages are huge and immense. This is a step towards elimination of corruption and also to build Swatch Bharth. Government must an Act, for the strict implementation of all Payments only through such modes as Payments Banks, in order measure the gauge of the Transaction, enabling them to view where it reaches. Payments Banks are a good more from RBI. Very basic concept of Payments Bank



can be customized to overcome the problem of recovery, whether is can be a credit card or personal loan or any other loan. RBI's reforms is the key to the implementation of Payment Banks

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