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PROSPECTS OF PAYMENT BANKS IN INDIA

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Introduction to Payment Banks

Payments banks are a new model of banks conceptualized by the reserve bank of India. Payment Banks means "Digital Wallet or Mobile Currency" which can be used to mobilize deposits, money transfer, book movie tickets, bus tickets, pay utility bills, do shopping etc. **Does not similar to PPI (Pre Paid Payment Instruments)**. The payment banks could be supermarket chain, mobile service provider, non-banking financial companies, post offices, agri/dairy type cooperatives etc.

Background (Or) History of Payment Banks

Payment Banks is based on the concept of PPI (Pre Paid Payment Instruments) not similar to PPI. Pre-paid Instruments are just like pre-paid SIM cards; you recharge them with the desired amount and use it to perform various transactions such as transferring money using your mobile to another mobile phone holder or to another bank account, paying bills, booking tickets etc. Funds are added into the Pre-paid instrument by the direct bank transfer or from the credit card of the holder. Even though more benefits, it has some drawbacks, such as higher charges for transfer of money and payments, Pre-paid instruments does not earn any interest and there is no safety for money and once money added in PPI cannot be taken back. After reviewing the above drawbacks, On 23 September 2013, **Committee on Comprehensive Financial Services for Small Business and Low Income Household**s, headed by **Nachiket Mor**, was formed by the RBI. The Committee suggested that RBI should stop giving license to open PPI and give license of "Payment Banks" in place of PPI.

Among its various recommendations, it recommended the formation of a new category of bank called payments bank. On 17 July 2014, the RBI released the draft guidelines for payment banks, seeking comments for interested entities and the general public. On **19 August 2015**, the Reserve Bank of India gave "in-principle" licenses to 11 entities from among 42 entities to launch payments banks. In-principle approval will be valid for 18 months, they are not allowed to engage in banking activities within the period. The RBI will consider grant full licenses under Section 22 of the Banking Regulation Act, 1949, after it is satisfied that the conditions have been fulfilled. The 11 entities are as follows:

1	**Aditya Birla Nuvo (Idea)**
2	**Airtel M Commerce Services**
3	**Cholamandalam Distribution Services**
4	**Department of Posts**
5	**FINO PayTech**
6	**National Securities Depository**
7	**Reliance Industries**
8	**Sun Pharmaceuticals**
9	**Paytm**
10	**Tech Mahindra**
11	**Vodafone M-Pesa**

Regulations and activities of payment Banks

Regulations

- 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.
- 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.

Activities

- Payment banks are permitted to mobilize the deposits from each customer upto maximum of Rs. 1 Lakh. No NRI deposits should be accepted.

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- The payment banks 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.
- The payments bank will have to undertake its own KYC/AML/CFT exercise as any other bank.
- Payment banks can issue of ATM / Debit Cards. However, cannot issue credit cards.
- Deposits, payments and remittance services done through various channels including branches, Automated Teller Machines (ATMs), Business Correspondents (BCs) and mobile banking.
- Cash-out can also be permitted at Point-of-Sale terminal locations as per extant instructions issued under the PSS Act.
- Payment banks are permitted to issue of PPIs as per instructions issued from time to time under the PSS Act.
- RBI is opened to payments bank offering Internet banking services. The payments bank will be required to comply with RBI instructions on internet banking; and information security, electronic banking, technology risk management and cyber frauds.
- 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.
- 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. with the prior approval of the RBI and after complying with the requirements of the sectoral regulator for such products.
- The payments bank may undertake (agency functions) utility bill payments etc. on behalf of its customers and general public.

Who Can Start Payment Banks
The following promoters can start the payment banks as per RBI guidelines.

- Individuals / professionals
- Non-Banking Finance Companies (NBFCs)
- Corporate BC (Business Correspondence)
- Mobile telephone companies
- Super-market chains
- Companies
- Real sector cooperatives; that are owned and controlled by residents; and public sector entities may apply to set up payments banks
- Government entity can also set up a payment banks, it should first obtain necessary approvals from the Government.
- A promoter / promoter group can have a Joint Venture with an existing scheduled commercial bank to set up a payment banks.

Capital Structure of payment Banks
The **minimum paid-up equity capital** of the payments bank shall be **Rs. 100 crore**. The payments bank shall be required to maintain a minimum capital adequacy ratio of 15 per cent of its risk weighted assets (RWA) on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time. Moreover the payment banks will not have significant credit and market risks. However, it will be exposed to operational risk.

Since a payment banks cannot undertake lending activities, it is not mandatory for it to have a **diversified ownership structure**. Therefore, no maximum shareholding limit for promoters is prescribed. However, the **promoters of the payment banks should hold at least 40 per cent of its paid-up equity capital** for the first five years from the commencement of its business.
As per the rules of the Foreign Direct Investment (FDI) these banks can allow foreign share holding.

