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PAYMENT BANKS IN INDIA: NEW LAND MARK IN BANKING SECTOR

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ABSTRACT

The term "Payment Banks" is new and seems to have been invented in Indian context. In September 2013, a "Committee on Comprehensive Financial Services for Small Businesses and Low Income Households", headed by Nachiket Mor, was formed by the RBI. By January 2014, the Nachiket Mor committee submitted its final report and one of its recommendations was the formation of a new category of bank called payments banks.. The Main objectives of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganized sector entities and other users.

These banks can accept a restricted deposit which is currently limited to 1 lakh per customer account. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. Payments banks can issue services like ATM cards, debit cards online banking and mobile banking.Payments banks are expected to revolutionise financial services the way e-commerce has transformed the retail industry, through service and price differentiation, refreshing approach, choice to the customer, focus on volumes over margins, and more importantly, deconstruction of established paradigms

Keywords: Payments Banks, Small Saving accounts, Payments/ remittance, e-commerce,, online and mobile Banking

INTRODUCTION

BackGround to "Payment Banks" in India :

The term "Payment Banks" is new and seems to have been invented in Indian context. In September 2013, a "Committee on Comprehensive Financial Services for Small Businesses and Low Income Households", headed by Nachiket Mor, was formed by the RBI. By January 2014, the Nachiket Mor committee submitted its final report and one of its recommendations was the formation of a new category of bank called payments banks.

The above was followed by announcement in Union Budget 2014-2015 (presented on July 10, 2014) wherein it was decided that "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. RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force".

Taking cues from the Budget, RBI issued the draft guidelines in July 2014 itself on payments banks and small banks as differentiated or restricted banks. Based on the feedback RBI came out with final guidelines for Payment Banks in November 2014, and called the applications from entities which are interested to start such banks.

What are Payment Banks or Define a Payment Bank :

We can define a Payment Bank in India as a type of bank which is a non-full service niche bank. A bank licensed as a Payments Bank can only receive deposits and provide remittances. It cannot carry out lending activities. Thus, Payment Banks can issue ATM/debit cards, but can not issue credit cards as they are not empowered to carry out lending activities.

What is the Objective of Creating Payment Banks in India :

We can sum up the objectives in one sentence that these banks have been created to help India reach its financial inclusion targets. This type of bank can be highly useful for migrant labourers, low income households, small businesses, and other unorganized sector entities.

RBI in its guidelines says "the objectives of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

Some Regulations for Payment Banks :

- The minimum paid-up equity capital for payments banks shall be Rs. 100 crore.. For the first five years, the stake of the promoter should be 40% minimum. Foreign share holding will be allowed in these banks as per the rules for FDI in private banks in India.
- The bank should be fully networked from the beginning. The bank can accept utility bills. It cannot form subsidiaries to undertake non-banking activities.
- Initially, the deposits will be capped at Rs.1,00,000 per customer, but it may be raised by the RBI based on the performance of the bank. The bank cannot undertake lending activities.
- 25% of its branches must be in the unbanked rural area. The bank must use the term "payments bank" in its to differentiate it from other types of bank. The banks will be licensed as payments banks under Section 22 of the Banking Regulation Act, 1949 and will be registered as public limited company under the Companies Act, 2013.
- The banks must maintain CRR, minimum 75% of demand deposits in 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.

Payment Banks: An Evolution in the Banking Sector

To widen the reach of the banking services in India and in order to achieve central government's goal of financial inclusion, the Reserve Bank of India (RBI) has taken a strategic move. The RBI has given an in-principle approval to 11 entities to be set-up as payment banks. These payment banks are aiming to provide basic banking facilities, especially to low-income groups and small businesses. Let us see what this evolution stands for and how will it work for the Indian population and the financial markets.

What are payment banks?

