Payment banks

Disruptive force

PSBs likely to feel the heat as some players bagging license for mobile transfer of funds have incredible access to the hinterland

The NDA government's target of Rs 40 trillion for mortgages and the establishment of 300 million new manufacturing jobs by the calendar year (CY) 2020 will release the pent-up demand for financial products and services, thereby boosting the Indian economy. The size of the banking assets in India reached US$1.8 trillion in the fiscal year ended March 2014 (FY 2014) and is expected to touch US$28.5 trillion by FY 2025.

The initiative of the banking regulator, the Reserve Bank of India (RBI), to set up payment banks will serve as a catalyst. Given India's geographical spread, regional disparities, reach and connectivity, these payment banks can use the mobile platform to provide basic banking transactions, enabling to achieve the ultimate objective of financial inclusion in a country with over 120 crore population over the medium and long term, with huge economic spin-offs.

From the 41 applicants for payment bank licenses, 11 got the approval to set up payment banks from the central bank of India. However, the RBI has not given the right to these payment banks to lend money. They, however, can do everything else a regular bank can do such as take deposits, pay bills and issue cheques. This will be the major difference between full-fledged commercial banks and payment banks. The private players to win the race are the Aditya Birla Group; Reliance Industries; big telcos such as Airtel and Vodafone, National Securities Depository (NSDL) holds almost all of India's stocks in demat form and providing the backbone for a tax information network; PayTM's founder Vijay Shekhar Sharma, Department of Post; Tech Mahindra; Sun Pharma's founder Dilip Shanghvi; Cholamandalam Distribution Services; and Fino PayTech.

In CY 2014, RBI had invited individuals, non-banking finance companies (NBFCs), corporate business correspondents (BCs), mobile phone companies, super market chains and real sector cooperatives to apply for licences to set up payment banks.

As per the RBI guidelines announced in November 2014, the 'in-principle' approval granted will be valid for 18 months for the applicants to comply with the requirements, fulfil the other conditions as may be stipulated by the central bank and start operations of the payment bank.

Payment banks are allowed to accept deposits up to Rs. 1 lakh per customer and can pay customers interest on the money deposited. Thus, the broad competition between payment banks and full-fledged commercial banks will be for traditional savings deposits.

Payment banks need to invest 75% of its funds in government securities. The minimum capital required to set up a payments bank is Rs 100 crore. However, payment banks cannot lend or issue credit cards. But they can issue ATM and debit cards. Payment banks can be integrated with customers' savings bank accounts via nation-wide payment systems such as national electronic funds transfer and immediate payment service.

A committee of the central board has ensured that all the selected applicants have the reach and the technological and financial strength to service hitherto excluded customers across the country. It means that the RBI will be watching all the activities of payment bank licensees very closely.

The ultimate aim of issuing payment licence to private players is to provide small savings accounts and payments and remittance services to migrant labour workforce, low income households, small businesses and others. These payment technologies have proved enormously popular overseas. Vodafone's M-Pesa is used to store money, make purchases and transfer funds to friends and relatives.

Payments banks will be registered as public limited companies under the Companies Act, 2013, and licensed under Section 22 of the Banking Regulation Act, 1949, with specific licensing conditions restricting activities to acceptance of demand deposits, provision of payments and remittance services. Moreover, payment banks will be governed by the provisions of the Banking Regulation Act, 1949; the RBI Act, 1934; Foreign Exchange Management Act (Fema), 1999; Payment and Settlement Systems Act, 2007; other relevant statutes and directives, prudential regulations and other instructions issued by the RBI and other regulators including the regulations of the Securities and Exchange Board of India (Sebi) regarding public issues and other guidelines applicable to listed banking companies.

The impact of the operations of payment banks on private sector banks will be minimal because these banks have already made strong investments in technology. Some private banks including Kotak