

# PAYMENTS BANKS: EMPOWERING DIGITAL INDIA

*Dr. Madhu Bhartia\**

## **Abstract**

*The setting up of payment banks is an exciting opportunity for digital financial inclusion. They have the potential to overhaul existing banking habits. Financial inclusion is the main goal behind creating payment banks. It is easier this way for a person to get a bank account. Besides, there is a need for transactions and savings accounts for the underserved population. Payments banks will bridge the last mile between bank branches and the remote customer living in a rural pocket. They will essentially rely on technology to reach payment services to all customers, using mobiles as a banking vehicle.*

---

**Keywords:** *Payments Bank, RTGS, NEFT, IMPS, NSDL, Micro-Customers.*

---

## **Introduction**

The background setting up of payments banks was not an overnight idea of the RBI. On August 27<sup>th</sup>, 2013, the central bank published on its website, a policy discussion paper titled Banking Structure in India- The Way Forward. The paper observed that there is a need for niche banking in India and differentiated licensing could be a desirable step in this regard, particularly for infrastructure financing and wholesale and retail banking. Subsequently, the Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households, headed by Nachiket Mor, also examined the issues relevant to a ubiquitous payment network and universal access to savings. The committee recommended the licensing of payments banks to offer financial services to the hitherto excluded sections of the population. This committee released its report in January 2014.

Finance Minister, Arun Jaitley announced in the 2014-15 Union Budget: “After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year.

---

\* Assistant Professor, Department of Commerce, Institute of Computer Science & Technology, Varanasi

RBI will create a framework for licensing small banks and other differentiated banks. Differential banks serving niche interest, local area banks, payment bank, etc, are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low-income household, farmers and migrant workforce." For effective and efficient functioning of payments banks, the RBI released the draft licensing guidelines inviting public opinion, on 17 July 2014. The final guidelines were issued on 27 November. The RBI, on 1 January 2015, issued clarifications to the 144 queries raised by the public. In February 2015, it released the list of 41 organizations that had applied for the payment bank license. The applications were scrutinized by an external advisory committee headed by Mor. Finally, on 19 August, the RBI issued 'in-principle' licenses to Aditya Birla Nuvo, Airtel m-commerce Services, Cholamandalam Distribution Services, Department of Posts, Fino Paytech, National Securities Depository Ltd (NSDL), Tech Mahindra, Reliance Industries, and Vodafone M-Pesa. Licenses were also issued to Dilip Shanghvi, founder of Sun Pharmaceuticals, and Vijay Shekhar Sharma, CEO of Paytm.

### **Objective of Study**

Financial inclusion is the main goal behind creating payments banks. It is easier this way for a person to get a bank account. Besides, there is a need for transactions and savings accounts for the underserved population, and remittances have macro-economic benefits for the region receiving them, as well as micro-economic benefits to the recipients. Higher transaction cost for remittances diminishes these benefits. The primary objective behind setting up payment banks will be to further financial inclusion by providing small saving accounts and payments/remittance services to the migrant labour workforce, low-income households, small businesses, other unorganized sector entities, and users, by enabling high volume-low value transactions in deposits and payments/remittance services in a secure, technology-driven environment.

### **Scope of Study**

Payment banks would be permitted to set up their branches, ATMs, business correspondence, and similar things to undertake only certain restricted activities permitted to banks under the Banking Regulation Act, 1949. They are as follows -

1. Payments banks can accept demand deposits, current deposits, and savings bank deposits from individuals, small businesses, and other entities, as permitted. No non-resident Indian (NRI) deposits can be accepted.
2. They will be permitted to issue ATM/debit cards but not credit cards.

