

# Setting a new trend

The RBI offers payment banking licences to 11 players

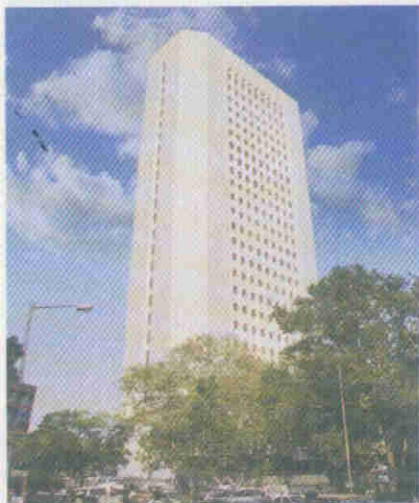
**N**ine months after it issued guidelines around payment and small finance bank licensing, the Reserve Bank of India has granted in-principle approval to 11 participants, including two individuals, to set up operations in the country.

Eleven players have been chosen out of 41 applicants for payments bank licences, including telecom related companies Aditya Birla Nuvo, Vodafone M-pesa, Reliance Industries, Airtel Mcommerce; financial services enablers like Fino Paytech and PayTM's Vijay Shekar Sharma; the Department of Posts; NSDL; pharma tycoon Dilip Shanghvi and software company Tech Mahindra. "This will drive transactions and help reduce cash in the economy," says A.P. Hota, managing director and CEO, National Payments Corporation of India.

The number of applicants for small finance banks was 72. Market participants expect a similar number, or more, of licenses to be issued to small finance banks before the year closes. Along with the launch of two new universal banks, Bandhan and IDFC, this would be the longest list of bank licences offered by the RBI at any single point in history.

Unlike universal banks, payments and small finance banks are subject to restrictions. They can open bank accounts and accept deposits from customers; but they cannot offer loans to them. Facilitating payments is a significant portion of any bank's income, and new payment banks have the potential to disrupt the market.

Keeping up with trends around the globe, payments companies like



One97, Citrus, Oxigen, ItzCash, PayMate and Cibola have taken off in India. In more developed markets like the US, small payment services companies have sprouted that offer niche services or hold monopoly over a large company's captive customer base.

But it will be sometime before disruption from payment services companies can take effect in India. For instance, while mobile penetration in India is high, financial transactions through the cellphone is still low. Bandwidth availability in rural India is still poor. And yet a large number of Internet users in rural India have accessed Internet for the first time over a cellphone.

According to consultancy firm BCG's study, 35 per cent of digital banking customers also use mobile wallets from non-banks. Fifty per cent of digital banking customers are keen to try out new payment banks when they are launched later this year.

Most of the telecom players that

have been granted licences in India, for instance, collect deposits from their customers via pre-paid telecom connections. Such companies will be in a position to offer interest, or better services, on those sums to their customers. However, those sums, held in escrow accounts with banks, have so far earned no interest. These are services that traditional banks cannot offer.

But while volumes may be easier to get, only profitability can ensure survival. Payment banks need to be profitable, without being able to lend like traditional banks. Three quarters of deposits that payments banks collect will have to be invested in government securities of one year maturity, according to RBI norms, while the balance will be invested in bank fixed deposits.

That will make payment banks more reliant on fee income. They will be able to leverage their distribution network to sell mutual fund and insurance policies, but can take no risk on it. They will be able to offer customers remittance, tax collection services, and public utility payment services. They will rely on developing and maintaining technologies that facilitate millions of transactions, and collect a fee through each transaction.

The Reserve Bank of India expects payment banks to offer bank accounts in every corner of the country, facilitating payments and cash transfers through physical access points. Small finance banks will be expected to channel loans and financial services to small players.

Traditional bankers say the market is so huge, and under-developed that there is space for all players. While competitors are able to grasp marketshare more quickly, there is scope to collaborate with such players to facilitate growth.

"If we are able to lower even just the cash proportion of the Indian economy, there will be enough volumes for everybody. That alone will cause payments and financial transactions in India to treble," says a State Bank of India official.

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## THE NEW ENTRANTS

Aditya Birla Nuvo  
Airtel Mcommerce Services  
Cholamandalam Distribution Services  
Department of Posts  
Fino PayTech  
National Securities Depository  
Reliance Industries  
Dilip Shanghvi  
Vijay Sharma  
Tech Mahindra  
Vodafone M-pesa