In simple terms, a payment bank is generally a non-full service niche bank in India. It is a distinguished bank that will undertake only limited banking functions which are allowed as per the Banking Regulation Act of 1949. The licenced entities as payment banks could only receive deposits and offer remittances. They cannot undertake lending activities. These banks can offer banking functions such as payments, deposits, remittances, internet banking, and would initially be allowed to take cash deposit of maximum Rs. 1 lakh per individual.

What are the objectives of payment banks?

The main objective of the payment banks is to increase financial inclusion by offering small saving accounts and payment remittance services to low-income households, migrant labour workforce, small businesses and other unorganised sector entities and other similar users. It will also enable high volume-low value transactions in deposit and payment/remittance services in a technology-driven environment.

What they can do and what not?

The payment banks are accessible to certain dos and don'ts. They are:

Do's	Don'ts
Accept demand deposits from individuals, small business or other similar entities.	Lend loans
Take cash deposits to the limit of Rs. 1 lakh (this might be raised later by the RBI depending upon the performance of the bank).	Issue credit cards
Set up branches, ATMs and correspondents	Accept NRI deposits
Issue debit cards and offer internet banking facility	Set up subsidiaries for non-banking financial services.
Sell mutual funds, insurance and pension products	Offer other financial/non-financial services of promoters
Accept remittance to be sent to multiple banks and receive remittances from them too.	
Undertake utility bill payments	

How did the payment banks come into being

- On 23 September 2013, the RBI formed a Committee on Comprehensive Financial Services for Small Businesses and Low Income Households headed by Nacghiket Mor.
- On 17 July 2014, the RBI issued the draft guidelines for payment banks, inviting suggestions and comments from interested entities and general public.
- On 27 November 2014, final guidelines for payments banks were released by the RBI.
- On 4 February 2015, the RBI released the list of the entities which have applied for the payment banks.
- On 28 February 2015, during the announcement of the Annual Budget, it was declared that India post will run a payment bank through its large network in the country.
- On 19 August 2015, the RBI gave an in-principle approval to 11 entities to set up payment banks.

Who all got the licence?

The RBI had received 41 applications for payment banks; however, it offered licence to only 11 of them:

1. Aditya Birla Nuvo Limited
2. Airtel M Commerce Services Limited
3. Cholamandalam Distribution Services Limited
4. Department of Posts
5. Fino PayTech Limited
6. National Securities Depository Limited
7. Reliance Industries limited
8. Shri Dilip Shantilal Shanghvi (Sun Pharma promoter)
9. Shri Vijay Shekhar Sharma (CEO of One Communications, which runs PayTM)
10. Tech Mahindra Limited
11. Vodafone m-pesa Limited

When will these banks start functioning?

The 'in-principle' approval granted by the RBI will be valid for a period of 18 months. The applicants will have to comply with the requirements and fulfil the conditions given as guidelines by the RBI, within this stipulated timeframe.

What were the guidelines set by the RBI for payment banks?

- Minimum capital required should be Rs. 100 crore.
- For the first five years, the promoter contribution should be at least 40%.
- Excess shareholding could be brought down to 40% by the end of fifth year, to 30% by the end of tenth year, and to 26% in 12 years since the date of commencement of business.
- Foreign shareholding would be on similar rules for FDI set up for the private banks in India.

- The Banking Regulation, 1949 to regulate the voting rights.
- Other entities except for promoters will not be allowed to have shareholding of more than 10%.
- Any acquisition of more than 5% will need approval from the RBI.
- The majority of bank's board of directors should include independent directors who will be appointed as per the guidelines of the RBI. It should also have to comply with the 'fit and proper' criteria meant for Directors as issued by the RBI.
- The payment bank has to be fully networked and technology driven from the time of its commencement.
- 25% of its branches have to be in the unbanked rural areas.
- They must use the term "payment bank" so as to differentiate it from other type of banks.
- They will be registered as public limited company under the Companies Act, 2013.
- The RBI has strictly said that the banks need to have a high powered 'Customer Grievance Cell' to handle customer complaints and concerns.

