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Brand-new payments banks to create all-new banking

No longer would you need to step into a bank branch, and wait in a queue for transactions. Here comes pared down banks that reach you through mobiles, the Net, and access points

What Payments banks are a relatively new concept in India, and are visualised as sized-down type of banks that are expected to reach customers mainly through their mobile phones rather than traditional bank branches. The entry capital that is required to set up a payments bank is Rs 100 crore. And like the pre-paid instrument providers, payments banks will not be allowed to hold more than Rs 100,000 per customer. Neither will they be allowed to lend.

According to RBI, the payments banks would be permitted to set up their own outlets such as branches, ATMs, Business Correspondents (BCs), etc. to undertake only certain activities performed by regular banks.

Who In February 2015, RBI released a list of entities that had applied for in-principle, payments bank licences. The external advisory committee of RBI submitted its findings on the validity of applicants on July 6, 2015. Out of 41 applicants, the 'in principle' licences were granted on August 19, 2015, to Aditya Birla Nuvo, Airtel M Commerce Services; Cholamandalam Distribution Services; Department of Posts; FINO PayTech; National Securities Depository; Reliance Industries; Dilip Shanghvi, Sun Pharmaceuticals; Vijay Shekhar Sharma, Paytm; Tech Mahindra; and Vodafone M-Pesa. The applicants are not allowed to do banking activities within the testing period of 18 months.

Why According to the World Bank, only 25.3 per cent of India's population have formal bank accounts. Contrast this with the latest TRAI data which found 988.69 million wireless subscribers as of August 31, 2015. Speaking about the role of payments banks in India, A.P. Hota, MD and CEO of National Payments Corporation of India says, "They (payments banks) will come with high degree of technology which traditional banks are not in position to provide for." He adds that even after the Pradhan Mantri Jan Dhan Yojana (PMJDY), the banks are still not able to provide services beyond account opening. It is payments banks that can fill the gap.

How Focus on financial inclusion would help in increasing the spending across all sections of society. As far as payments banks are concerned, their margins are low, and so they have to focus on turnovers that are usually done by better branding. Furthermore, this would provide a push to the Indian fintech sector, which in the US grew by a CAGR of 56.6 per cent from 2010-14, according to Accenture. Fintech is a line of business based on using software to provide financial services.

AP Hota of NPCI says, "Most of the applicants are mobile wallet companies that cannot provide cash-out. By becoming a payments bank, they can provide cash-out now."

Where The focus of payments banking sector would be on the unbanked sections of the society.

In a recent survey by Nielson, it was found that 72 per cent of consumers say they will consider opening an account with payments banks.

Meanwhile, CRISIL (Credit Rating Information Services of India) in a report on payments banks has identified eastern and north-eastern parts of the country as high potential markets for the payments banks as eight of 17 states in this geography have a CRISIL Inclusion index score below 40. The payments banks are expected to leverage technology to offer low cost banking solutions, and they could have a large virtual footprint.

When The RBI, which granted 'in-principle' approval to 17 entities on August 19, 2015, stated that the approval will be valid for 18 months, after which the entities will be given formal licences, provided they fulfil the necessary conditions. The applicants need to develop technology infrastructure to support their business and fulfill the conditions set by the apex bank, along with strategic visions such as branding and expansion. After which applicants can submit a proposal to RBI for its approval to commence regular banking business. The process is expected to be completed by February 2017.

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	CORE BUSINESS	EXPECTED SYNERGIES
Aditya Birla Nuvo	Conglomerate	The synchronised efforts of telecom(Idea Cellular) services and IT segments can be harnessed to achieve synergy
Airtel M Commerce Services	Telecommunication	Nationwide telecom presence can be used to cater to masses in an easier manner
Cholamandalam Distribution Services	Conglomerate	Is expected to synchronise with the general insurance division of the company for the integrated solutions
Department of Posts	Postal Services, Couriers	Parcel service, EMS and delivery, among others, are expected to be the key driver for revenues in the payments banking foray
FINO PayTech	Financial Inclusion Services and Solutions	Relationship with its promoters, which include ICICI Bank and LIC, will provide cost synergies to the payments banking venture
National Securities Depository	Central securities depository	It is the first electronic securities depository in India with national coverage
Reliance Industries	Conglomerate	The 4G push by Reliance Gio is expected to aid its payments banking wing further
Dilip Shanghvi, Sun Pharmaceuticals	Investor / Pharma	The foray into the payments banking can further prompt retail foray in pharma sector leading to forward integration
Vijay Shekhar Sharma, Paytm	Payment wallet, eCommerce	Existing eCommerce platform would lead to cost efficiency and a reduced initial layout along with the much-needed exposure to the sector
Tech Mahindra	IT, Business consulting, outsourcing	Exposure to technology and financial solutions combined with the huge existing network can help tap more resources for the company
Vodafone M-Pesa	Money transfer	The company already has the most successful payments banking networks existing in Europe and Africa

Business Model	Traditional Bank	Payments Bank
Focus	All customer segments	Financial inclusion and the unbanked and under-banked
Networking	Follows brick and mortar 'Branch' centric distribution model	Internet and mobile banking services has been encouraged
Costs	Cost to serve unbanked population is traditionally high	Cost to serve unbanked population is lower due to technology adoption
Product Range	Offers product variants across entire product range of accounts.	Focus on only simple accounts
Core Revenue	Credit	Transaction fee as they can't lend

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