3. Payments banks are permitted to issue pre-paid payment instruments (PPIs) according to instructions issued from time to time under the Payment and Settlement Systems Act, 2007. However, the outstanding balances in PPIs will be deployed as per the relevant pattern of funds.
4. The banks may offer internet banking services. They are expected to leverage technology to offer low-cost banking solutions.
5. They are allowed to function as business correspondents of other banks, subject to RBI guidelines.
6. Payment banks can accept remittances to be sent to, or receive remittances from multiple banks under approved RBI mechanisms like RTGS, NEFT, IMPS, and others.
7. Payment banks will be permitted to handle international fund transfers like personal payments or remittances on the current account. All facilities/approvals for such transactions are subject to RBI approval.
8. Payments banks can undertake other non-risk sharing simple financial services that do not require any commitment of their funds. These include distribution of mutual fund units, insurance products, pension products, and others, with prior approval of the RBI and after due compliance.
9. The banks are allowed to undertake utility bill payments on behalf of their customers and the general public.
10. 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 distinctly ring-fenced and not involved with the banking and financial services business of the bank.

### **Advantages**

According to the RBI governor Raghuram Rajan, payment banks are add-ons to banks rather than competitors. In his opinion, “Payments banks will be feeders into the universal banks. Payments Banks cannot do something universal banks can do”. Payment Banks will complement the existing system by traversing the last mile. They will revolutionize the Indian banking system making it very exciting for customers and existing lenders will have to improve service to retain depositors. Thus, banking will become more competitive and interesting. Payment banks will bridge the last mile between bank branches and the remote customer living in a rural pocket. They will essentially rely on technology to reach payment services to all customers, using mobiles as a banking vehicle. Mobiles go even where humans don't.

Physically, branches will be still needed for functions like opening an account, depositing cash, and others. But all day-to-day payments, including peer-to-peer payments, can be done remotely.

The mobile phone will become the virtual ATM and small payment cheque book. Banking costs would also come down because of intense competition driven by the expected proliferation of payment banks. Presently, there are several costs for banking services like above-limit ATM transactions, additional cheque books, big money transfers, maintenance of minimum balances, and demand draft issue fees. The cost will also come down when payment banks start offering zero-balance accounts and low-cost services. The involvement of the India Post would transform social welfare and subsidy schemes. The government's LPG, kerosene, food, and fertilizer subsidies can now be routed through regular and payment banks. India Post already has a presence where banks do not, and Airtel, Vodafone, and Idea would soon reach customers through mobile-enabled payments systems. Mobile banking will create conditions for cashless banking.

This means over time the mobile will perform the same role as credit and debit cards, obviating the need for too many cash payments.

Even ATM expansion can be slowed down in cities and focused on distant villages or towns. Payment banks will be considered as an additional tool to eliminate black money from the financial system. A government that wants to eliminate black money, can effectively do so once a 95 percent mobile and **Jan Dhan** penetration rate is achieved. India is very close to reaching the one billion mobile bases, and *Jan Dhan* is set to have reached all the households. The government will be one of the biggest beneficiaries of payment banking, as it will expand its access to cheap funds. Banks are major investors in government bonds. While this will remain so even after the entry of payment banks, the sheer impact of additional money coming into these bank accounts which can be invested in short-term government bills means that short-term rates will come down, and the government can borrow more cheaply. Bank depositors can expect to earn higher short terms deposit rates from payments banks, and the existing four percent savings bank returns may fade away. After payments to banks, RBI will license 'small banks' that have to focus on loans to small borrowers and not a big corporate. Once this happens, non-banking finance companies will become small banks and make financial inclusion more complete from the small borrower's perspective.