Objectives of Payment Banks
The objectives of setting up of payments banks will be to further financial inclusion by providing

(i) Small savings accounts

(ii) Payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users.

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Features / Benefits of Payment Banks

- Payment banks have access points in rural and semi-urban areas, concentrate deposits from rural and urban areas
- Payment banks can now be your mobile service provider, supermarket chain or a non-banking finance company.
- Making payments and remittance is very easy.
- Payments / remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users, by enabling high volume-low value transactions in deposits and payments / remittance services in a secured technology-driven environment.
- Payment banks may make handling cash a lot easier. For example, you can transfer money using your mobile phone to another bank or to another mobile phone holder and also receive amounts through your device. Or you can transfer the amount to point-of-sale terminals at large retailers and take out cash.
- Payment Banks can offer Deposits (only current/saving accounts), issue ATM / Debit cards, payments and remittances services and can also act as **Distributor** of Third party products (can cross sell insurance, mutual funds etc
- Payment banks will pay interest on savings accounts as per RBI Guidelines (Rate of Interest not yet determined RBI).
- The deposits with in the payment banks are covered by the DICGC (Deposit Insurance & Credit Guarantee Corporation), like commercial banks.
- Payments banks will be regulated by RBI.
- Transaction charges and any kind of charges would be lower than other banks. Because, the RBI recommends the payment banks to invest in technological sectors, so finally charges of payment bank would be low.
- Payment banks have good quality – low cost of transaction, updated education / encouragements / encourage its customers to do cash-less transaction.
- Payments banks will ensure more money comes into banking system.
- Payment banks will play a vital role in fulfilling India's financial inclusion agenda, and have the potential to change the paradigms of retail banking especially in the payments space.
- Payment banks cover the more remote area people (especially Hill area) increase the habit of savings by driving cashless transactions.
- They will also promote the habit of savings by driving cashless transactions.
- There is no restriction on the income levels of those who wish to open accounts in payment banks, those who have salary accounts in regular bank accounts can also open an account in a payment bank.
- Individuals can use the payment bank account to make daily or monthly cash transactions, either through debit card or through mobile. This can also help guard against debit card fraud, since you can keep a smaller balance in these accounts.
- Students living away from home would also be able to use facilities of payment banks to pay their fees. Small businesses that have five or six employees can operate salary accounts in payment banks, instead of paying out cash.
- Payment banks may also offer a higher rate of interest on savings bank accounts, in order to attract customers.
- The biggest advantage of a payment bank is that it can provide the last-mile connectivity, which regular banks cannot.
- These banks are likely to help expand banking services to the remotest corner of the country.
- Payment banks can use the mobile platform to provide basic banking transactions, in particular, payment for services and subsidies through mobile phones.

Comparison between the payment banks, PPI and Commercial banks are:

System	Can give loans?	Can accept deposits?	Can make payments?	Can offer interest on deposits?
Commercial Banks (SBI, PNB)	Yes	Yes	Yes	Yes
Payment Banks	**No**	**Yes**	**Yes**	**Yes**
Pre-Paid Instruments	No	Yes	Yes	No
Payment Network Operator (Visa, MasterCard)	No	No	Yes	No

Problems to Payment Banks

Even though more benefits and more profits, Payment banks have some remarkable problems

- The banks must maintain CRR, minimum 75% of demand deposits in Treasury bills and Government bonds of up to one year and maximum 25% in current and fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.
- 25% of its branches must be in the unbanked rural area. The bank must use the term "payments bank" in it's to differentiate it from other types of bank.
- Payment banks having financial bindings. It has some limitations compare to commercial banks.
- Payments banks do not carry lending activities. This means that the banks are not allowed to give credits to its customers.
- Payment banks are not able mobilize the deposits above 1 Lakh from its customers.
- Payment banks are prohibited to collect fixed deposits and recurring deposits.
- Payment banks cannot issue credit card to its customers.
- Payments banks cannot form subsidiaries or undertake any non-banking activities

Conclusion

Payment banks aren't threat to existing traditional banking. Instead, they will prove to be as add-ons to them. A good relationship between traditional banking institutions and payment banks will bring good results in the market. The existing Public sector and Private sector banks will have to introduce some changes in their technology so as to provide similar facilities to their customers. Public sectors banks having much more resources can focus on high net worth clients.

One of the interesting part is that RBI has given licences for 11 payment banks, which includes names like Airtel, Vodafone and Idea, which are mobile service providers and thus already have a customer base of over 580 million potential customers. They have also already in placed the mobile technology which can really change the scenario.

Reference

1. RBI Guidelines.
2. The Hindu News paper.
3. Wikipedia.