The Smart Payment Bank may not Look Like Bank

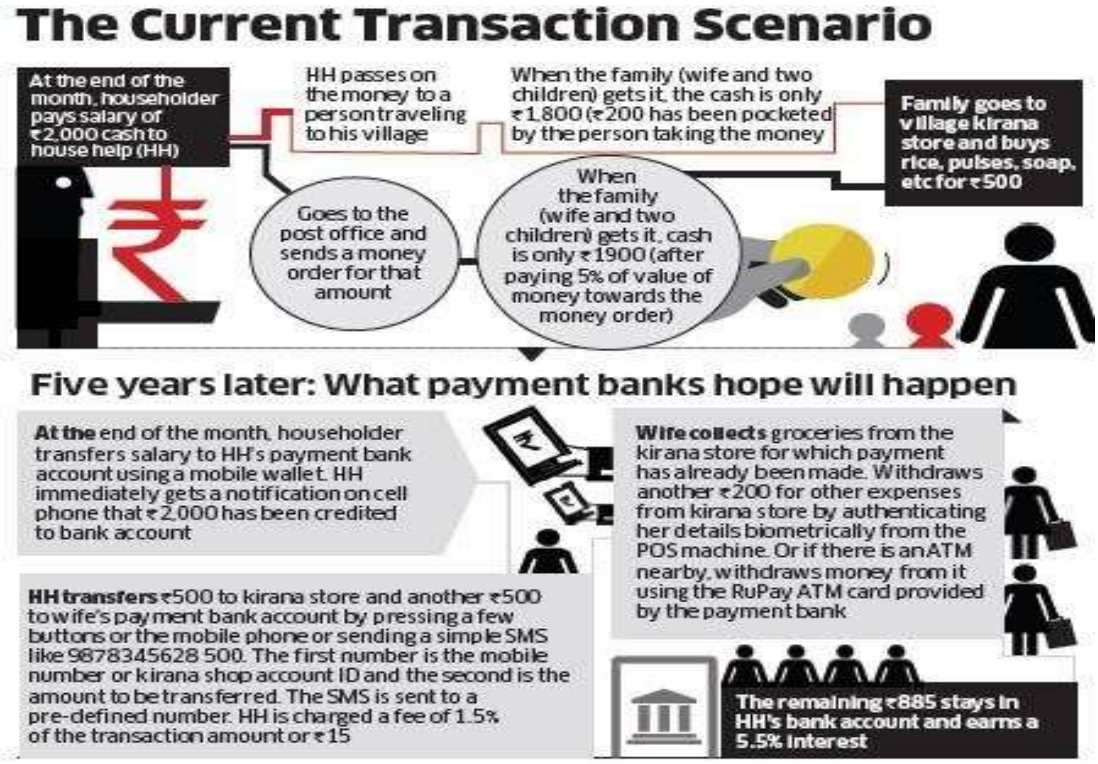
India's e-commerce market was worth about USD 3.8 billion in 2009, it went up to USD 17 billion in 2014 and to USD 23 billion in 2015 and is expected to touch whopping USD 38 billion mark by 2016 (According to Assocham) Unlike the Western countries, online shopping in India is mostly done through Cash on Delivery payment method. In India, CoD is used as the mode of payment for 5 out of 10 online transactions.

On the contrary, the situation is completely reversed in western countries where approximately more than 80% of the online transactions are made by debit or credit cards, net banking or any other alternate channel of online payment. CoD transactions are expensive for the seller, especially in case of product returns.Instances of product returns are also higher in CoD transactions - approximately 35% more. Nearly all courier companies charge some extra amount for collecting cash. This cost is divided in two parts fixed and variable cost. Fixed cost margins are INR 20 to 150 and variable cost is 1% to 3% of the CoD amount. This is for high priced product such as laptops and mobile phones. If the item is priced low then the CoD charges at times exceed one's margin in the product and if the item is priced very high then the percentage CoD charge turns out to be in hundreds or even thousands. To encourage customers to pay digitally companies are offering discounts or freebies: eCommerce companies are run promos or discount offers only for consumers who are paying online.