### **Brief Profile of the Licensees**

Here is a brief profile of the 11 successful bidders –

1. **Aditya Birla Nuvo:** It is best positioned to capitalize on Idea Cellular's retail network and Aditya Birla Finance's expertise.
2. **Airtel m-commerce Services:** It already has a pan-India telecom network and mobile money services. They are well-positioned to leverage the payment bank license with 1.5 million retail outlets.
3. **Cholamandalam Distribution Services:** Cholamandalam is the listed subsidiary of the Murugappa Group having a network of 534 branches spread across the country and a captive base of 7.5 lakh customers. Around 75 percent of their branches are located in tier-II and tier-III cities.
4. **Department of Posts:** The post offices, presently, are halfway to become full-fledged banks. They have the widest network, stretched to even the remotest corners, and grassroots personnel.
5. **Fino Paytech:** It is a financial inclusion solutions and services company and has a wide network. It is capable to cater to micro-customers facilitating payments and has a large business correspondent network across 500 districts. It is also prepared to collaborate with other players on the retail front.
6. **NSDL:** It is the custodian of 119.82 Lakh crore worth of securities. It has a network of 270 depository participants, spanning 17,265 service centers, in 1,632 cities and towns.
7. **Reliance Industries:** The State Bank of India (SBI) has proposed a 30 percent stake in Reliance Industries Payments Banks. A partnership with SBI and the impending launch of Reliance Jio makes it a formidable player.
8. **Tech Mahindra:** The company is technologically ready to launch its payments bank. They have a strong relation with Mahindra Finance. The company already has relevant experience in the field with mobile payment platforms Mobomoney and Mobiquity.
9. **Vodafone m-pesa:** With over 90,000 m-pesa agents, Vodafone is already providing money transfer services to remote areas safely and securely. They strongly desire to boost the m-pesa mobile payments service with nearly one lakh banking agents. They also have 1.7 million retail outlets and deep market penetration.
10. **Dilip Shanghvi:** The managing director of Sun Pharmaceuticals has partnered with Norwegian Telecom major Telenor and IDFC.
11. **Paytm:** Vijay Shekhar Sharma: Founder of Paytm, which has 30 million mobile wallets in the country. Paytm's share is 18 million.

## **Regulations**

The 'In-principle' license is valid for 18 months, within which the payment banks must fulfill all the requirements. They are not allowed to engage in banking activities within the period. The RBI will consider granting full license if the licensees meet the following set of regulations

1. The bank should be fully networked from the beginning.
2. The minimum capital requirement is 100 Crore.
3. It cannot form subsidiaries to undertake non-banking activities.
4. Initially the deposits will be capped at 1 Lakh per customer, but it may be raised by RBI based on performance.
5. The bank cannot undertake lending activities.
6. The payments banks must have at least 25 percent of their branches in the unbanked rural areas.
7. The bank must use 'Payments Bank' as part of its title to differentiate from other banks.
8. The bank should be registered as a public limited company under the Companies Act, 2013.
9. Promoter stake, for the first five years, must be at least 40 percent.
10. Foreign shareholding will be allowed, subject to the FDI rules for private banks.
11. The voting rights will be regulated by the Banking Regulation Act, 1949.
12. Shareholder voting rights are capped at 10 percent, which can be raised to 26 percent by RBI.
13. Any acquisition of more than five percent will require RBI approval.
14. The majority of the bank's board of directors should consist of independent directors appointed according to RBI guidelines.

## **Conclusion**

Payments banks focus on micro-customers, and the mandate is to create an effective payment ecosystem and propose to build that on the current network and also collaborate with other players on the retail front. Payment banks are a different product market from the current way in which existing banks operate. Universal banks, on their part, have to provide full and effective service. The banking will thus become more competitive and the customer will have different alternatives to do the banking transactions. Within no time every Indian will have a bank account and payment banks will be key enablers. However, the All India Bank Employees Association (AIBEA) has criticized the introduction of payments banks, as a direct attempt to

boost private sector banking and to minimize the role of public sector banks and their market share. The main job of payment banks is to collect deposits. They will cut the routes of public sector banks. This would increase banking costs. One has to wait and see the efficiency and effectiveness of payment banks in digital India.

### **References**

1. *The Economic Times*
2. *The Hindu*
3. <http://www.rbi.org.in>
4. <http://www.economist.com>
5. <http://www.wikipedia.org>

\*\*\*