ABSTRACT

The concept of Payment bank was first floated by RBI Committee led by Board member Nachiket Mor. The committee on comprehensive financial services for small businesses and low income formed in 2013 came out with its report in early-2014. Main objective of Payment bank is to reduce the working burden of Commercial banks. For this, RBI has given approval to 11 companies out of 41 applicants. It primarily provides remittance, payment services, transfer money directly to bank account etc. It can not involve in any credit risk.

Keywords: Payment Banks; PPI; M-Pesa

INTRODUCTION

Nowadays India has emerging growing market for E-Commerce. Generally, public prefer to buy from online websites. In this online shopping, they mostly prefer savings coupon code. For all this shopping, a Cellphone is the first choice. The main roots of Payment banks are arise here.

People should adopt the option for payment bank to reduce the working burden of Commercial banks. Every person is doing financial transactions many times in a day in which ‘Payment’ is a main objective. For this, Payment banks are very useful.

In recent days, there are chances arises to increase use of payment banks by general public in their day-to-day transactions because RBI has given approval to 11 companies out of 41 applicants for starting Payment bank services in India.

What is Payment Banks?

New stripped-down type of banks, which are expected to reach customers mainly through their mobile phones rather than traditional bank branches. Payment banks have been announced by RBI as a possible digital transaction only kind of an entity. The Reserve Bank of India had asked the Nachiket MOR Committee to explore and recommended options for creating special category of banks which would positively impact financial inclusion within India. As a part of the recommendations of the Nachiket MOR Committee, a special category called ‘Payment Banks’ has been proposed.

OBJECTIVES OF THE STUDY

1. To know the concept and working of payment banks.
2. To know the need of payment banks in India.

RESEARCH METHODOLOGY

It is a conceptual study so no further data are required and it is not included in the study. Therefore hypothesis and testing could not be applicable.

Type of Data- secondary data
Payment Bank Guidelines by RBI

RBI has spelled out clear guidelines for payment banks. While it is expected that these guidelines would evolve over the coming years, the following is what has been laid out as the initial set of guidelines.

- Minimum entry capital for payment banks is fixed at Rs.100 crores. The committee had recommended an amount of Rs.50 crores but it seems that RBI has chosen to play safe and doubled the amount. This high amount of initial capital would mean that innovation would be slow because the risk to the payment bank model is very limited.

- Payment banks can accept demand deposits. The restriction therein is that the maximum balance per customer can only be Rs.1,00,000. This can be for both current and savings accounts. All deposits have to be invested in Government bills and securities, thereby indicating that fee income for transactions is what would probably be the biggest revenue driver for payment banks.

- Payment banks would primarily provide remittance and payment services. The boundary condition here is that the total credits into an account should not exceed Rs.1,00,000. This means that the payment banks would only make sense to lower economic strata of the Indian banked and unbanked population.

- Payment banks must be a banking correspondent of a commercial bank where in they can offer services like marketing of bank’s loan products etc.

- Commercial banks can also leverage this model by launching a payment bank subsidiary.

- Currently RBI has not talked about the pricing for the services of the payment banks. Given the tough regulatory framework for payment banks, a pricing flexibility would be essential.

- Payment banks can be “Internet only”. It is a very interesting proposition and it remains to be seen if this is the path that India’s first digital bank would take. With the increased usage of mobile, social media and internet, possible value has only increased in the last few years.

How Payment Banks are different from regular banks?

- These banks can only receive deposits and remittances but cannot carry out lending activities aiming at financial inclusion, these banks will provide banking services to migrant labours, low income houses etc.

- The Payment Banks required a minimum paid-up equity capital of Rs.100 crores while normal commercial banks require Rs.500 crores.

When the operations are likely to start?

- The operations are likely to start much earlier than the 18 months deadlines given by RBI. The companies selected will be given “In-Principal” approval for 18 months, after which they will be given license if they fulfill all conditions stipulated by RBI.

- Customers have limit of depositing up to Rs.1,00,000 in Payment banks.

Updates on Payment Banks in India

- 11 out of 41 applicants get the license for payment banks.

- First set of applicants for the payment bank license.

- India Post may want to take the payment bank route after failing to get banking license.

- Market rife with news of a potential partnership between Airtel and SBI for a new payment bank.
Bank of India confirms its desire to pick up around 19% stake in “You First Money”- a payment banks applicant.

List of 11 companies to whom RBI has granted approval to be a Payment Bank:
1. Aditya Birla Nuvo Ltd.
2. Airtel M-Commerce Services Ltd.
3. Cholamandalam Distribution Services Ltd.
4. Department of Post
5. Fino Paytech Ltd.
6. National Securities Depository Ltd.
7. Reliance Industries Ltd.
8. Dilip Shantilal Sanghvi
9. Vijay Shekhar Sharma
10. Tech Mahindra Ltd.
11. Vodafone M-Pesa Ltd.

