

UNIT 10 - Payment Banks in India - Everything You Need To Know



INTRODUCTION -

- Reserve Bank of India (RBI) on 17th July issued draft guideline for two new categories of bank
⇒ Small & Payment Banks .
- Payment banks and Small Banks are expected to meet credit and remittance needs of small business , unorganised sector , low income households , farmers and migrants work force .
- The new banks which are expected to reach customers mainly through their mobile phones rather than traditional bank branches. One could make payments to the milk men and domestic help through his mobile rather than going to the bank, withdrawing cash and then handing it over to them.
- In less than 10 years, every Indian will have a bank account. Payment banks are the key enablers.

CAPITAL REQUIREMENT –

- The minimum paid up voting equity capital for small banks shall be Rs. 100 Crore .
- Any additional voting equity capital to be brought in will depend on the business plan of the promoters .
- In view of the inherent risk of a small bank , it shall be required to maintain a minimum capital adequacy ratio of 15% of its risk weighted assets (RWA) on a continuous basis .

- 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).

ELIGIBLE PROMOTER'S -

- Resident individuals/professionals with so years of experience in banking and finance,
- Companies and Societies
- Existing Non-Banking Finance Companies (NBFCs),
- Micro Finance Institutions (MFIs),
- Preference will be given to professionals from banking/ financial sector, NBFCs and MFIs to set up small banks, if they meet the "fit and proper" criteria.

PROMOTER'S CONTRIBUTION -

- The promoter's minimum initial contribution to the paid up voting equity capital of such small bank shall at least 40% which shall be locked in for a period of five years from the date of commencement of business of bank .
- Shareholding by promoters in the bank in excess of 40% shall be brought down to 40% within three years from the date of commencement of business of the bank .

PROCEDURE FOR APPLICATION -

- In terms of Rule n of the Banking Regulation (Companies) Rules, 1949 applications shall be submitted in the prescribed form (Form III).
- In addition,(Business plan, shareholding pattern in the proposed bank, financial statements, income tax returns and credit reports for last three years, names and addresses of banks from which credit facilities are availed, etc.)

PROCEDURE FOR RBI DECISION -

- The applications will be initially screened by RBI to ensure prima facie eligibility of the applicants.
- Thereafter an External Advisory Committee (EAC) comprising eminent professionals like bankers, chartered accountants, finance professionals, etc. will evaluate the applications.

- The names of the professionals in EAC will be placed on RBI's website.

CORE OBJECTIVE OF PAYMENT BANK –

The study is conducted to reach the following objectives.

- To analyse the functions of payment banks.
- To study its effect on Indian economy.
- Small savings accounts
- Payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

NEED OF PAYMENT BANK IN INDIA -

- The underlying objective is to use these new banks to push for greater financial inclusion. Currently, almost 50% of Indians don't have a bank account and only about 30,000 of India's 5.94 lakh villages have a commercial bank branch. Much of this imbalance has to do with the inability of bigger banks to reach into the hinterland.

FUNCTION OF PAYMENT BANKS -

- They can't offer loans but can raise deposits of upto Rs. 1 lakh, and pay interest on these balances just like a savings bank account does.
- They can enable transfers and remittances through a mobile phone.
- They can offer services such as automatic payments of bills, and purchases in cashless, cheque less transactions through a phone.
- They can issue debit cards and ATM cards usable on ATM networks of all banks.
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- They can transfer money directly to bank accounts at nearly no cost being a part of the gateway that connects banks .
- They can provide forex cards to travellers , usable again as a debit Or ATM cards all over India
- They can offers forex services at charges lower than bank .
- They can also offer cards acceptance mechanism to third party such as “APPLE PAY”.

ELIGIBLE PROMOTERS -

- 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.
- A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payment bank.

SELECTED PROMOTERS FOR PAYMENT BANKS –

Lastly Gov. of India approved 11 firms are given licence for openings of Payment Banks . The Promoters are as follows –

- Aditya Birla Nuvo Ltd.
- Airtel M Commerce Service Ltd.
- Cholamadalam Distribution Service Ltd.
- Department of Posts (Indian Post)
- FinoPayTech Ltd.
- National Security Depository Ltd.
- Reliance Industries Ltd.
- DilipShantilal Ltd.
- Vijay ShekharSharms
- Tech Mahendra Ltd.
- Vodafone m-pesa Ltd.

SCOPE OF PAYMENT BANKS IN INDIA -

- Acceptance of demand deposits. Payments bank will initially be restricted to holding a maximum balance of Rs. 100,000 per individual customer.

- Issuance of ATM/debit cards. Payments banks, however, cannot issue credit cards.
- Payments and remittance services through various channels.
- BC of another bank, subject to the Reserve Bank guidelines on BCs.
- Distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc.

OUR VIEW POINT -

- The public sector banks are just behaving sitting ducks and white elephants. They do not work efficiently. Recently government has pumped huge capital to certain public sector bank. Even though public sector, private sector or foreign bank do not have reach to rural so let change the traditional banking and foster a new concept of banking. This payment banks can largely help to jandhanyojona, in addition it will drag the weaker section vulnerable into the financial inclusion process. Those small saving upto lakh are created in this bank but in long run a huge capital may be formed. The hamlet dwellers without having investment knowledge can safely deposit their saving in payment bank not in chit fund or any other high risk investment area.