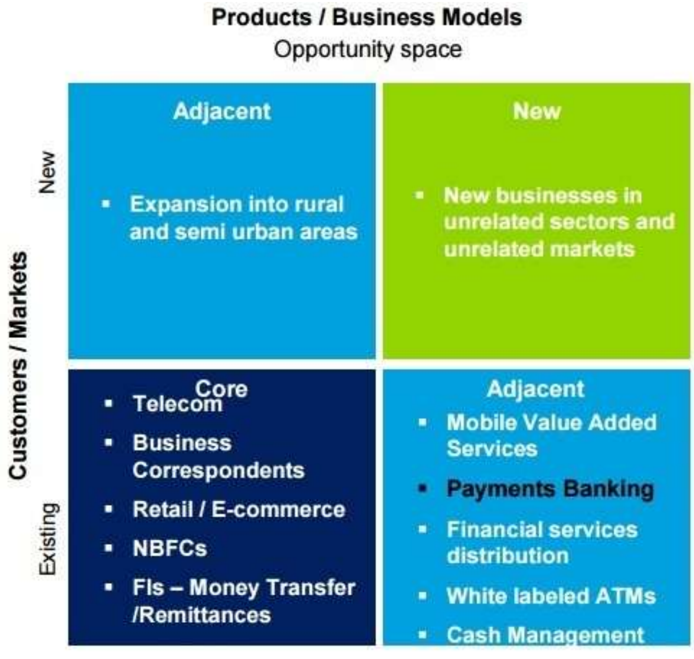
Payment Bank Can solve above problem by proving facility to its large base of customer to make e-commerce purchase payment through there payment bank account using Mobile/web app , Pos , Merchant Point etc

Domestic Remittance / Money Transfer for Smart Payment Bank Customer

The landscape of the migrant-driven domestic remittance business, dominated by informal channels, may undergo a sea change with payment banks ramping up its money transfer network.



A 2011 study by Analysys Mason, a global think tank, found that the total transaction value of domestic remittances in India stood at $13 billion (around Rs.79,400 crore today) in 2010, with 80% directed towards rural areas. The market is expected to reach about $20.3 billion by 2016, growing at a compounded annual rate of 12%.The informal sector accounted for 70% of domestic remittances, against 25% in China "revealing a huge opportunity for Payment Bank to serve migrant workers".



SMART PAYMENT BANK

Payments banks will alter the way transactions are carried out but they will complement banks, not compete with them

How payment banks will affect existing banking sector?

The payments banks will help reach out to the people in rural areas where banking system is not very effective. This way they will bring the unbanked masses under the ambit of general banking. They will also ensure that more money comes into the banking system and hence will expedite financial inclusion. They will also be helpful in making the poor more financially literate.

With the advent of these new set of banks the existing top-notch banks will not be affected much as payment banks will operate in specific areas only. Also, the major banks in India could use these banks to improve their reach in every part of the country, as the payment banks can also function as business correspondents. In fact, some of the major banks have already tied up with the licence holders. For instance, the State Bank of India (SBI) has tied up with RIL's proposed payment bank and will have about 30% share in the same. Similarly Aditya Birla Nuvo Limited has tied up with Idea Cellular which will have 49% share in the joint venture. Kotak Mahindra Bank will have 19.9% stake in Bharti Airtel's bank. Tech Mahindra is likely to join hands with Mahindra Finance for payment banks. Norwegian telecom giant Telenor, Dilip Shanghvi and infra financier IDFC have entered into a deal for payment banks.

CONCLUSION

Based on this paper Payment Bank play crucial role in banking sector because of its have 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.

In a payment bank, KYC norms may be simplified and charges may be lower, says Ajay Srinivasan, director, Crisil Research. "Payments banks will target the non-banking population. So, they might have linient KYC norms. Also, as they will be more technology-intensive, their fees would be lower than regular banks."

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