Highlights of Pre-Paid Instruments (PPI) Providers:
Airtel money is an example of PPI. They provide following services:
1. Customer gives them money from their regular bank account.
2. They give customer a “Digital Wallet” tied with their mobile.
3. They can use it to pay bills, shopping, movie tickets etc.

Features of PPI:
- They are regulated by RBI under Payment and Settlement Act of 2007. (More than 20 such companies allowed running their PPI scheme.)
- KYC norms apply.
- You don’t earn interest rate on money saved in it.
- You can put maximum Rs.50, 000 in it.
- You cannot “Pull out” money from it.
- Transaction fee applies. Every time you buy something using your Airtel Money Account, they charge 0.5% as commission.

Other Examples of PPI:
- Gift cards issued by banks. E.g. prepaid.onlinesbi.com/giftcard.html
- Airtel money, Oxygen Prepaid cards
- Paypoint, zipcash, flipkart wallet, Paytm, Mobikwik

Why Payment Bank?
Nachiket’s thought process is like this:
- Pre-paid Instrument (PPI) providers = suck because they do not pay interest on money.
But their basic model/concept is good = you load cash into your mobile, use it for buy things, pay utility bills and so on. No need to carry cash, cheque book, credit card or visit ATM booth.

Thus, from financial inclusion point of view, PPI model is good, if they gave interest on your money. So, based on that idea, Nachiket recommends RBI to give license to a new type of banks called “Payment Bank”. (Under the Banking Regulations Act)

**Features of Payment Banks:**

1. Target Audience : Small businessmen and poor people (= low income households)
2. Potential Candidates to run Payment Banks : Mobile phone companies, consumer goods companies, Post Office system, agri/dairy type co-operative and Corporate Business Correspondents. Even scheduled Commercial banks can open payment banks as their subsidiaries.
3. Payment bank will have to keep CRR just like other Scheduled Commercial banks.
4. Payment bank can’t hold more than rs.1, 00,000 per customer.
5. Payment cannot involve in any credit risk.
6. They can enjoy all the rights and responsibilities of a Scheduled Commercial banks.
7. Entry capital requirement will be rs.100 crore.
8. They cannot give loans therefore no risk of loan default/NPA.
9. Payment bank can invest money in SLR securities, but they are safe investments, you can easily recover money.
10. In short, payment bank faces near-zero risk of default. So, they do not need a large capital for emergency backup.

**What Payment banks can and cannot do?**

- They cannot offer loans but can raise deposits of up to rs.1, 00,000 and pay interest on these balances just like a saving bank account does.
- They can enable transfers and remittance through a mobile phone.
- They can issue debit cards and ATM cards usable on ATM networks of all banks.
- They can transfer money directly to bank account at nearly no cost being a part of the gateway that connects banks.
- They can provide forex cards to travelers, usable again as a debit or ATM card all over India.
- They can offer forex services at charges lower than banks.
- They can also offer card acceptance mechanism to third parties such as the ‘Apple Pay’.

**M-PESA: Why India should get Payment Banks?**

Nachiket cites the “case study” of M-Pesa, to strengthen his arguments in favour of payment banks. So let’s check what is this M-Pesa?

- M-pesa is Kenya’s Payment bank.
- M= mobile ; Pesa= swahill word for money
- M-pesa is the brain child of Vodafone + Kenya’s local mobile company called “Safaricom” + IBM.
In 2006, M-Pesa launched. At this time, more than 70% of Kenya’s population did not have bank accounts.

How does M-Pesa system work?

- You go to an M-Pesa outlet (like local kirana wala, shopping center, petrol pump etc.)
- Give him cash; he fills up your M-Pesa electronic account with that money.
- This M-Pesa account is tied up with your mobile phone. Wherever you go, money goes.
- M-pesa helps in money transfer between one people to another, international remittance and utility bill payments and so on.
- You can even borrow money from Microfinance Institutions (MFS) via cell phone and later repay the loans, via same cell phone.

M-Pesa Size and Success:

- Today, more than 75% of Kenya’s population uses M-Pesa system.
- More than 25% of Kenya’s GDP flows through this system.
- M-Pesa also offers a separate model called “M-Shwari” to give 2-5% interest rate on your money saved in that M-Pesa Account.

So, if payment bank model can succeed in Kenya, it can also succeed in India. (Atleast that is what Mr. Nachiket believes.)

Opinions related to Payment Bank:

- A leading bank employee union opposed setting up to payment bank and said their entry will hurt the interest of Public sector lenders.
- According to C. H. Venketchalam- “This is nothing but a direct attempt to boost Private sector banking and minimize the role of public sector banks and also reduce their market share. He added, if these banks are allowed to collect deposits, which are of low cost in nature, public sector banks will be deprived of the same and their cost of banking will increase. He also said – Giving license to private companies to set up payment banks will adversely affect the public sector banks.”

CONCLUSION

Thus, Payment Banks promises to be a game-changer because of by using the mobile platform to provide basic banking transactions through mobile phones. The decision to license some of the country’s biggest corporate and mobile telecom firms to start payment banks promises to be a similar game-changer in India.

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