

Payment Banks: A Revolutionary Step in Indian Banking System

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Abstract: *In this paper an attempt has been made to study the paradigm shift in Indian banking system with the inclusion of new age bank, i.e., Payments Bank. To reach out the non-banked areas of the country Reserve bank of India on 19th Aug-2015 approved 11 payment banks to help those who are not a part of formal banking system of India. This paper will reflect the fundamentals of payment banks and challenges for it.*

Keywords: *Payments bank, banking services, PB, PPI.*

Research Methodology: *It's a conceptual study and no data required therefore no hypothesis and testing can be applied.*

Type of Data: *Secondary data*

I. Introduction

The Indian financial system has witnessed some remarkable changes since 1991. Banking sector is one the sector which has been performing really well after liberalisation, and this success can truly be associated with major banking reforms taken by RBI and some major technological changes that have taken place over the years.

On 19th Aug, 2015, the central bank of India gave nod to 11 banks out of 42 applicants for payment banks license. The nine organisations include, Aditya Birla Nuvo Limited, Airtel M Commerce Services Limited, Cholamandalam Distribution Services Limited, Department of Posts, Fino PayTech Limited, National Securities Depository Limited, Reliance Industries Limited, Tech Mahindra Limited and Vodafone m-pesa Limited. The two individuals include Dilip Shanghvi of Sun Pharmaceuticals and Vijay Shekhar Sharma of one communication which operates Paytm. These entities, which are required to have an initial capital of Rs. 100 crore each, will have to start operations within 18 months.

These new type of niche bank was proposed in the Nachiket Mor Committee Report on 'Comprehensive Financial Services for Small Businesses and Low Income Households'. These are expected to be game changers for India expanding banking services.

A payments bank can perform all the functions of a normal bank except service of lending. Therefore, it will accept deposits, pay bills, accept cheques and drafts but will not lend. They can hold a balance of up to Rs. 1 lakh and can open and operate branches and ATM's. They are expected to cater to migrant labourers, low-income households and small businesses by offering savings account and remittance services with low transaction costs.

Key features of the Payments Banks guidelines by Reserve bank of India are:

i) Objectives: 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.

ii) Eligible promoters:

- a. Existing non-bank Pre-paid Payment Instrument (PPI) issuers; and other entities such as individuals / professionals; Non-Banking Finance Companies (NBFCs), corporate Business Correspondents(BCs), 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.
- b. A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payments bank. However, scheduled commercial bank can take equity stake in a payments bank to the extent permitted under Section 19 (2) of the Banking Regulation Act, 1949.
- c. Promoter/promoter groups should be 'fit and proper' with a sound track record of professional experience or running their businesses for at least a period of five years in order to be eligible to promote payments banks.

iii) Scope of Activities:

- a. Acceptance of demand deposits. Payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.
- b. Issuance of ATM/debit cards. Payments banks, however, cannot issue credit cards.

- c. Payments and remittance services through various channels.
- d. BC of another bank, subject to the Reserve Bank guidelines on BCs.
- e. Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.

iv) Deployment of funds :

- a. The payments bank cannot undertake lending activities.
- b. Apart from amounts maintained as Cash Reserve Ratio (CRR) with the Reserve Bank on its outside demand and time liabilities, it will be required to invest minimum 75 per cent of its "demand deposit balances" in Statutory Liquidity Ratio(SLR) eligible Government securities/treasury bills with maturity up to one year and hold maximum 25 per cent in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

v) Capital Requirement:

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

- a. The payments bank should have a leverage ratio of not less than 3 per cent, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).

vi) Promoter's Contribution: The promoter's minimum initial contribution to the paid-up equity capital of such payments bank shall at least be 40 per cent for the first five years from the commencement of its business.

vii) Foreign shareholding: The foreign shareholding in the payments bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.

viii) Other Conditions:

- a. The operations of the bank should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.
- b. The bank should have a high powered Customer Grievances Cell to handle customer complaints.

(source; https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=32615)

So the major difference 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

(Source: <http://www.simpleinterest.in/payment-banks-meaning/>)

II. Challenges For Payment Banks

1. Long Term Capital Required

Payments banks are allowed raise deposits but these funds will not be enough for expansion. So they will require wealthy risk taking investors who will stay there for long term. RBI has issued so many licenses and surely not all are here to stay, so investors must be patient with them at least till payment bank go for IPO.

2. Encompass Risk and Innovation

In order to succeed payments bank have to break the traditional banking mentality particularly related to investing. Traditional banks especially that in public sector goes for investment in government securities and bonds which are perceived as safer than credit market investments. There might be limited option for payments bank right now but they should for embrace a futuristic approach and should explore innovative payment options.

3. Abiding by the laws

Like any other bank, payments bank have to comply with the rules and regulation by RBI, maintain the ratios- Statutory liquidity, Cash reserve and capital adequacy norms.

One the reason for mobile money's struggle in India is complying with rules.

4. Dodging the government business trap

G2P payments may be luring to payments bank but they should not make these services the core part of their business otherwise they will be facing the same problems as the businesses have encountered previously. The fact that G2P services are prone to frequent and unpredictable decreases and depending upon them largely, poses a great threat.

5. Enabling payments scheme partnerships

For running digital payments effective partnerships are required at retail points. These relationships are provided by special intermediary like in Kenya pep intermedius which manages float and distribution points for Airtel, Mpesa etc. Similar system has to be adopted by India as well.

6. Looking for right leadership

To succeed payments bank have to look for a right leadership with right mix of people since it is first of its kind the world. Leaders from across sectors have put in teams to lead payments bank in India.

7. Scheming the right product

Payments bank need to create a differentiation between them and business correspondents by exploring a remittance plus model which essentially means investing largely in customer centric product that will include face to face and remote transactions. This can be done by being innovating and offering through mobile phones.

8. Changing the mentality

For payments bank to succeed Indians will need to migrate to digital alternatives which will require behavioural changes rather than technological changes. For this they require a system and policy efforts. In India most of the customers owns adebit card and prefer ATM transactions rather than mobile banking. Payments bank have great potential to change these patterns.

III. Conclusion

The inclusion of Payment Banks in India is a big positive disruption to the banking sector and would surely see the cost associated with transfer of money or settlements diminish dramatically for end users. Payment banks have been bounded in banking operations, as they will not be allowed to do a business of lending activities. Indeed there is a question about who will take care of the credit needs of the unbanked. RBI evoke that Payment Banks will serve as a channel to allow people to eventually migrate to full-service banks, which is quite likely. Certainly payment banks will be a game changer.

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